

Calgary Economic Development Ltd.
Report to the Audit Committee
For the Year Ended December 31, 2017
For presentation at the Audit Committee meeting March 20, 2018



March 20, 2018

Members of the Audit Committee of Calgary Economic Development Ltd.

Dear Sirs and Mesdames:

We are pleased to submit to you this report for discussion of our audit of the financial statements of Calgary Economic Development Ltd. (the "Company") as at December 31, 2017 and for the year then ended. In this report we cover those significant matters which, in our opinion, you should be aware of as members of the Audit Committee.

We have completed our audit of the financial statements of the Company which has been carried out in accordance with Canadian generally accepted auditing standards.

Unless unforeseen complications arise, our Audit Report will provide an unqualified opinion to the Board of Directors of the Company. A draft copy of our proposed Independent Auditors' Report is attached at the end of this report.

The matters raised in this and other reports that will flow from the audit are only those which have come to our attention arising from or relevant to our audit that we believe need to be brought to your attention. They are not a comprehensive record of all the matters arising, and in particular we cannot be held responsible for reporting all risks in your business or all control weaknesses. This report has been prepared solely for your use and should not be quoted in whole or in part without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared for, and is not intended for, any other purpose.

We would like to express our appreciation for the excellent cooperation we have received from Management and employees with whom we worked.

We appreciate having the opportunity to meet with you and to respond to any questions you may have about our audit, and to discuss any other matters that may be of interest to you.

Sincerely,

A handwritten signature in black ink that reads "MNP LLP".

Chartered Professional Accountants

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encls.

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INTRODUCTION

As auditors, we report to the members on the results of our examination of the financial statements of Calgary Economic Development Ltd. (the "Company") as at and for the year ended December 31, 2017. The purpose of this Audit Findings Report is to assist you, as members of the Audit Committee, in your review of the results of our audit. To facilitate in your understanding of our findings, Appendix A to this report summarizes our audit process.

Our report will discuss the status of our engagement, as well as communicate to you significant audit, accounting and reporting matters arising from our procedures. We hope that this report is of assistance to you, and we look forward to discussing our findings and answering your questions.

ENGAGEMENT STATUS

We have completed our audit of the financial statements of the Company and are prepared to sign our Auditors' Report subsequent to completion of the following procedures:

- Receipt of the remaining outstanding legal confirmations;
- Receipt of the signed management representation letter;
- Discussion of subsequent events with the Audit Committee;
- The Audit Committee review and approval of the financial statements.

We expect to have the above procedures completed and to release our Audit Report on April 18, 2018. Our draft report, which will provide an unqualified opinion, is attached at the end of this report. Our report will include an other matters paragraph with respect to the material uncertainty of the Calgary Film Centre Ltd. to continue as a going concern.

SIGNIFICANT AUDIT, ACCOUNTING AND REPORTING MATTERS

CHANGES FROM AUDIT SERVICE PLAN

There were no deviations from the Audit Service Plan previously presented to you.

AREAS OF AUDIT EMPHASIS

The following lists the key areas of our audit emphasis for the Company:

- Deferred contributions.
- Recognition of revenue; and
- Expenses, payroll and employee costs.

Detailed information on Areas of Audit Emphasis is included as Appendix B to this report.

FINAL MATERIALITY

Materiality is a concept used to assess the significance of misstatements or omissions that are identified during the audit and is used to determine the level of audit testing that is carried out. The scope of our audit work is tailored to reflect the relative size of operations of the Company, and is affected by our assessment of materiality and audit risk.

Final materiality used for our audit was \$480,000 for December 31, 2017 and was based on a percentage of gross expenses. Our threshold for differences reported to the Audit Committee was \$24,000.

SIGNIFICANT DEFICIENCIES IN INTERNAL CONTROL

Our audit process focuses on understanding the controls utilized in management's reporting systems to the extent necessary to identify overall and specific financial reporting risks. This risk assessment allows us to concentrate our audit procedures on high risk areas and, where possible, place reliance on controls within the financial reporting system to reduce the extent of our testing.

It is important to note that our assessment was not, nor was it intended to be, sufficient to comment or conclude on the sufficiency of internal controls.

We are required under Canadian generally accepted auditing standards to communicate all significant deficiencies identified during an audit to the Audit Committee on a timely basis. However, we may not be aware of all significant deficiencies that do, in fact, exist.

While our review of controls was not sufficient to express an opinion as to their effectiveness or efficiency, no significant deficiencies in internal control have come to our attention.

DIFFICULTIES ENCOUNTERED

No significant limitations were placed on the scope or timing of our audit.

IDENTIFIED OR SUSPECTED FRAUD

Due to the inherent limitations of an audit and the nature of fraud, including attempts at concealment through forgery or collusion, an audit conducted in accordance with Canadian generally accepted auditing standards cannot be relied upon to detect fraud.

While our audit cannot be relied upon to detect all instances of fraud, no incidents of fraud, or suspected fraud, came to our attention in the course of our audit.

IDENTIFIED OR SUSPECTED NON-COMPLIANCE WITH LAWS AND REGULATIONS

Nothing has come to our attention that would suggest any non-compliance with laws and regulations that would have a material effect on the financial statements.

MATTERS ARISING IN CONNECTION WITH RELATED PARTIES

The following significant matters arose in connection with related parties of the Company during the course of our audit:

- It was noted during our audit that the Company's subsidiary, Calgary Film Centre Ltd. (the "Centre"), was having difficulty managing its cash flow to meet its current obligations due to the Studio's low occupancy;
- The Centre's continuation as a going concern is dependent upon the continued support of related parties, generating excess revenue over expenses through increased occupancy, and the ability to generate sufficient cash from operations;
- Management is reviewing its options to reduce the debt carried by the Centre, and with the support of related parties, management anticipates it will be able to continue operating as a going concern; and
- The Company's and the Centre's financial statements do not reflect any adjustments in the carrying values of the assets and liabilities, the reported revenue and expenses and the statement of financial position classifications used that would be necessary if the going concern assumption were not appropriate should the Centre not be able to continue on in the normal course of business

As a result of the above circumstances, we are of the opinion that the going concern assumption is appropriate in preparation of the Centre's financial statements. The circumstances identified are disclosed adequately in Note 2 of the Centre's financial statements and an emphasis of matter paragraph has been added to the Auditors' Report with respect to the material uncertainty of the Centre to continue as a going concern.

As discussed earlier, our independent auditors' report will provide an unqualified opinion to the Board of Directors. Without modifying our opinion an other matter paragraph was added. The other matter paragraph draws attention to the Centre's ability to continue as a going concern.

GOING CONCERN

We do not expect that the Centre's going concern issue discussed above to cause a material uncertainty to the Company itself.

We have not identified any other material uncertainties related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

AUDITORS' VIEWS OF SIGNIFICANT ACCOUNTING PRACTICES

The application of Canadian accounting standards for Not-For-Profit Organizations allows and requires the Company to make accounting estimates and judgments regarding accounting policies and financial statement disclosures.

As auditors, we are uniquely positioned to provide open and objective feedback regarding your Company's accounting practices, and have noted the following items during the course of our audit that we wish to bring to your attention.

Accounting Policies

- The accounting policies used by the Company are appropriate and have been consistently applied.
- No new accounting policies, or changes in accounting policies were applied.

Accounting Estimates

Allowance for Doubtful accounts

- Provision for doubtful accounts receivable is based on individual account balances at the time that all other collection efforts have failed. At December 31, 2017 there was no provision for doubtful accounts receivable.

Amortization of property, equipment and intangibles

- Tenant improvements, furniture and fixtures, technology, and intangibles are amortized using the straight-line method at rates intended to amortize the cost of assets over their estimated useful lives. The rates range from two to five years.

Impairment assessment

- During the year, Management determined that the website no longer provided long-term service potential to the Company and therefore these costs were written down to \$nil, resulting in a loss of \$27,233.
- No write-downs considered necessary by Management for financial assets, property and equipment or intangible assets.

Provision for legal contingencies

- No provision deemed necessary. We are finalizing the receipt of legal letters required to fully complete our audit. We do not expect the finalization of these outstanding matters to be of any concern.

Financial Statement Disclosures

The disclosures made in the notes to the financial statements appear clear, neutral and consistent with our understanding of the entity and the amounts presented in the financial statements.

MATTERS ARISING FROM DISCUSSIONS WITH MANAGEMENT

We would like to formally acknowledge the cooperation and assistance we received from the management and staff of the Company.

There were no significant matters discussed, or subject to correspondence, with Management that in our judgment need be brought to your attention.

SIGNIFICANT DIFFERENCES

No differences were proposed to Management with respect to the December 31, 2017 financial statements.

MODIFICATIONS TO THE INDEPENDENT AUDITORS' REPORT

As discussed earlier, our independent auditors' report will provide an unqualified opinion to the Board of Directors and include an other matters paragraph with respect to the material uncertainty of the Calgary Film Centre Ltd. to continue as a going concern.

MANAGEMENT REPRESENTATIONS

We have requested certain written representations from management, which represent a confirmation of certain oral representations given to us during the course of our audit.

This letter, provided by management, has been included as additional material to this report.

AUDITOR INDEPENDENCE

We confirm to the Audit Committee that we are independent of the Company. Our letter to the Audit Committee discussing our independence is included under separate cover from this report.

APPENDIX A – MNP Audit Process

Our audit was carried out in accordance with Canadian generally accepted auditing standards, and included a review of all significant accounting and management reporting systems, with each material year end balance, key transaction and other events considered significant to the financial statements considered separately.

Our audit process focused on understanding the controls utilized in management's reporting systems to the extent necessary to identify overall and specific financial reporting risks. This risk assessment enabled us to concentrate our audit procedures on the areas where differences were most likely to arise. Our assessment was not, nor was it intended to be, sufficient to conclude on the effectiveness or efficiency of internal controls.

During the course of our audit, we have:

- Examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- Assessed the accounting principles used and significant estimates made by Management;
- Obtained an understanding of the Company and its environment, including Management's internal controls (regardless of whether we relied on them for the purpose of the audit), sufficient to identify and assess the risks of material misstatement of the financial statements and to design and perform audit procedures;
- Reviewed and assessed those accounting systems deemed necessary to support our audit opinion;
- Evaluated the overall financial statement presentation;
- Performed a subsequent events review with management;
- Reviewed and assessed the status of contingencies, commitments and guarantees;
- Reviewed and assessed exposure to environmental liabilities.

We have obtained written representations from management, included as additional materials following this report, in order to confirm oral representations given to us and reduce the possibility of misunderstanding. Specifically, we have obtained written confirmation of significant representations provided on matters that are:

- Directly related to items that are material, either individually or in the aggregate, to the financial statements;
- Not directly related to items that are material to the financial statements, but are significant, either individually or in the aggregate, to the engagement; and
- Matters relevant to Management judgments or estimates that are material, either individually or in the aggregate, to the financial statements.

APPENDIX B – Areas of Audit Emphasis

Deferred contributions

The Company receives contributions for projects, of which some contributions are deferred to future years when the expenses are incurred. As at December 31, 2017, the Company has restricted contributions totaling \$2,074,166 (2016 - \$3,274,261). Of this amount, \$1,595,790 (2016 - \$1,736,989) has been restricted for the Opportunity Calgary initiative, \$202,109 (2016 - \$nil) for the Startup Calgary program, \$181,153 (2016 - \$nil) for the Careers in Calgary program, \$32,286 (2016 - \$918,147) for the Headquarter Strategy initiative, \$nil (2016 - \$367,725) for the WORKshift program, \$nil (2016 - \$93,033) for the Connector program, and \$62,828 (2016 - \$158,367) for other various programs.

MNP tested a sample of amounts outstanding at year-end to revenue contracts to ensure the revenue was being appropriately deferred in accordance with the Company's revenue recognition policy. No issues were noted during testing.

MNP tested a sample of deferred contributions recognized during the year to supporting documentation and to ensure appropriate expenditures had occurred. No issues were noted during testing..

We have concluded that deferred contributions have been reasonably stated as at December 31, 2017.

Recognition of revenue

The Company follows the deferral method of accounting for contributions. Restricted contribution are recognized as revenue in the year in which the related expense are incurred. Contributions for the purchase of property, equipment and intangible assets are deferred and recognized on the same basis as amortization expense of the related asset. Unrestricted contributions are recognized as revenue when received or receivable.

MNP tested a sample of amounts recorded during the year to signed agreements to ensure the revenue was being appropriately recorded in relation to the Company's revenue recognition policy. These were also verified to payments received to ensure the Company is collecting on its agreements.

MNP recalculated the revenue recognized for deferred contributions for the purchase of property and equipment using amortization rates as disclosed by the Company. No issues were noted in the recalculation.

We have concluded that revenue has been reasonably stated for the year ended December 31, 2017.

Expenses, payroll and employee costs

The Company incurs significant costs related to payroll and other employee costs and benefits. The Company incurred \$12,091,082 in expenses during the year (2016 - \$9,573,452) of which \$5,314,538 related to employee costs (2016 - \$4,814,368).

MNP tested a sample of payroll to Ceridian reports and employee files to ensure wages are being appropriately recorded and deductions are being accurately made. MNP also tested the completeness of the bonus and vacation accruals. No issues were noted during testing.

MNP noted that the majority of the increase in expenses is related to the marketing and proposal for the Amazon Headquarters bid, included in program costs and marketing and promotions. MNP agreed a sample of other expense transactions to supporting documents to ensure amounts were complete, had occurred, and were accurate. No issues were noted during testing.

We have concluded that expenses, payroll and employee costs are reasonably stated for the year ended December 31, 2017