

# **Calgary Police Service Financial Statements December 31, 2017**

## MANAGEMENT'S REPORT

May 29, 2018

The integrity, relevance and comparability of the data in the accompanying financial statements are the responsibility of management.

The financial statements are prepared by management, in accordance with Canadian public sector accounting standards. They necessarily include some amounts that are based on the best estimates and judgements of management.

To assist in its responsibility, management maintains accounting, budget and other controls to provide reasonable assurance that transactions are appropriately authorized, that assets are properly accounted for and safeguarded, and that financial records are reliable for preparation of financial statements.

The Calgary Police Commission fulfills its responsibility for financial reporting through its Finance and Audit Committee. The Committee consists of Commission members who meet regularly to deal with financial and budget-related issues and to review financial control and reporting matters.

Deloitte LLP, Chartered Professional Accountants, have been appointed by the Calgary Police Commission to express an opinion on the Service's financial statements. Their report follows.

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Roger Chaffin  
Chief of Police

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Blaine Hutchins  
Finance Manager

May 29, 2018  
Calgary, Canada

## INDEPENDENT AUDITOR'S REPORT

To the Members of the Calgary Police Commission

We have audited the accompanying financial statements of the Calgary Police Service, which comprise the statement of financial position as at December 31, 2017, and the statements of operations and accumulated surplus, statement of cash flows and statement of changes in net financial assets for the year then ended, and a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 management, as well as evaluating the overall presentation of the 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 financial statements present fairly, in all material respects, the financial position of the Calgary Police Service as at December 31, 2017, 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.

Chartered Professional Accountants  
May 29, 2018  
Calgary, Alberta

## Statement of Financial Position

As at December 31 (in thousands of dollars)

	2017	2016
<b>FINANCIAL ASSETS</b>		
Cash	\$ 24	\$ 13
Investments (Note 2)	898	851
Receivables		
Federal and Provincial governments	6,333	7,004
General	1,460	1,348
Due from The City of Calgary (Note 9 (a))	212,148	206,591
	<u>220,863</u>	<u>215,807</u>
<b>FINANCIAL LIABILITIES</b>		
Accounts payable	23,806	21,490
Deferred revenue (Note 4)	8,263	8,224
Capital deposits (Note 5)	32,298	30,899
Employee benefit obligations (Note 6)	117,049	113,891
	<u>181,416</u>	<u>174,504</u>
<b>NET FINANCIAL ASSETS</b>	<u>39,447</u>	<u>41,303</u>
<b>NON-FINANCIAL ASSETS</b>		
Tangible capital assets (Note 3)	231,566	236,034
Inventories of materials and supplies	4,064	2,569
Prepaid assets	3,537	3,272
	<u>239,167</u>	<u>241,875</u>
<b>ACCUMULATED SURPLUS (Note 7)</b>	<u>278,614</u>	<u>283,178</u>

Commitments and Contingencies (Note 10)  
See accompanying notes to the financial statements

Approved on behalf of the Calgary Police Commission

\_\_\_\_\_  
Chairman

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Vice Chairman

## Statement of Operations and Accumulated Surplus

For the year ended December 31 (in thousands of dollars)

	Budget 2017	2017	2016
<b>REVENUES</b>			
Government grants	\$ 32,890	\$ 33,173	\$ 33,229
Sale of goods and services	18,161	17,479	17,806
Fines and penalties	55,936	56,493	56,364
Miscellaneous revenue	1,457	773	1,989
	<u>108,444</u>	<u>107,918</u>	<u>109,388</u>
<b>EXPENSES</b>			
Salary, wages and benefits	423,701	423,397	408,818
Contracted and general services	30,159	33,677	32,367
Materials, equipment and supplies	32,425	33,142	34,208
Utilities	5,373	4,526	3,666
Internal recoveries (Note 9(a))	(2,600)	(4,534)	(3,048)
Amortization	-	18,761	18,587
Interest charges	50	42	43
	<u>489,108</u>	<u>509,011</u>	<u>494,641</u>
<b>DEFICIENCY OF EXPENSES OVER REVENUES BEFORE GOVERNMENT TRANSFERS</b>	<u>(380,664)</u>	<u>(401,093)</u>	<u>(385,253)</u>
<b>MILL RATE SUPPORT (Note 11)</b>	388,069	388,069	379,084
<b>TRANSFERS RELATED TO CAPITAL</b>	<u>(11,969)</u>	<u>8,460</u>	<u>22,593</u>
<b>(DEFICIENCY) EXCESS OF REVENUES OVER EXPENSES</b>	<u>(4,564)</u>	<u>(4,564)</u>	<u>16,424</u>
<b>ACCUMULATED SURPLUS, BEGINNING OF YEAR</b>	<u>283,178</u>	<u>283,178</u>	<u>266,754</u>
<b>ACCUMULATED SURPLUS, END OF YEAR</b>	<u>278,614</u>	<u>278,614</u>	<u>283,178</u>

See accompanying notes to the financial statements

## Statement of Cash Flows

For the year ended December 31 (in thousands of dollars)

	2017	2016
<b>CASH PROVIDED BY (USED IN)</b>		
<b>OPERATING ACTIVITIES</b>		
(Deficiency) excess of revenues over expenses	\$ (4,564)	\$ 16,424
Items not affecting cash		
Amortization	18,761	18,587
Loss on disposal of tangible capital assets	307	119
Change in non-cash items		
Receivables	559	(401)
Prepaid assets	(265)	(969)
Due from The City of Calgary	(5,557)	(9,051)
Accounts payable	2,316	(5,265)
Deferred revenue	39	(2)
Capital deposits	1,399	5,913
Employee benefit obligation	3,158	4,384
Inventories of materials and supplies	(1,495)	127
	<u>14,658</u>	<u>29,866</u>
<b>CAPITAL ACTIVITIES</b>		
Acquisition of tangible capital assets	(14,909)	(30,456)
Proceeds on disposal of tangible capital assets	309	612
	<u>(14,600)</u>	<u>(29,844)</u>
<b>INVESTING ACTIVITIES</b>		
Purchase of investments	<u>(47)</u>	<u>(32)</u>
<b>INCREASE (DECREASE) IN CASH FOR THE YEAR</b>	<b>11</b>	<b>(10)</b>
Cash, beginning of year	<u>13</u>	<u>23</u>
<b>CASH, END OF YEAR</b>	<b><u>24</u></b>	<b><u>13</u></b>

See accompanying notes to the financial statements

## Statement of Changes in Net Financial Assets

For the year ended December 31 (in thousands of dollars)

	2017	2016
<b>(DEFICIENCY) EXCESS OF REVENUES OVER EXPENSES</b>	<b>\$ (4,564)</b>	<b>\$ 16,424</b>
Amortization of tangible capital assets	<b>18,761</b>	18,587
Proceeds on disposal of tangible capital assets	<b>309</b>	612
Acquisition of supplies inventories	<b>(1,054)</b>	74
Use of supplies inventories	<b>(441)</b>	53
Prepaid assets	<b>(265)</b>	(969)
Loss on sale of tangible capital assets	<b>307</b>	119
Acquisition of tangible capital assets	<b>(14,909)</b>	(30,456)
<b>(DECREASE) INCREASE IN NET FINANCIAL ASSETS</b>	<b>(1,856)</b>	4,444
<b>NET FINANCIAL ASSETS, BEGINNING OF YEAR</b>	<b>41,303</b>	36,859
<b>NET FINANCIAL ASSETS, END OF YEAR</b>	<b>39,447</b>	41,303

See accompanying notes to the financial statements

## Notes to Financial Statements

The Calgary Police Service ("CPS"), which operates under the provisions of the Police Act of the Province of Alberta, is a business unit of The City of Calgary ("The City") and is not a separate legal entity. The Police Act provides for public accountability of the CPS through the Calgary Police Commission. The Calgary Police Commission reports directly to Calgary City Council for budget matters relating to the CPS. CPS expenditures are primarily funded by mill rate support from The City. The City retains legal ownership and title to all land and property used by the CPS. The City also provides various corporate and administrative services, including the recognition and funding of liabilities relating to environmental and legal matters relating to the CPS, as discussed in Notes 9 and 10.

### 1. SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the CPS are prepared by management in accordance with Canadian public sector accounting standards ("PSAS").

#### a) Basis of Presentation

The financial statements of the CPS include and reflect all of the assets, liabilities, revenue and expenses except as indicated below and in Note 10, notwithstanding that The City retains legal title to all land and property of the CPS. Corporate and administrative services, including the recognition and funding of liabilities relating to environmental and legal matters, provided by The City at no cost, have not been fair valued and recorded in these financial statements, as discussed in Notes 9 and 10. These financial statements do not reflect all tangible capital assets owned by The City and used by the CPS.

#### b) Basis of Accounting

- i) Revenues and expenses are recorded on the accrual basis of accounting. The accrual basis of accounting recognizes revenues as they are earned and measurable. Expenses are recognized in the period the goods and services are acquired and a liability is incurred or transfers are due.
- ii) Government transfers and grants are recognized in the financial statements as revenues in the period in which the events giving rise to the transfer occur, providing the transfers are authorized, any eligibility criteria have been met, and reasonable estimates of the amounts can be made.

#### c) Investments

Investments are managed for the CPS by The City, consistent with other City of Calgary business units.

Included in investments are temporary investments in money market instruments and portfolio investments such as fixed income bonds. Investments are recorded at the lower of original cost net of amortized discounts and premiums and market value on a portfolio basis.

#### d) Deferred Revenue

Deferred revenue represents amounts received from third parties for a specified operating purpose. These amounts are recognized as revenue in the period when the related expenditures are incurred.

#### e) Capital Deposits

Capital deposits represent amounts received from third parties for specified capital projects. Deposits must be expended on projects for which they are designated, and are recognized as revenue in the capital fund as expenditures are made.

#### f) Inventories of Materials and Supplies

Inventories are valued at the lower of cost, calculated on a weighted average basis, and replacement cost.

**g) Employee Benefit Obligations**

***Pension Benefits***

- i) Contributions to multi-employer plans are expensed when the contributions are due.
- ii) The cost of City-sponsored, registered defined benefit pension plans, non-registered defined benefit pension plans, and post-employment benefits are recognized when earned by the members. These costs are actuarially determined using the projected benefit method prorated on service and management's best estimate of expected salary and benefit escalation, retirement ages of employees and plan investment performance. Plan obligations are discounted using The City's cost of borrowing using estimated rates for debt with maturities similar to expected benefit payments in the future.
- iii) CPS records the actuarially determined excess of the accrued benefit obligation over the market value of the plan assets for The City sponsored, registered defined benefit pension plans. For jointly sponsored plans, CPS records its proportionate share of that excess. For non-registered, defined benefit plans and other retirement benefit obligations, CPS records the estimated proportionate share of the actuarially determined accrued benefit obligation only. The City holds assets within its cash and investments to address these obligations. No obligations are recorded for multi-employer defined benefit pension plans administered by external parties as CPS's share of those obligations is not readily determinable.
- iv) Adjustments arising from experience gains and losses are amortized on a straight-line basis over the expected average remaining service period of active employees. Adjustments arising from prior service costs related to plan amendments and changes in the valuation allowance are recognized in the period in which the adjustment occurs.

***Post-Employment Benefits***

- i) In addition to pension benefits, the CPS has various post-employment benefits and termination benefits obligations earned by employees and expected to be provided to them when they are no longer providing active service.
- ii) The City has recorded its total estimated obligations with respect to its post-employment benefits and termination benefits, a portion of which was recorded as an obligation to be funded from future years' revenues, as indicated in Note 6. Amounts attributable to the CPS have been recorded similarly.

***Obligations to be funded in future years***

The City has recorded its total estimated employee benefit obligations, a portion of which is recorded as an obligation to be funded from future years' revenues, as indicated in Note 6. Future obligations will be addressed through a portion of the CPS budget.

Employee benefit obligations include liabilities for pensions, other retirement benefits, vacation and overtime.

- i) For the defined benefit multi-employer plans, The City's contributions are expensed when they are due and payable. Thus, no obligations are recorded as the actuary for these plans does not attribute portions of the obligation to individual employers.
- ii) For City-sponsored registered defined-benefit pension plans, non-registered defined-benefit pension plans, other retirement benefits, vacation and overtime the costs are recognized when earned by plan members.

## **h) Non-Financial Assets**

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the normal course of operations. The change in non-financial assets during the year, together with the excess of revenues over expenses, provides the Change in Net Financial Assets for the year.

## **i) Accumulated Surplus**

Accumulated surplus represents the CPS' net economic resources. It is an amount by which all assets (financial and non-financial) exceed liabilities. An accumulated surplus indicates that CPS has net resources (financial and physical) that can be used to provide future services. An accumulated deficit means that liabilities are greater than assets.

## **j) Tangible Capital Assets**

Tangible capital assets, including assets held under capital leases, are recorded at cost which includes all amounts that are directly attributable to acquisition, construction, development or betterment of the asset.

Interest charges are not capitalized.

Work in progress represents assets which are not available for use and therefore are not subject to amortization.

The cost, less residual value, of tangible capital assets is amortized on a straight line basis over the estimated useful life as follows:

	<b>YEARS</b>
Buildings	10 - 75
Vehicles	2 - 15
Land improvements	5 - 40
Machinery and equipment	
Computer equipment	3 - 5
Boats	3 - 25
Furniture & equipment	5 - 25

## **k) Equity in Non-Financial Assets**

Equity in non-financial assets represents the investment in non-financial assets, excluding prepaid assets, after deducting the portion of these assets that have been financed by long-term debt.

## **l) Budget Figures**

The City of Calgary Council approved 2017 operating and capital budgets are reflected on the Statement of Operations and Accumulated Surplus. The budgets established for the capital fund are on a project oriented basis, the costs of which may be incurred over one or more years and therefore may not be comparable with the current year's actual amounts.

## **m) Financial Instruments and Fair Values**

The City and the CPS are exposed to the risk that arises from fluctuations in interest rates and exchange rates and the degree of volatility of these rates.

The City utilizes derivative financial instruments in order to reduce the impact of fluctuating interest rates on its short-term investments and fluctuating foreign currency exchange rates on anticipated future expenditures in foreign currencies. The City's policy is not to utilize derivative financial instruments for trading or speculative purposes.

Based on available market information, the carrying value of the CPS's financial instruments approximates their fair value due to their short period to maturity, except with respect to investments, as indicated in Note 2.

**n) Environmental Provisions**

The City has a formal environmental assessment and reclamation program in place to ensure it complies with environmental legislation. The City, on behalf of the CPS, provides for the cost of compliance with environmental legislation when costs are identified and can be reasonably measured.

**o) Use of Estimates**

The preparation of financial statements requires management to make estimates and use assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Where estimation uncertainty exists, the financial statements have been prepared within reasonable limits of materiality. Actual results could differ from those estimates. The amounts recorded for valuation of tangible capital assets, the useful lives and related amortization of tangible capital assets, accounts receivable collections, accrued liabilities, contingencies and employee benefit obligations are areas where management makes significant estimates and assumptions in determining the amounts to be recorded in the financial statements.

**p) Write-downs**

When conditions indicate that a tangible capital asset no longer contributes to a government's ability to provide goods and services, or that the value of future economic benefits associated with the tangible capital asset is less than its net book value, the cost of the tangible capital asset will be reduced to reflect the decline in the asset's value. The write-downs of tangible capital assets would be accounted for as expenses on the Statement of Operations and Accumulated Surplus.

**q) Future Accounting Standards**

The following new standards are applicable to the Service for future periods. The Service is currently assessing the impact of these new standards on the financial statements.

Standards effective for year ends beginning on or after April 1, 2017:

**i) Assets**

Assets ("PS 3210") provides guidance for applying the definition of assets and establishes general disclosure standards for assets. Disclosure information about the major categories of assets that are not recognized is required. When an asset is not recognized because a reasonable estimate cannot be made, the reason(s) for this should be disclosed.

**ii) Contingent Assets**

Contingent Assets ("PS 3320") defines and establishes disclosure on contingent assets. Disclosure of information about contingent assets is required when the occurrence of the confirming future event is likely.

**iii) Contractual Rights**

Contractual Rights ("PS 3380") defines and establishes disclosure standards on contractual rights. Disclosure of the nature, extent, and timing of any contractual rights is required.

**iv) Related Party Transactions**

Related Party Transactions ("PS 2200") defines a related party and establishes disclosures required for related party transactions. Disclosure of information about related party transactions and the relationship underlying them is required when they have occurred at a value different from that which would have been arrived at if the parties were unrelated, and they have, or could have, a material financial effect on the financial statements.

v) Inter-entity Transactions

Inter-entity Transactions ("PS 3420") specifically addresses the reporting of transactions between entities controlled by the government's reporting entity from both a provider and recipient perspective. Disclosure of this information is required whether or not the transaction is given accounting recognition.

Standards effective for year ends beginning on or after April 1, 2018:

i) Restructuring Transactions

Restructuring Transactions ("PS 3430") establishes how to record assets, liabilities, revenues, and expenses related to restructuring transactions as well as disclosure requirements for the recipient and transferor.

## 2. INVESTMENTS

All the investments managed by The City, on behalf of the CPS, are held in fixed income securities. The total investments holdings have a value of \$898 (2016 - \$851) and a market value of \$926 (2016 - \$870).

The average yield on the cost of these investments during the year was 3.139% (2016 - 2.246%) per annum.

## 3. TANGIBLE CAPITAL ASSETS

2017				2016		
	Cost	Accumulated Amortization	Net book value	Cost	Accumulated Amortization	Net book value
Land	\$ 52,736	-	52,736	\$ 52,736	-	52,736
Land Improvements	6,655	2,394	4,261	6,841	2,193	4,648
Buildings	171,717	48,576	123,141	168,834	42,031	126,803
Machinery and equipment	71,182	43,924	27,258	65,264	36,843	28,421
Vehicles	36,319	18,589	17,730	34,327	17,061	17,266
	338,609	113,483	225,126	328,002	98,128	229,874
Work in Progress	6,440	-	6,440	6,160	-	6,160
Tangible Capital Assets	\$ 345,049	113,483	231,566	\$ 334,162	98,128	236,034

#### 4. DEFERRED REVENUE

	2017	2016
Balance, beginning of year	\$ 8,224	\$ 8,226
Addition to deferred revenues	10,083	9,761
Revenue recognized	(10,044)	(9,763)
Balance, end of year	<u>\$ 8,263</u>	<u>\$ 8,224</u>

Deferred revenue is comprised of the following:

	2017	2016
Government transfers	\$ 8,151	\$ 8,188
Private contributions	83	36
Advanced Sales of Goods & Services	29	-
	<u>\$ 8,263</u>	<u>\$ 8,224</u>

#### 5. CAPITAL DEPOSITS

Capital deposits represent funds received for the Municipal Sustainability Initiative ("MSI") and for amounts received under the new community assessment program at The City. Deposits must be expended on projects for which they may be designated, and are recognized as revenue when expenditures are made.

	2017	2016
Balance, beginning of year	\$ 30,899	\$ 24,986
Deposits MSI	1,874	8,917
Withdrawals MSI & Provincial Grant	(1,874)	(8,917)
New Community Assessment/Provincial Grants	1,399	5,913
Balance, end of year	<u>\$ 32,298</u>	<u>\$ 30,899</u>

## 6. EMPLOYEE BENEFIT OBLIGATIONS

CPS employees and elected officials qualify to belong to one or more multi-employer pension plans, defined-benefit pension plans, and other retirement benefit plans provided by The City. Employee benefit obligations are liabilities of the CPS, as part of The City, to its employees and retirees for benefits earned but not taken as of December 31.

The City has fully met its current year cash contribution obligations for employee benefit obligations at December 31, 2017. The City and its employees have an obligation to fund the unamortized net actuarial losses for its post-retirement benefits, registered and non-registered defined-benefit pension plans and for its share of the multi-employer plans. The losses are expected to be funded through future increases in contributions and future changes in actuarial assumptions. The concept of funding refers to amounts recorded in the CPS financial statements as described below:

	2017 Funded	2016 Funded
a) The Calgary Police Supplementary Pension Plan ("PSPP") – Registered Defined Benefit Pension Plans	\$ 1,687	\$ 1,892
b) City of Calgary Overcap Pension Plan ("OCP") for the Police Chief and Deputies – Non-registered Defined Benefit Pension Plans	4,024	3,434
c) Other retirement benefits	55,609	53,716
d) Vacation and overtime (undiscounted)	55,729	54,849
Total	<u>\$ 117,049</u>	<u>\$ 113,891</u>

### **Accounting Methodology**

Annual valuations for accounting purposes are completed for The City sponsored registered and non-registered defined-benefit pension plans and post-retirement benefits using the actuarial projected benefit method prorated on service to determine the accrued benefit obligation and the expense to be recognized in the consolidated financial statements.

The significant actuarial assumptions used for the valuations of the registered defined-benefit plans (Note 6a), non-registered defined-benefit pension plans (Note 6b) and other retirement benefits (Note 6c) are as follows:

Date of actuarial accounting valuation	Dec. 31, 2017	Dec. 31, 2016
Year end obligation discount rate (%)	3.25	3.25
Inflation rate (%)	2.00	2.00
Long term rate of return on plan assets (%)	6.00	6.00
Rate of compensation increase	(included within each section)	

#### **a) The Calgary Police Supplementary Pension Plan ("PSPP")**

The PSPP commenced on January 1, 1975 and provides supplemental pension benefits to those police officers who retired prior to September 1, 1979. Police officers who have retired after September 1, 1979 are covered under the Special Forces Pension Plan (Note 6e ii)).

The PSPP is not subject to provincial minimum funding legislation. Pursuant to the agreement made in 1985, The City will continue to pay benefits out of its investments. In 2007, the fund was exhausted and benefits to pensioners for the year and future years are now being paid from The City's investments. Since 2003, the liabilities associated with these continued benefits have been accounted for under the appropriate PSAS guidelines.

Sufficient funds are held with The City's investments to cover the liabilities as determined by the actuarial valuation as at December 31, 2017.

The significant actuarial assumptions used for the actuarial accounting valuations of the PSPP are as follows:

Date of actuarial accounting valuation	Dec. 31, 2017	Dec. 31, 2016
Year end obligation discount rate (%)	3.25	3.25
Inflation rate (%)	2.00	2.00
Long term rate of return on plan assets (%)	6.00	6.00
Expected average remaining service life ("EARSL")	0.0	0.0

The results of, and significant assumptions utilized, in the most recent actuarial accounting valuations for registered plans include:

	2017	2016
Fair value of plan assets - beginning of year	\$ -	\$ -
Employer contributions	185	198
Less benefits paid	(185)	(198)
Fair value of plan assets - end of year	\$ -	\$ -
Accrued benefit obligation – beginning of year	\$ 1,892	\$ 2,007
Interest cost	58	62
Less benefits paid	(185)	(198)
Actuarial loss (gain)	(78)	21
Accrued benefit obligation - end of year	\$ 1,687	\$ 1,892
Funded status – plan deficit	\$ 1,687	\$ 1,892
Unamortized net actuarial loss	-	-
Accrued benefit liability	\$ 1,687	\$ 1,892
Interest costs	\$ 58	\$ 62
Amortization of actuarial losses	(78)	21
Total expense	\$ (20)	\$ 83

Actuarial gains and losses are amortized over the expected average remaining service life ("EARSL") of the PSPP and commence in the period following the determination of the gain or loss.

#### b) City of Calgary Overcap Pension Plan ("OCP") for the Chief and Deputies

The OCP commenced on February 1, 2000. The plan is sponsored and administered by The City and provides supplementary pension benefits for management employees, the Police Chief and Deputies.

The OCP for management employees provides a coordinated benefit with the LAPP (Note 6e i)), and the SPP, to provide an annual retirement benefit of 2% of all pensionable earnings for the years of service since the later of January 1, 1992 and the date of hire with The City.

The significant actuarial assumptions used for the actuarial accounting valuations of The City of Calgary Police Chief and Deputies Overcap Pension Plan ("PCDOPP") are as follows:

	Dec. 31, 2017	Dec. 31, 2016
Date of actuarial accounting valuation		
Year end obligation discount rate (%)	3.25	3.25
Inflation rate (%)	2.00	2.00
Long term rate of return on plan assets (%)	N/A	N/A
Rate of compensation increase	2.00	2.00
Expected average remaining service life ("EARSL")	7.7	6.4

The results of, and significant assumptions utilized, in the December 31, 2017 actuarial accounting valuations for the PCDOPP of the Police Chief and Deputies is as follows:

	2017	2016
Accrued benefit obligation – beginning of year	\$ 5,219	\$ 3,215
Current service cost	114	78
Interest cost	172	106
Less benefits paid	(105)	(94)
Actuarial loss (gain)	1,218	1,914
Accrued benefit obligation - end of year	\$ 6,618	\$ 5,219
Funded status – plan deficit	\$ 6,618	\$ 5,219
Unamortized net actuarial (loss)	(2,594)	(1,785)
Accrued benefit liability	\$ 4,024	\$ 3,434
Current service costs	\$ 114	\$ 78
Interest costs	172	106
Amortization of actuarial losses	410	149
Total expense	\$ 696	\$ 333

Assets in the amount of \$4,024 (2016 - \$3,434) to satisfy the obligations under these plans are held within The City's investments.

Actuarial gains and losses are amortized over the expected average remaining service life (EARSL) of the PCDOPP for Police Chief and Deputies and commence in the period following the determination of the gain or loss.

### c) Other retirement benefits

The City sponsors post retirement benefits for extended health, dental and life insurance benefits to qualifying retirees and their surviving spouses from the date of retirement to the age of 65, when coverage under the Alberta Seniors Plan begins. After 10 years or age 65, the life insurance policy reduces to a paid up death benefit based on the number of years of contributory service prior to retirement. The City and the retirees share equally in the cost of benefits. Due to the joint nature of the plan and the cost sharing arrangement, the consolidated financial statements of The City reflect The City's portion only of both the expense and the accrued benefit liability. The City sponsors a non-contributory retiring allowance of up to 7 weeks of salary for qualifying retirees. The cost of these benefits is recognized as an expense as the employees provide service. The City also sponsors a supplementary compensation plan for employees that are disabled or survivors of employees killed in the line of duty. The supplementary compensation plan is deemed a closed plan where employees are not actively accruing benefits.

Full actuarial valuations for other retirement benefits were (and will be) performed as stated below.

	<b>Latest Full Actuarial Valuation Date</b>	<b>Next Full Actuarial Valuation Date</b>
Post Retirement Benefits	December 31, 2017	December 31, 2018
Retiring Allowance	December 31, 2017	December 31, 2018
Supplementary Compensation	December 31, 2017	December 31, 2018

The results of, and significant assumptions utilized, in the December 31, 2017 actuarial accounting valuations for other retirement benefits included:

	2017	2016
Accrued benefit obligation – beginning of year	\$ 46,991	\$ 45,216
Adjustment	97	1,200
Current service cost	2,823	2,855
Interest cost	1,583	1,567
Less benefits paid	(2,385)	(2,097)
Actuarial (gain)	(7,027)	(1,748)
Accrued benefit obligation - end of year	\$ 42,082	\$ 46,991
Funded status – plan deficit	\$ 42,082	\$ 46,991
Plan assets (1)	(642)	(638)
Unamortized net actuarial loss	14,169	7,363
Accrued benefit liability (2)	\$ 55,609	\$ 53,716
Current period benefit cost	\$ 2,823	\$ 2,855
Cost of Plan amendments	-	-
Interest on accrued benefit obligations	1,583	\$ 1,567
Amortization of actuarial loss	(313)	13
Total expense	\$ 4,093	\$ 4,435

	<b>2017</b>	<b>2016</b>
Rate of compensation increase % (excluding merit & promotion)(3)	1.50%	2.00%
Annual increase in extended health care costs	7.80%	8.03%
Annual increase in dental costs	4.00%	4.00%
EARSL(4)	12.3 yr	12.2 yr

- (1) Plan Assets in the amount of \$642 (2016 - \$638) to satisfy future life claims are equal to fair market value.
- (2) Assets in the amount of \$55,609 (2016 - \$53,716) to satisfy the obligations under these plans are held within The City's investments.
- (3) Annual increases for police are: 2018: 1.50%; 2019: 1.50%; thereafter 2.00% per annum.
- (4) Actuarial gains and losses are amortized over the EARSL of the related employee group commencing in the period following the determination of the gain or loss.

#### **d) Vacation and overtime**

The vacation and overtime liability comprises the vacation and overtime that employees are deferring to future years. Employees who have deferred vacation or overtime can, under specific circumstances as outlined in administrative policies and/or contractual agreements, be paid out in cash or otherwise entitled within the next budgetary year. Assets in the amount of \$55,729 (2016 - \$54,849) to satisfy the obligations under these programs are held within The City's investments.

**e) Multi-employer pension plans**

Civic employees, with the exception of police officers, are members of the LAPP. Police officers are members of the SFPP. Both plans are multi-employer, defined-benefit pension plans sponsored by the Alberta Minister of Finance and administered by Alberta Pension Services ("APS"). Due to the multi-employer nature of these plans, information is not available to determine the portion of the plans' obligations and assets attributable to each employer. Therefore, The City appropriately accounts for both plans using the method for defined contribution plans. The amount of expense recorded in the consolidated financial statements is equal to The City's contributions to the plan as determined by APS for the year and no obligation is recorded in The City's financial statements. However, given that these multi-employer plans are in deficit positions, an inherent unrecorded liability amount is attributable indirectly to plan participants. Plan deficiencies will need to be resolved by increased future employee and employer contributions, increased investment returns and interest rates, management or amendment of future liabilities, or a combination of these elements.

In 2014 the Government of Alberta withdrew planned legislation for proposed changes to the LAPP. The province has since committed to a new direction involving employer and member representatives in continuing discussions on the governance process and sustainability of LAPP and SFPP.

**i) Local Authorities Pension Plan ("LAPP")**

The LAPP plan provides an annual retirement benefit of 1.4% of earnings up to the year's maximum pensionable earnings ("YMPE") and 2% of earnings over YMPE. Under the Alberta Public Sector Pension Plans Act, the CPS and members of the LAPP plan made the following contributions:

	<b>2017</b>		<b>2016</b>	
	<b>Employer</b>	<b>Members</b>	<b>Employer</b>	<b>Members</b>
Current service contributions	\$8,477	\$7,885	\$8,228	\$7,575
Contribution Rates (% of pensionable salaries)	11.39% of YMPE and 15.84% over YMPE	10.39% of YMPE and 14.84% over YMPE	11.39% of YMPE and 15.84% over YMPE	10.39% of YMPE and 14.84% over YMPE

The LAPP reported a deficiency (extrapolation results of the actuarial valuation) for the overall plan as at December 31, 2016 of \$637 million. More recent information for the 2017 year was not available at the time of preparing these financial statements. LAPP consists of over 157,763 active members. The City's plan membership is approximately 8.5% of which the CPS portion is approximately 0.4%. The City's 2017 contribution rate was 9.2% (2016 – 9.2%).

ii) Special Forces Pension Plan ("SFPP")

The SFPP provides an annual retirement benefit of 1.4% of pensionable earnings up to YMPE, 2% of pensionable earnings over YMPE, a bridge benefit of 0.6% of YMPE to age 65, and improved early retirement and death benefits, up to maximum pension limits of the Income Tax Act (Canada). Under the Alberta *Public Sector Pension Plans Act*, The City and members of the SFPP plan made the following contributions:

	2017		2016	
	Employer	Members	Employer	Members
Current service contributions	\$34,416	\$31,870	\$33,063	\$30,601
Contribution Rates (% of pensionable salaries)	14.55%	13.45%	14.55%	13.45%

The SFPP reported a deficiency (extrapolation results of the actuarial valuation) for the overall plan as at December 31, 2016 of \$109 million. More recent information for the 2017 year was not available at the time of preparing these financial statements. SFPP consists of 4,425 active members. The City's plan membership which consists of primarily CPS members is approximately 49%. The City's 2017 contribution rates did not change as a result of this deficit.

**7. ACCUMULATED SURPLUS**

	2017	2016
Equity in Non-Financial Assets	\$ 235,630	\$ 238,603
Capital Fund	(3,582)	(2,086)
Reserves (Note 8)	46,566	46,661
	<u>\$ 278,614</u>	<u>\$ 283,178</u>

**8. RESERVES**

Reserves consist of operating and capital reserves as follows:

	2017	2016
Vehicle capital financing	\$ 20,020	\$ 22,329
Red Light Camera	11,241	7,837
Court Fine Operating	4,000	4,000
Helicopter operating maintenance	2,352	2,390
Capital pay-as-you-go	8,050	9,238
Automated Fingerprint Identification System	898	851
Capital financing (Treasury interfund)	5	16
	<u>\$ 46,566</u>	<u>\$ 46,661</u>

## 9. RELATED PARTY TRANSACTIONS

- a) The CPS conducts transactions with The City in the normal course of business. Expenditures aggregate \$99,538 (2016 - \$97,678), and recoveries include \$4,534 (2016 - \$3,048) of transactions with The City. The CPS also receives Mill Rate Support from The City of \$388,069 (2016 - \$379,084) (Note 11) and has an amount due from The City of \$212,148 (2016 - \$206,591).
- b) The CPS conducts transactions with ENMAX Corporation ("ENMAX"), a wholly owned subsidiary of The City, in the normal course of business. Expenditures include \$3,462 (2016 - \$2,982), and recoveries include \$Nil (2016 - \$Nil) of transactions with ENMAX. Accounts payable include \$516 (2016 - \$635) payable to ENMAX.
- c) The City, consistent with its treatment of other business units, provides services to the CPS at no cost. These services include the provision of certain premises, payroll and some human resource functions, treasury functions, including investing, borrowing, banking, and cashiers, and finance functions such as accounts payable disbursements and accounts receivable administration. In addition to these services, the CPS utilizes The City's enterprise systems (PeopleSoft), along with available support, to complete day to day work. These PeopleSoft systems include supply management, accounts payable, accounts receivable, finance, budgets, and human resources.

## 10. COMMITMENTS AND CONTINGENCIES

- a) The Calgary Police Service has the following office space lease commitments for the years 2018 to 2044.

2018	1,173
2019	1,106
2020	588
2021	222
2022 and thereafter	952
	<hr/>
	\$ 4,041
	<hr/>

- b) Capital commitments of \$6,440 (2016 - \$9,128) are not reflected in the financial statements. This amount represents uncompleted portions of contracts, as at December 31, 2017, on major projects and estimated obligations under other various agreements. These capital commitments were included in the current year's capital budget of \$36,619 (2016 - \$34,375) and will be funded from reserves.
- c) In the ordinary course of business, various claims and lawsuits are brought against The CPS. The City, on behalf of the CPS, has recorded a provision for these claims and lawsuits. The costs associated with defending the lawsuits and any settlements arising from the claims and lawsuits are borne by The City and accordingly, no provision has been recorded in these financial statements with respect to the claims and lawsuits.
- d) The City, on behalf of the CPS, has recorded a provision for environmental liabilities. The costs associated with any environmental liabilities are borne by The City and accordingly, no provision has been recorded in these financial statements with respect to environmental liabilities.
- e) The Calgary Police Service provides funding of certain operating costs to the Calgary Police Foundation, which commenced June 2014. Operating costs include, but are not limited to administrative expenses and the salary for the Executive Director. The operating costs paid are determined annually based on budgeted figures.

- f) The Calgary Police Service provides funding of certain operating costs to YouthLink Calgary – The Calgary Police Service Interpretive Centre, which commenced March 2015. Operating costs include, but are not limited to administrative expenses, salaries, wages, fringe benefits, and the salary for the Executive Director. The operating costs paid are determined annually based on budgeted figures.

**11. MILL RATE SUPPORT FROM THE CITY OF CALGARY**

	<b>2017</b>		<b>2016</b>	
Approved Net Operating Budget Allocation	\$	388,069	\$	379,084
Total Mill Rate Support from The City of Calgary	\$	388,069	\$	379,084