

**Calgary Economic Development Ltd.**  
**Report to the Audit Committee**

*For the Year Ended December 31, 2016*

For presentation at the Audit Committee meeting March 23, 2017

March 23, 2017

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, 2016 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.

This report is intended solely for the information and use of the Audit Committee and management and should not be distributed to or used by any other parties than these specified parties.

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,

*MNP LLP*

**Chartered Professional Accountants**

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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, 2016. 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 10, 2017. Our draft report, which will provide an unqualified opinion, is attached at the end of this report.

## 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 your 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 \$190,000 for December 31, 2016 and was based on a percentage of gross expenses. Our threshold for differences reported to the Audit Committee was \$9,500.

## **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**

All related party transactions identified were in the normal course of business and accounted for appropriately in accordance with Canadian Public Sector Accounting Standards for Not-for-Profit Organizations.

## **GOING CONCERN**

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

We are of the opinion that the going concern assumption is appropriate in preparation of the financial statements.

## **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, 2016 there was no provision for doubtful accounts receivable.

#### **Amortization of property, equipment and intangibles**

- Tenant improvements, furniture and fixtures, technology, and most 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. Website development costs are amortized using declining balance method at a rate of 30%.

#### **Impairment assessment**

- Management determined that website costs that were previously capitalized were impaired due to a new website being developed and implemented in 2016. The previous website net-book value of \$36,353 was written off as an impairment consequently. MNP agrees with management's assessment and has appropriately accounted for the impairment.
- No other 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, 2016 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.

#### **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 as part of the additional materials attached to 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, 2016, the Company has restricted contributions totaling \$3,274,261 (2015 - \$871,518). Of this amount, \$1,736,989 (2015 - \$nil) has been restricted for the Opportunity Calgary initiative, \$918,147 (2015 - \$nil) for the Headquarter Strategy initiative, \$367,725 (2015 - \$464,482) for the WORKshift program, \$93,033 (2015 - \$219,434) for the Connector program, and \$158,367 (2015 - \$187,602) 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.

We have concluded that deferred contributions have been reasonably stated as at December 31, 2016.

### ***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.

The Centre recognized \$9,809,743 in revenue during the year (2015 - \$12,538,308). The majority of the decrease is related to the prior year recognition of the Government of Alberta grant for the construction of the Calgary Film Centre.

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.

We have concluded that revenue has been reasonably stated for the year ended December 31, 2016.

### ***Expenses, payroll and employee costs***

The Company incurs significant costs relating to payroll and other employee costs and benefits. The Company incurred \$9,573,452 in expenses during the year (2015 - \$12,598,911) of which \$4,814,368 related to employee costs (2015 - \$4,734,466).

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 decrease in expenses related to the prior year recognition of the Government of Alberta grant for the construction of the Calgary Film Centre, this amount was included in program costs. 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, 2016

## Independent Auditors' Report

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To the Board of Directors of Calgary Economic Development Ltd.:

We have audited the accompanying financial statements of Calgary Economic Development Ltd., which comprise the statement of financial position as at December 31, 2016, and the statements of operations, changes in net assets and cash flows 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 for Not-For-Profit Organizations, 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.

### *Auditors' 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 auditors' 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 Calgary Economic Development Ltd. as at December 31, 2016 and the results of its operations and its cash flows for the year then ended in accordance with Canadian Public Sector Accounting Standards for Not-For-Profit Organizations.

Calgary, Alberta

April 10, 2017

Chartered Professional Accountants

April 10, 2017

MNP LLP  
1500, 640 - 5th Avenue SW  
Calgary, Alberta T2P 3G4

To Whom It May Concern:

In connection with your audit of the financial statements of Calgary Economic Development Ltd. (the "Company") as at December 31, 2016 and for the year then ended, we hereby confirm to the best of our knowledge and belief, the following representations made to you during the course of your audit.

We understand that your audit was made in accordance with Canadian generally accepted auditing standards. Accordingly, the audit included an examination of the accounting system, controls and related data, and tests of the accounting records and such other auditing procedures as you considered necessary in the circumstances, for the purpose of expressing an opinion on the financial statements. We also understand that such an audit is not designed to identify, nor can it necessarily be expected to disclose, misstatements, non-compliance with laws and regulations, fraud or other irregularities, should there be any.

Certain representations in this letter are described as being limited to matters that are material. An item is considered material, regardless of its monetary value, if it is probable that its omission from or misstatement in the financial statements would influence the decision of a reasonable person relying on the financial statements.

### **Financial Statements**

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated September 8, 2016, for the preparation and fair presentation of the Company's financial statements in accordance with Canadian Public Sector Accounting Standards for Not-for-Profit Organizations. We believe these financial statements are complete and present fairly, in all material respects, the financial position of the Company as at December 31, 2016, and the results of its operations and its cash flows, in accordance with Canadian Public Sector Accounting Standards for Not-for-Profit Organizations.
2. All transactions have been recorded in the accounting records and are reflected in the financial statements, and are reported in the appropriate period.
3. We acknowledge that we are responsible for the accounting policies followed in the preparation of the Company's financial statements. Significant accounting policies, and any related changes to significant accounting policies, are disclosed in the financial statements. The selection of accounting policies is appropriate in accordance with the requirements of Canadian Public Sector Accounting Standards for Not-for-Profit Organizations, and are applied consistently throughout the financial statements.
4. We have disclosed to you all significant assumptions used in making accounting estimates and judgments, and believe they are reasonable.
5. We are aware of and concur with the contents and results of the attached journal entries prepared by you, and accept responsibility for the financial statement effects of the entries.
6. We believe the effects of those uncorrected financial statement differences aggregated by you during the audit are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.
7. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of Canadian Public Sector Accounting Standards for Not-for-Profit Organizations.

8. All events or transactions that have occurred subsequent to the balance sheet and for which Canadian Public Sector Accounting Standards for Not-for-Profit Organizations require adjustment or disclosure have been adjusted or disclosed appropriately in the financial statements.
9. All plans or intentions that may affect the carrying value or classification of assets and liabilities are appropriately reflected in the financial statements in accordance with Canadian Public Sector Accounting Standards for Not-for-Profit Organizations.
10. All liabilities, both known and contingent, requiring recognition or disclosure in the financial statements in accordance with the requirements of Canadian Public Sector Accounting Standards for Not-for-Profit Organizations have been adjusted or disclosed as appropriate.
11. All outstanding and possible claims, whether or not they have been discussed with legal counsel, have been disclosed to you and are appropriately reflected in the financial statements.
12. All assets, wherever located, to which the Company had satisfactory title at the year-end, have been fairly stated and recorded in the financial statements. The assets are free from hypothecation, liens and encumbrances, except as noted in the financial statements. We have disclosed the nature and carrying amounts of any assets pledged as collateral. All assets of uncertain value, and restrictions imposed on assets, are appropriately reported in the financial statements.
13. All aspects of laws, regulations or contractual agreements, including non-compliance, are appropriately reflected in the financial statements.
14. All restricted cash has been appropriately designated and separated from operating funds.
15. Investments in marketable securities are appropriately recorded in the financial statements in accordance with the requirements of Canadian Public Sector Accounting Standards for Not-for-Profit Organizations. All events or circumstances giving rise to impairments are reflected in the financial statements.
16. Accounts and contributions receivable are correctly described in the records and represent valid claims as at December 31, 2016. An appropriate allowance has been made for losses from uncollectible accounts and for costs or expenses that may be incurred with respect to sales made or services rendered.
17. All charges to capital assets represent capital expenditures. No expenditures of a capital nature were charged to operations of the Company. Depreciation of property, plant and equipment has been recorded according to our best estimates of their useful lives. All events or circumstances giving rise to impairments are appropriately reflected in the financial statements.
18. All intangible assets have been appropriately recorded in the financial statements in accordance with the requirements of Canadian Public Sector Accounting Standards for Not-for-Profit Organizations. All events or circumstances giving rise to impairments are appropriately reflected in the financial statements. Where intangible assets are subject to amortization, they are amortized at appropriate rates based on our best estimates of their useful lives.
19. Revenue has been recognized only where sales have been made and items delivered, or services rendered, and the amounts have been collected or are collectible. Revenues do not include any amounts arising from consignment sales or from any other transaction from which the Company is not entitled to the proceeds.
20. We have identified all financial instruments, including derivatives, and hedging relationships. These have been appropriately recorded and disclosed in the financial statements in accordance with the requirements of Canadian Public Sector Accounting Standards for Not-for-Profit Organizations.

## Information provided

1. We have responded fully to all inquiries made to us and have made available to you:
  - A complete record of all financial records that are relevant to the preparation and presentation of the financial statements and minutes of the meetings of members and board of directors held throughout the year to the present date;
  - Additional information that you have requested from us for the purpose of your audit;
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. We acknowledge management's responsibility for the design, implementation and operation of controls that have been designed to prevent and detect fraud.
3. We have assessed the risk that the financial statements may be materially misstated as a result of fraud, and have determined such risk to be low.
4. Where the impact of any frauds or suspected frauds, and non-compliance or possible non-compliance with laws and regulations, has a material effect on the financial statements, we have disclosed to you all known significant facts relating thereto, including circumstances involving management, employees having significant roles over controls, and others. We have made known to you any allegations of fraud or suspected fraud communicated by employees, former employees, analysts, regulators and others. The effects of such events, if any, are properly presented in the financial statements.
5. We have disclosed to you all deficiencies in the design or operation of internal controls over financial reporting of which we are aware.
6. We have disclosed to you all aspects of laws, regulations or contractual agreements that may affect the financial statements, including non-compliance.
7. We have disclosed to you the identities of all related parties to the Company and all related party relationships and transactions of which we are aware.
8. We have no knowledge of side agreements (contractual or otherwise) with any parties that have not been disclosed to you.
9. The previous year's representation letter dated April 21, 2016 is still applicable to the prior year's financial statements and, and no matters have arisen that require restatement of those financial statements.
10. There are no discussions with your firm's personnel regarding employment with the Company.

## Professional Services

1. We acknowledge the engagement letter dated September 8, 2016, which states the terms of reference regarding your professional services.
2. We are not aware of any reason why MNP LLP would not be considered independent for purposes of the Company's audit.

Sincerely,  
Calgary Economic Development Ltd.

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Signature

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Title