

**Calgary Economic Development Report to
Audit Committee
2018 September 18**

**ISC: UNRESTRICTED
AC2018-0602
Page 1 of 9**

Calgary Economic Development Audit and Finance Committee Annual Report

EXECUTIVE SUMMARY

This report is the annual report to The City of Calgary's Audit Committee from Calgary Economic Development.

ADMINISTRATION RECOMMENDATION:

That the Audit Committee receives this report for Information

PREVIOUS COUNCIL DIRECTION / POLICY

The City of Calgary Audit Committee Bylaw 48M2012, states that the Audit Committee is responsible for:

“overseeing its governance responsibility with audit committees of The City’s major autonomous civic entities.”

Section 4(1)(i)

BACKGROUND

A letter dated 2018 May 02 was provided to the President and CEO of Calgary Economic Development from the City of Calgary Audit Committee Chair requesting a report and presentation on its 2017 Annual Report, its risk management processes and the AHCC Audit Committee terms of reference.

To continue to develop further understanding of your organization’s audit governance approach, we would like to request the following items be provided in your annual report to the City’s Audit Committee:

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

1.1 Governance Structure

(a) Calgary Economic Development Ltd.

CED was incorporated as Promoting Calgary Inc. under the Business Corporations Act in the Province of Alberta in July 1999. It was reconstituted and changed its name to Calgary Economic Development Ltd. on January 1, 2003. CED is a government non-profit organization under the Income Tax Act of Canada and accordingly is exempt from income taxes under section 149(1)(e) or (l). CED is a controlled not for profit (NFP) organization of the City of Calgary with 100 shares issued.

CED’s mission is to collaborate to advance opportunities in achieving economic success, embracing shared prosperity and building a strong community for Calgary. The mandate of CED is to work with business, government and community partners to position Calgary as the location of choice for the purpose of attracting and retaining business investment, fostering trade and enhancing Calgary’s workforce.

Calgary Economic Development Audit and Finance Committee Annual Report

CED's Board of Directors (the Board) oversees the organization's overall strategic direction (Attachment 6). Management develops strategy and manages and conducts the day-to-day business. The Board ensures that systems are in place to effectively manage CED's business, but does not manage the operations on a day-to-day basis.

The Board approves the mission, the 4-year strategy, annual business plan, and annual budget. It monitors risk, compliance with fiduciary and legal requirements. It delegates to management the achievement of strategic, financial and other plans. CED's responsibilities to its multiple stakeholders are paramount in conducting its business. The overriding objective for Directors is to maximize the value of the work of CED.

The board is supported by four committees; Corporate Governance and Effectiveness, Economic Strategy, Performance and Compensation and Audit. A skills matrix is used for Board recruitment, and the Board conducted an annual effectiveness survey in 2017 to monitor success. See Attachment 6 for the CED Board Organization chart.

In addition to the board committees, there are also seven Advisory Committees which support CED's work in that sector. These committees are:

- Agribusiness
- Energy
- Workforce
- Transportation & Logistics
- Real Estate
- Renewables
- Tech Talent

In 2018, the CED Board and the CFCL Board created a sub-committee to monitor and advise on the CFCL transfer of assets to the City of Calgary.

(b) Calgary Film Centre Ltd.

Calgary Film Centre Ltd. (CFCL) was incorporated under the authority of the Alberta Companies Act on December 17, 2009. CFCL is a wholly owned subsidiary of CED with 100 shares issued to CED. On June 23, 2014 CFCL changed its name from The Alberta Creative Hub to Calgary Film Centre Ltd. CFCL was formed with the primary purpose of supporting the growth and development of the film, television, media and other creative industries. The new 85,000 square feet film centre was completed and opened on May 19, 2016. CFCL's aim is to deliver production support for local, national and international screen industry projects as the primary source for the attraction of film and TV production to Calgary.

Two CED Board representatives are members of the CFCL Board of Directors: CED's President & CEO, and one additional Board member. The scope of CFCL's operations do not warrant separate advisory committees. The Board is comprised of 5 directors and have been purposely composed of Directors with financial, operating and film industry experience to provide the necessary strategic direction to CFCL.

Calgary Economic Development Audit and Finance Committee Annual Report

1.2 Succession Planning and Recruitment Process

Board Directors are appointed at the annual general meeting of the shareholders for a one (1) year or two (2) year term, and are eligible for re-election to a maximum of six (6) consecutive years. A Director who has served a maximum term on the Board may be re-appointed after an absence of a minimum of one (1) year. In 2018, the following changes to the board occurred: Judy Fairburn was appointed for one year, reappointments of Mary Moran, Alice Reimer, Lori Caltagirone and Jeff Fielding as directors for two years, reappointments of Kevin Zimmer, Tom Hodson, and Hannes Kovac as directors for one year, and appointment of Councillor Jeff Davidson until a successor is appointed or designated by City Council. The Board is purposely composed of directors from legal, financial and key sector experience. On an annual basis, the Board assesses Board effectiveness; including a skills matrix and in 2017 completed a peer review evaluation. The Board is currently reviewing this process with a view to best practices.

In Q3 2017, CED completed the Management Team Succession Planning Process. The Plan provides a succession plan for each of the senior management team members including the CEO, and a development plan for high potential management throughout the organization. It also identified areas where successors were not identified. In 2016 and 2017 the Senior Management team undertook a 360 Leadership Profile which was accompanied by individual coaching sessions. Annual performance management, annual goals setting, and quarterly reviews are required for the entire organization.

1.3 Recent Financial Highlights

(a) Calgary Economic Development Ltd.

CED's December 31, 2017 financial statement audit was approved by the Board and completed on April 18, 2018. The December 31, 2017 audited financial statements and auditor's year end communications are attached to this report. (Attachment 1 and 2)

MNP provided an audit opinion that the financial statements present fairly, in all material respects, the financial position of CED 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 for Not-For-Profit Organizations. CED uses deferral method of accounting for contributions such that restricted contributions are recognized as revenue in the year in which the related expenses are incurred.

CED has received contributions from the City of Calgary since inception to sustain its operations. In 2017, the Company received an operating grant of \$5,584,179 (2016 - \$5,367,212). The base grant contributed 45% of CED's revenue in 2017 (2016 - 55%). Additional revenue and funding sources in 2017 include the City of Calgary Economic Resiliency funds \$2.4 million (2016 - \$1.8M), private sector revenue \$1.7 million (2016 - \$1.8M), and revenue from other orders of government \$2.3M (2016- \$0.7M).

Expenses remained within the approved 2017 operating budget. The December 31, 2017 accumulated surplus was \$1,376,049, an increase of \$243,795 from the prior year's ending balance of \$1,132,254. This surplus is expected to be reduced over the next three to five years. CED's cash position at yearend is relatively strong.

Calgary Economic Development Audit and Finance Committee Annual Report

The cash and deferred contributions are both down significantly year-over-year, which is related to use of funding received in 2017 from the City of Calgary's Resiliency Fund, Government of Canada's Western Diversification and Government of Alberta, as well as the extension of temporary operating funds to Calgary Film Centre Ltd (\$0.7M Note Receivable).

During 2017 CED, continued to execute on the initiatives to expand CED's out of market and local marketing campaigns, further develop Calgary as an inland port, expand agribusiness and renewables initiatives, and focus on real estate/head office strategy for Calgary. The result was an increase in the number of jobs and companies created and/or retained. See Attachment 7 for CED's Balanced Score Card and Key Performance Indicators.

(b) Calgary Film Centre Ltd.

CFCL's December 31, 2017 financial statement audit was approved by the Board and completed on March 18, 2018. The December 31, 2017 audited financial statements and auditor's year end communications are attached to this report. (Attachment 3 and 4)

MNP was provided an audit opinion that the financial statements present fairly, in all material respects, the financial position of CFCL 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 for Not-for-Profit Organizations. The MNP report contains an "emphasis of matter" on going concern paragraph as future funding of CFCL is uncertain. The CFCL and CED financial statements contain notes regarding CFCL's ability to operate as a going concern and is dependent on continued support of related parties and increasing occupancy.

Total bank indebtedness as of December 31, 2017 was \$12,338,850. This includes a five-year loan swap of \$5,213,459 at a 2.5% interest rate, a 10-year loan swap of \$6,735,482 at a 2.75% interest rate, and a demand loan of \$389,909. CFCL uses hedge accounting for the interest rate swap which is in place to secure the interest rates.

In 2017, CED and CFCL entered into an agreement whereby CFCL could draw from CED up to \$900,000, at an interest rate of prime; as of December 31, 2017 CFCL had drawn \$700,000 (with the final draws of \$200,000 completed in Q3 2018).

CFCL's success is dependent on a strong customer pipeline and securing tenants. The Centre's occupancy in 2018 has been 71% as of year-to-date August 31, 2018, compared with 52% in 2017 and 65% in 2016. Cash flow remains in a sensitive position for 2018. CFCL is transferring its assets to the City of Calgary in Q4 2018, in return for elimination of debt. This will allow renewed focus on the marketing and promotion of the film centre and less on debt management.

1.4 Key 2017 Initiatives/Strategy - See Attachment 7.0

Calgary Economic Development Audit and Finance Committee Annual Report

2. Report on your organization's key operating and strategic risks including trends and risk management plans and processes;

CED and CFCL has created an Enterprise Risk Matrix to identify and manage risks and identify mitigating strategies (Attachments 8 and 9). The risk matrix is reviewed quarterly by the Management, Committees and the Board and updated as necessary to reflect current risk levels. Key areas of risk include:

- Financial
- Reputational & Relevance
- Safety & Security
- Sustainability & Operational

3. Analysis of the 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;

In CED's opinion the top three risks that would impact the City of Calgary and/or be of concern to City's Audit Committee are:

- Startup of Calgary Film Centre Ltd. (subsidiary of CED)
- Long term funding and loss of key staff, and
- OCIF program execution

Calgary Film Centre Ltd. (CFCL)

Due to the high risk associated with reduced rental revenue from low occupancy in 2017, this has resulted in a growing concern for CFCL. CFCL has identified various mitigating strategies, including managing rent charged per square foot, minimizing operating costs, allocating more support to business development efforts at CED, creating a pipeline report of potential tenants, and evaluate strategic options including eliminating debt. To manage the risk associated with maintaining the debt service coverage ratio, CFCL closely monitors its cash flow and revenue and spending decisions, communicates with lenders, informs CED's Board of Directors and prepares regular sensitivity reports and forecasts.

In 2018, CFCL has internally prepared and engaged consultants to review the viability of the centre, the industry, and to create a strategic plan. CFCL is in the process of divesting assets of the film centre and eliminating debt to focus on the strategic plan.

Funding and Loss of Key Staff

CED has been receiving contributions from the City of Calgary since inception to sustain its operations. In 2017 CED received an operating grant of \$5,584,179 which was 45% of total funding for the year. The City has indicated it will provide similar funding each year until the 2018 fiscal year, at which point funding is subject to the One Calgary 4-year Budget review. The additional funding of 55% was obtained from private sector and other orders of government and allows CED to provide key programs. This economic downturn has impacted private funding and the unpredictability of other grants makes long term planning for program development and implementation difficult.

Calgary Economic Development Audit and Finance Committee Annual Report

The risk is CED will not receive appropriate funding in 2019 - 2022 to allow it to maintain the programming activity and service levels it has built. The uncertainty of funding makes the loss of key staff a significant risk for CED, but also poses a risk to the continued success and organizational excellence of CED. There are currently 15 employees on term contracts due to grant funding.

To mitigate this risk, CED is developing a succession planning process for each of the senior management team members and high potential management employees to ensure continuity. CED has presented to PFC the One Calgary 2018-2022 budget which contains funding requirements to hire employees on a permanent basis and reduce the organizational risk.

Execution of OCIF Program

CED has incorporated the Opportunity Calgary Investment Fund (OCIF) program into regular operations with only one to two additional staff. As the program processes, procedures and plans are being created and the volume of applications and business cases increases, the risk is that CED is not able to meet the demands of OCIF and the program decisions may cause reputation risk.

To mitigate this risk, OCIF has a separate board and governance structure comprised of industry experts. OCIF will engage legal and external consultants as necessary to support due diligence efforts. The City of Calgary has provided two secondments to support the OCIF program.

4. Report on internal controls including information technology and systems;

CED has implemented several controls as part of its fraud prevention activities, including appropriate segregation of duties and regular reviews of financial results. Approval processes and procedures are in place, and reviewed regularly. As part of the audit, CED has an annual fraud risk assessment with the audit committee.

CED has outsourced its IT services to Northern Backup who, provides hosting services, helpdesk support, technical support and enhancements. Utilizing the expertise of an IT company ensures strong security, timely technical response and support. As part of CED's data loss prevention strategies, it has implemented the following:

- Data back up regularly (hourly or daily based on server type) with automated data integrity check for backup
- Off-site data backup
- Climate controlled server rooms
- Servers and equipment checked regularly and replaced/upgraded when needed

CED, in conjunction with its IT provider, has a fully hosted computing solution, a disaster recovery plan, emergency response plan and a business continuity plan. A dedicated internet line directly connects to the Calgary-based data centre provided by Bell and managed by CED's IT Managed Service Provider, Northern Backup.

Calgary Economic Development Audit and Finance Committee Annual Report

5. Most recent management letter including management responses as appropriate; and
MNP, auditors for both CED and CFCL, attended the March meeting of the Audit and Finance Committee and the CFCL Board meeting to present their reports for both CED and CFCL for the year ended December 31, 2017. These reports are included as Attachments 1 and 3.

6. Audit Committee 2018 Work Plan.

See Attachment 5.0

Further, during their presentation, Calgary Economic Development was asked to prepare responses to 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?

The Audit Committee shall meet quarterly to review financial and risk reporting and reports to the Board of Directors based on information reviewed at those sessions. The Audit Committee is responsible for stewardship of the Corporation's finances. The Audit Committee has oversight responsibility and makes recommendations to the Board on financial and risk matters.

The Audit Committee shall review its terms of reference at minimum on an annual basis, or more often so as required, and recommend changes as necessary.

In 2017 the Audit Committee Terms of Reference were last reviewed and amended at the May 31, 2018 audit committee meeting. See Attachment 5.0.

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

i. CED

Leontine Atkins, Committee Chair – CED Board Director

Lori Caltagirone – CED Board Director

Tom Hodson – CED Board Director

Mary Moran – President & CEO Calgary Economic Development

See Attachment 10.0 for Bios and Financial experience.

ii. CFCL

The CFCL Board does not have a separate Audit and Finance Committee. The CFCL Board has instead been carefully composed of Directors with financial, operating and film industry experience to provide the necessary strategic direction to CFCL.

Patricia McLeod, QC, Board Chair – Former CED Board Director

Victoria Bradbury

Calgary Economic Development Audit and Finance Committee Annual Report

Debra Deane – CED Board Director

Douglas Macleod

Mary Moran – CED President & CEO and Director

Murray Sigler – Former CED Board Director

See Attachment 11.0 for Bios and Financial experience.

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

Bruce Leslie, was hired as Vice President of Trade, Investment & Attraction in November 2017.

In August 2018, Mary Moran, President and CEO, took a leave of absence to December 2018 to lead the Calgary 2026 Olympic Bid process.

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

CFCL is exposed to risk based on funding provided by the Government of Alberta to support the film industry, which impacts lease revenue of CFCL.

In Q4 2018, CFCL assets are being transferred to the City of Calgary and debt is being eliminated, which will increase ability of management and CFCL Board to focus on the strategic marketing and occupancy of the film centre.

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?

Both CED and CFCL have created an enterprise risk matrix to identify the top risks to their strategic goals, and identify mitigating strategies (Attachment 8 and 9).

CED has developed a balanced scorecard and individual performance metrics to help focus efforts and measure impacts (Attachment 7).

External consultants were engaged to develop a long term strategic plan to advise on best use of limited resources.

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)

CED has prepared a 4-year budget and corporate strategy for 2019-2022. It contains four pillars being Talent, Innovation, Place and Business Environment. CED is focused on core sectors – energy, agribusiness, and transportation and logistics and will add to its portfolio emerging sectors such as digital animation, music, financial services, life sciences, health and clean tech.

Key performance indicators will focus on jobs, companies, and commercial industrial space absorption.

As noted, CFCL is undergoing change and focus on a new 4-year strategy, key performance indicators based on leads and opportunities and marketing efforts.

**Calgary Economic Development Report to
Audit Committee
2018 September 18**

**ISC: UNRESTRICTED
AC2018-0602
Page 9 of 9**

Calgary Economic Development Audit and Finance Committee Annual Report

INVESTIGATION: ALTERNATIVES AND ANALYSIS

This report responds to The City of Calgary Audit Committee's reporting requirements of the CED Board and is intended to be an ongoing dialogue between The City of Calgary and the CED Board. It is anticipated the annual report from the CED Board will continue to evolve over time to meet The City of Calgary Audit Committee's information requirements in discharging its governance responsibilities.

Stakeholder Engagement, Research and Communication

No implications for this report.

Strategic Alignment

No implications for this report.

Social, Environmental, Economic (External)

No implications for this report.

Financial Capacity

Current and Future Operating Budget:

There are no budget implications for this report.

Current and Future Capital Budget:

There are no budget implications for this report.

Risk Assessment

CED reviews risks on an ongoing basis. Risk reporting is one of the main topics in the report.

REASON(S) FOR RECOMMENDATION(S):

This Report is for information only.

ATTACHMENT(S)

1. MNP Report to the CED Audit Committee for the year ended December 31, 2017
2. Calgary Economic Development Financial Statements for the Year Ended December 31, 2017
3. MNP Report to the CFCL Audit Committee for the year ended December 31, 2017
4. Calgary Film Centre Ltd. Financial Statements for the Year Ended December 31, 2017
5. Audit Committee Terms of Reference
6. CED Board Structure
7. CED Balance Score Card and KPIs
8. CED Enterprise Risk Matrix
9. CFCL Enterprise Risk Matrix
10. CED Audit Committee Bios and Financial experience
11. CFCL Audit Committee Bios and Financial experience