The North York Performing Arts Centre Corporation

Operating as the
"Toronto Centre for the Arts"

2011 Year-end report to the Audit Committee

Prepared as of April 27, 2012

April 27, 2012

Members of the Audit Committee
The North York Performing Arts Centre Corporation

Dear Members of the Audit Committee:

We have substantially completed our audit of the financial statements of North York Performing Arts Centre Corporation (the Centre) prepared in accordance with Canadian generally accepted principles (GAAP) for the year ended December 31, 2011. We propose to issue an unqualified report on those financial statements, pending resolution of outstanding items outlined on page 1. Our draft auditor's report is included in Appendix A.

We have issued the accompanying report to assist you in your review of the financial statements. It includes an update on the status of our work, as well as a discussion on the significant accounting and financial reporting issues dealt with during the audit process.

We propose to review the key elements of this report at the upcoming meeting and discuss with you our key findings.

We would like to express our sincere thanks to the management and the staff of the organization who have assisted us in carrying out our work and we look forward to our meeting on May 3, 2012. Should you have any questions or concerns prior to the Audit Committee meeting, please do not hesitate to contact me in advance.

Yours very truly,

PricewaterhouseCoopers LLP

Jeffrey Goldfarb
Partner
Audit and Assurance Group

cc: Pim Schotanus, General Manager

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Appendices

1. Executive summary

a. Status of the audit

We have substantially completed our audit of the 2011 financial statements (the financial statements). Our auditor's report will be issued once we receive and have completed our audit work on the outstanding items noted below.

This document includes the required communications between an auditor and Audit Committee, as required by Canadian Auditing Standards.

Our audit has been performed substantially in accordance with the plan and timeline previously communicated to you.

The following items will need to be completed/received prior to the issuance of our opinion. We will provide an update on the status of these items at our upcoming meeting.

Outstanding item	Status as at May 3, 2012
i. Receipt of legal letter responses / updates for lawyers	
ii. Subsequent events update with management	
iii. Receipt of signed management representation letter	
iv. Approval of the financial statements by the Audit Committee / Board of Directors	

b. Key issues for discussion

Discussion item	Summary	For further reference
Items discussed with Management	• During the course of our work we discussed the following items with management: o Treatment of related party transactions o Significant management estimates o Changes to accounting standards for not-for-profit organizations o Internal controls recommendations	Page 3, 6
Summary of unadjusted and adjusted items	• As a result of our audit, we identified unadjusted items with an effect of $6,309 understatement of deficiency for the year. • Unadjusted and adjusted items, including disclosure exceptions or items not impacting net income are listed in appendix B. • In our opinion, the financial statements, taken as a whole, are free of material misstatement.	Appendix B
Independence	• We are independent of the organization as at April 23, 2012. • Our independence letter can be found in Appendix D.	Appendix D
2011 audit fees	• Our total audit fees for 2011 were $14,950 as compared to our proposed audit fee for 2011 of $11,650.	Page 14
Management representations	• Under Canadian Auditing Standards, we are required to inform you of the representations we are requesting from management. A copy of the management representation letter is included in Appendix C.	Appendix C

2. Significant audit, accounting and financial reporting matters

Preparation of the financial statements requires management to select accounting policies, as well as make critical accounting estimates and disclosures that may involve significant judgment and measurement uncertainty. These matters can significantly impact the organization's reported results.

We are responsible for discussing with the Audit Committee our views about the significant qualitative aspects of the organization's accounting practices, including accounting policies, the accounting estimates, and financial statement disclosures in accordance with the requirements of GAAP.

Our comments and views included in this report should only be taken in the context of the financial statements as a whole and are not meant to express an opinion on any individual item or accounting estimate. We are sharing our views with you to facilitate an open dialogue of these matters.

Issue	Discussion
Treatment of related party transactions	• As a significant amount of activity occurs between the City and the Centre, we confirmed all year-end balances directly with the City, related to the grant, loan payable, receivable, the Capital Maintenance Reserve Fund and the Stabilization Reserve fund. • Based on our review of the confirmation received, all amounts have been accurately and completely reflected in the financial statements and accounts of the Centre. • As part of our controls testing, we also reviewed the business performance review controls of the Centre, focused on quarterly reporting with the city. As a result of our controls work, no significant issues were noted.
Significant management estimates	• During the course of our work, we noted the following areas of management judgment or estimate: • *Payroll Accrual:* - During our testing of accruals, we requested management to check the crew labour expenses associated with recoverable labour revenues. Management discovered two missing payroll accruals. Refer to section 5 for details. - Total payroll not accrued was approximately \$170,000. Management has recorded this adjustment as part of adjusted differences during the year. Refer to Appendix B for details. • *Vacation Accrual:* - As a part of testing of vacation accrual, we noted that vacation accrual of approximately \$5,500 (2010 - \$20,000) was properly recorded in the financial statements.
Changes to accounting standards for not-for-profit organizations (NPOs)	• As noted in our audit plan prepared as of February 15, 2012, effective January 1, 2012, the Centre will have to adopt new accounting standards. • The standards may have a significant impact on the financial reporting for your organization. • We understand that management is aware of the change in accounting standards and is developing a project plan to implement the changes for the 2012 financial statements.

3. Summary of unadjusted and adjusted items

We have concluded that the financial statements taken as a whole are free of material misstatement and (pending the completion, to our satisfaction, of the outstanding matters identified in section 1), we are prepared to issue an unqualified opinion on the financial statements.

Our responsibility is to issue an opinion as to whether the financial statements are free of material misstatement.

Under Canadian Auditing Standards, we are required to communicate to you the unadjusted items and the effect that they may have on our opinion and to request that unadjusted items be corrected. As a result of our audit, we identified certain items and have discussed these with management, and management adjusted the financial statements to reflect certain of these items.

We are also required to communicate the effects of any unadjusted items that relate to prior periods. These are listed in appendix B.

Please refer to Appendix B for the details of unadjusted and adjusted items.

4.Other required communications

Canadian Auditing Standards requires that the external auditor communicate certain matters to the Audit Committee that may assist you in overseeing management's financial reporting and disclosure process.

Below, we summarize these required communications as they apply to you:

Matter to be communicated	PwC's response
Management's representations	• Under Canadian Auditing Standards, we are required to inform you of the representations we are requesting from management. A copy of the management representation letter is included in Appendix C.
Significant deficiencies in internal control	• Recent changes to Canadian Auditing Standards require us to communicate to the Audit Committee internal control weaknesses identified as part of our audit that are considered to be significant deficiencies. • A significant deficiency is defined as an internal control deficiency that we consider merits the attention of the Audit Committee. • These are summarized in Section 5.
Significant difficulties or disagreements that occurred during the audit	• No difficulties or disagreements occurred while performing our audit that requires the attention of the Audit Committee.
Fraud and illegal acts	• No fraud involving senior management, employees with a significant role in internal control, or that would cause a material misstatement of the financial statements, came to our attention as a result of our audit procedures. • We wish to reconfirm whether the audit committee is aware of any known, suspected or alleged incidents of fraud.

5. Internal control recommendations

The purpose of our audit was to enable us to express an opinion on the financial statements. The audit included consideration of internal control relevant to the preparation 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 internal control.

During our audit, we identified the following control recommendations that we have discussed with management and wish to bring to your attention.

Observation	Recommendation	Management's response
Manual Journal Entries related to period 13 and period 12 As part of financial statement close process management records all late adjustments to period 13 which is normally defined as December 1 to December 31. In 2011, period 13 was defined in the system as January 1 to January 31 that resulted in the accounting system AP subledger posting entries relating to period 1 of 2012 to default to period 13 of 2011. This impacted accounts payable line item as 2012 payables were included in 2011 balance. Prior to the 2011 year-end audit management corrected 4 accounts payable entries in the amount of approximately $500,000.	We recommend management to ensure period 13 is defined as December 1 to December 31 to avoid this issue from re-occurring	Management has taken a corrective action to ensure this error will not re-occur.
Recording of prior year audit adjustments As part of our audit we noted that we were unable to agree prior year trial balance numbers to audited financial statements. This was due to prior year identified and agreed upon adjusted misstatements not being recorded in the accounting system of the Centre.	We recommend that management record agreed upon late adjustments in a timely fashion. This will ensure that accounting records are complete and accurate at any point of time.	Management agrees with this recommendation.

Observation	Recommendation	Management's response
Completeness of accruals During our testing of payroll accrual, we requested management to check the crew labour expenses associated with recoverable labour revenues. Management determined that there were two payroll periods with pay period ending date within 2011 were posted to the 2012 pay date and were not accrued for. Payroll periods affected were crew pay period 26 and front of house staff pay period 25. Front of house pay period 26 bridged year end and was properly accrued for. This resulted in understatement of the deficiency of revenues over expenses by approximately $170,000.	We recommend that management develops a checklist for the closing process so that no accruals and other items are omitted during preparation of the final financial statements.	Management agrees with this recommendation.

We would also like to provide you an update of the control recommendations identified from the prior year.

<u>Items requiring further action:</u>

Observation	Recommendation	Management's response
Cash held in trust The agreement with Dancap requires that the Centre's box office sales received related to Dancap sales be segregated in a bank trust account. Based on the Ticket Master box office report for year-end, the amount expected in-trust is approximately $47,000. We understand that this is usually performed by the Director of Finance and Administration, but in his absence during the year-end vacation, this transfer was delayed.	2010 Recommendation: We recommend that the amount in-trust be reviewed, in the absence of the Director of Finance and Administration, by either the General Manager or the Director of Operations. This will ensure that the appropriate funds are transferred to the trust account on a timely basis, and that the financial statements reflect the interests of one of its key users, Dancap Productions Inc. 2011 Update: We noted that cash held in trust account was reconciled as part of audit request and not done as part of year end close process by management. This account should be reconciled as part of year end close process.	2010 Response: Management agrees with this recommendation. 2011 Response: Management agrees with this recommendation and will include the procedure to segregate cash and cash held in trust as of December 31 as a part of year end checklist.

Observation	Recommendation	Management's response
Overall segregation of duties Due to the small size of the Centre's finance team, we noted many areas where the reporting and accounting functions are being performed by the General Manager (GM), rather than being subject to his review. This means that a review is not being performed of the work that he is performing, which increases the risk of error and possibility for management override of controls. It also means that a large proportion of his time is being taken up with detailed accounting work, rather than providing oversight to the finance team and driving the strategic priorities of the organization.	2010 Recommendation: We recommend that the General Manager delegate certain responsibilities to the Director of Finance and Administration, the Director of Operations, and/or other capable staff, with the appropriate training. This will enable the General Manager to independently review the work prepared by these staff and to focus on other strategic priorities. We noted instances where this delegation was beginning to happen. We encourage a full review of all roles and responsibilities to ensure this ability has been maximized. 2011 Update: Control weakness is still noted. Due to the small size of the Centre's finance team a significant proportion of the GM's time is being taken up with detailed accounting work, rather than providing oversight to the finance team and driving the strategic priorities of the organization. We recommend that the GM delegate some of his responsibilities to other capable staff with appropriate training.	2010 Response: Management has already begun to delegate responsibilities where possible. For example, the Director of Finance and Administration took on a much larger role in preparing the audit requirements, as well as certain accounting processes. However, the GM's ability to delegate is restricted by the small finance team and the lack of available resources. Management would like to be able to spend more time on the strategic planning and direction of the Centre; therefore, the potential addition of a qualified staff member would be required in order to refocus effort on driving the strategy of the organization. 2011 Response: Management agrees with this recommendation.

Observation	Recommendation	Management's response
Management expense report approval and written policies During our testing of the authorization of management expense reports, we noted one instance where a manager had approved his own American Express (Amex) expense report. Although our review indicated that the nature of the expense approved was in accordance with policy, there is a risk of misappropriation of assets where expense reports can be self-approved.	2010 Recommendation: We recommend that all expense reports, including Amex expenses, be approved by someone other than the manager who has incurred the expense. Management has already developed a policy with respect to the use and approval of credit card related expenses. We recommend that this policy be updated to include the appropriate signature authorization policy. 2011 Update: Partial Implementation: We noted that the all expenses were appropriately approved. However, there is no written policy stating the eligible expenses to be incurred by management. We recommend that management develop an expense policy that clearly lists all eligible business expenses. This will ensure that only eligible business expenses are expensed by the Centre.	2010 Response: Management agrees that no manager will be able to approve their own Amex expense reports going forward. The new credit card policy will also be updated to include the appropriate signature authorization policy. 2011 Response: AP purchases through Amex do not constitute management expenses and are covered by the TCA's Amex Policy. Although there have been no questionable management expenses to date, management agrees that the development of a management expense policy is consistent with good financial oversight and will take steps to develop such policy.

Items that have been fully resolved in the current year:

Observation	Recommendation	Management's response
Lack of petty cash policy or control log Currently, there is no formal policy in place for managing the petty cash fund. Petty cash is approximately $10,000 at year-end.	2010 Recommendation: We recommend implementing a formal policy for managing all petty cash. This could include a control log of petty cash use, by person, date and amount. We also recommend that this log be reconciled and reviewed on a regular basis. 2011 Update: During our testing of petty cash expense we noted that Director of Operations was the custodian of petty cash and as a control she maintained a log for all petty cash expenses in the form of the detailed cheque requisition. This requisition is reviewed and signed by 2 people having signing authority.	2010 Response: However, TCA aims to create a policy for employees that will help ensure petty cash is being managed appropriately. Management will agrees to implement a control log system for petty cash use. Moreover, a reconciliation of these funds will be performed to this log at the end of each month. Management notes that petty cash expenses are currently entered into the general ledger based on signed receipts and signed summary cheque requisitions. 2011 Response: The TCA's Petty Cash Policy mirror's the City's Petty Cash Policy.

Observation	**Recommendation**	**Management's response**
Review of employee payroll reconciliations As part of our controls testing at year end, we examined the preparation and review of the monthly payroll reconciliations from the general ledger to the ADP service provider report. In the fourth quarter we noted that the reconciliations were not formally reviewed as required by TCA policy, as two managers were no longer with the Centre. The increased workload required the General Manager to temporarily prepare the reconciliations.	2010 Recommendation: We recommend that a different manager prepare the reconciliation from the manager who evidences review of the reconciliation. This is particularly important during a period of transition of payroll staff, as the risk of human error may be increased. 2011 Update: The recommendation from prior year has been fully implemented. No further action required.	2010 Response: Management agrees that during a period of transition, the reconciliation will be prepared by a different manager from the manager who evidences review of the reconciliation.
Employee termination policy In our testing of controls over the payroll cycle, we noted that the Centre does not currently have a process to ensure that all terminated employees are removed from the system on a timely basis. The information is currently provided on an ad hoc basis to the payroll administrator and no record is kept of changes or the related approvals. This increases the risk of overpaying a terminated employee who has not been removed from the system on a timely basis.	2010 Recommendation: We recommend that the payroll administrator and human resources manager implement the use of standing data change forms for terminations, new hires and salary changes. A standardized form for each of these significant changes to the payroll register can reduce the risk of overpayment and increase the ability for management to track significant dates, appropriate authorization and other pertinent information. 2011 Update: The recommendation from prior year has been fully implemented. No further action required.	2010 Response: Management has agreed to the recommendation and will begin implementing these procedures on a going forward basis.

Observation	Recommendation	Management's response
Approval for capital purchase invoice over $50,000 During the course of our work, we noted two cheque payments for approximately $30,000 each, related to one invoice for $60,000. TCA's current expense policy requires all invoices in excess of $50,000 be signed by TCA management and Chair of the Board. Although the capital purchase was reasonable, this control was not effectively adhered to according to policy.	2010 Recommendation: We recommend that the current control policy be maintained at TCA, and the secondary approver requirement not be bypassed. As the purpose of this control is to protect the Centre from the misappropriation of assets, as well as keeping the Board informed of significant expenditures, we recommend that planning for authorization of significant expenditures be planned and communicated to the Board Chair on a timely basis. 2011 Update: The recommendation from prior year has been fully implemented. No further action required.	2010 Response: Management has identified this as an isolated event. The payment of this invoice was time sensitive, resulting in difficulty in obtaining authorization from the Chair. Management agrees with the recommendation and maintenance of this control.

6.2011 audit fees

We previously communicated our estimated fees to you when we presented our audit plan on February 15, 2012.

The following is a summary of our fees for 2011 (exclusive of taxes and out-of-pocket expenses).

Service description	**Actual fees 2011 $**	**Estimated fees 2011 (per audit plan) $**
Audit of the financial statements	$11,650	$11,650
Assistance with resolution of the current year audit issues	3,300	-
Total audit and audit related services	**$14,950**	**$11,650**

Appendix A: Draft auditor's report

The North York Performing Arts Centre Corporation

(operating as The Toronto Centre for the Arts)

Financial Statements

December 31, 2011

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Independent Auditor's Report

To the Board of Directors of
The North York Performing Arts Centre Corporation
(operating as The Toronto Centre for the Arts)

We have audited the accompanying financial statements of The North York Performing Arts Centre Corporation (operating as The Toronto Centre for the Arts), which comprise the balance sheet as at December 31, 2011 and the statements of operations and deficit and cash flows for the year then ended, and the related notes, which comprise 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 generally accepted accounting principles, 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 North York Performing Arts Centre Corporation (operating as The Toronto Centre for the Arts) as at December 31, 2011 and the results of its operations and its cash flows for the year ended December 31, 2011 in accordance with Canadian generally accepted accounting principles.

Chartered Accountants, Licensed Public Accountants

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The North York Performing Arts Centre Corporation

(operating as The Toronto Centre for the Arts)

Balance Sheet

As at December 31, 2011

(in thousands of dollars)

	2011 $	2010 $
Assets		
Current assets		
Cash	646	316
Cash held in trust (note 4)	37	47
Accounts receivable (note 10)	146	149
Prepaid expenses	23	13
	852	525
Receivable from the City of Toronto (note 3(a))	4,430	4,558
Art collection	2,542	2,542
Capital assets (note 5)	26,903	28,067
Total Assets	34,727	35,692
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	507	516
Deferred revenue	311	117
Advance ticket sales	177	247
	995	880
Loan payable to the City of Toronto (note 3(c))	10,023	10,023
Deferred capital contributions (note 6)	27,419	28,165
Total Liabilities	38,437	39,068
Deficit	(3,710)	(3,376)
	34,727	35,692

On Behalf of the Board

___________________________________ Director ___________________________________ Director

The accompanying notes are an integral part of these financial statements.

The North York Performing Arts Centre Corporation

(operating as The Toronto Centre for the Arts)

Statement of Operations and Deficit

For the year ended December 31, 2011

(in thousands of dollars)

	2011 Budget $ (Unaudited)	2011 Actual $	2010 Actual $
Revenue			
Revenue from operations (note 4)	3,495	2,975	5,074
City of Toronto grant	923	924	980
Amortization of deferred capital contributions	-	1,068	1,036
	4,418	4,967	7,090
Expenses			
Salaries, wages and benefits (note 8)	2,876	3,234	4,040
Capital maintenance	122	104	202
Utilities	485	309	416
Other operating	1,163	768	1,400
Professional fees and services	22	48	23
Amortization of capital assets	-	1,402	1,365
	4,668	5,865	7,446
Excess of expenses over revenue before the following	(250)	(898)	(356)
Transfer from (to) the City of Toronto (note 3(d))	-	355	(21)
Transfer from the Stabilization Reserve Fund (note 7)	250	209	48
Excess of expenses over revenue for the year	-	(334)	(329)
Deficit - Beginning of year	-	(3,376)	(3,047)
Deficit - End of year	-	(3,710)	(3,376)

The accompanying notes are an integral part of these financial statements.

The North York Performing Arts Centre Corporation

(operating as The Toronto Centre for the Arts)

Statement of Cash Flows

For the year ended December 31, 2011

(in thousands of dollars)

	2011 $	2010 $
Cash provided by (used in)		
Operating activities		
Excess of expenses over revenue for the year	(334)	(329)
Add (deduct): non-cash items:		
Amortization of deferred capital contributions	(1,068)	(1,036)
Amortization of capital assets	1,402	1,365
Net change in non-cash working capital balances (note 9)	118	(605)
	118	(605)
Investing activities		
Increase (decrease) in receivable from the City of Toronto (note 9)	202	(1,453)
Purchase of capital assets	(238)	(828)
	(36)	(2,281)
Financing activities		
Capital Maintenance Reserve Fund - ticket surcharges (note 6)	248	688
Increase (decrease) in cash during the year	330	(2,198)
Cash - Beginning of year	316	2,514
Cash - End of year	646	316

The accompanying notes are an integral part of these financial statements.

The North York Performing Arts Centre Corporation

(operating as The Toronto Centre for the Arts)

Notes to Financial Statements

December 31, 2011

(in thousands of dollars)

1 Purpose

The North York Performing Arts Centre Corporation (the Centre) was incorporated on June 29, 1988 without share capital by Special Act (City of North York Act, 1988 (No. 2), Statutes of Ontario 1988, Pr45). The Centre is a local board of the City of Toronto (the City) and is a non-profit organization incorporated to maintain, operate and manage the Centre as an artistic, cultural, social, educational and recreational facility for the benefit of the City and its inhabitants and in the public interest. The Centre includes the Main Stage Theatre, the George Weston Recital Hall and the Studio Theatre.

The Centre is exempt from income taxes under Section 149(1) of the Income Tax Act (Canada).

2 Summary of significant accounting policies

The financial statements of the Centre have been prepared by management in accordance with Canadian generally accepted accounting principles. The significant accounting policies are as follows.

Revenue recognition

The Centre follows the deferral method of accounting for contributions, which includes grants. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Restricted contributions are deferred and recognized as revenue in the year in which the related expenses are incurred. Externally restricted contributions for amortizable capital assets are deferred and amortized over the life of the related capital asset. Externally restricted contributions for capital assets that have not been expended are recorded as capital contributions on the balance sheet.

Deferred revenue consists of deposits for rental revenue and deposits for costs to be incurred and recovered by the Centre for future performances. Once the performances occur, the deposits are recorded as revenue from operations.

Other revenue is recognized when earned, which may be on the date of the performance or point of sale.

Advance ticket sales

Advance ticket sales represent funds received from tickets sold prior to December 31 for performances presented by rental clients in the following year. Once the performance has occurred, the advance ticket sales net of certain box office charges, including ticket surcharges, are payable to the rental clients and are included in accounts payable.

(in thousands of dollars)

Capital assets

Capital assets are recorded at cost and are amortized on a straight-line basis over their estimated useful lives as follows:

Building	40 years
Furnishings and equipment	12 years
Computer equipment	3 years

Land on which the building and major capital facilities are located is owned by Ontario Power Generation.

Impairment of long-lived assets

The Centre tests for impairment of its long-lived assets whenever events and circumstances indicate that its carrying amount may not be recoverable. No impairment has been recorded in the current year.

Art collection and gallery

Works purchased for exhibition in the Museum of Canadian Contemporary Art are recorded on the balance sheet at cost. Works donated are independently appraised and are recorded on the balance sheet at their appraised value.

Employee future benefits

Defined contribution plan accounting is applied to a multi-employer defined benefit pension plan. Contributions are expensed when due.

Financial instruments

The Centre's financial instruments included in statement of financial position are comprised of cash, cash held in trust, accounts receivable and receivable from the City of Toronto (both of which are classified as loans and receivables), and accounts payable and accrued liabilities (classified as other liabilities).

The carrying values of the Centre's financial instruments approximate their fair values unless otherwise noted.

The Centre has chosen to continue to apply The Canadian Institute of Chartered Accountants (CICA) Handbook Section 3861, Financial Instruments - Disclosure and Presentation, in place of Section 3862, Financial Instruments - Disclosures, and Section 3863, Financial Instruments - Presentation.

Future accounting changes

Effective for fiscal years beginning on January 1, 2012, government controlled not-for-profit organizations are required to choose between Canadian Public sector accounting standards (PSAS) or PSAS for not-for-profit organizations. Early adoption of these standards is permitted. The Centre currently plans to adopt PSAS for not-for-profit organizations for its fiscal year beginning January 1, 2012. The impact of transitions has not been determined at this time.

(in thousands of dollars)

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

3 Related party transactions - City of Toronto

a) The Centre manages its cash flows independent of the City, except for the investment of the Capital Maintenance Reserve Fund (note 6). The receivable from the City, which is non-interest bearing, represents the cumulative excess of cash received and disbursements made directly by the City on behalf of the Centre. The fair value of this receivable cannot be reasonably determined as there are no fixed terms of repayment.

b) In the normal course of operations, the Centre incurs costs for various expenses payable to the City such as hydro and other administrative costs. Transactions between the City and the Centre are made at the agreed upon exchange amount.

c) Capital financing for the construction of the Centre was provided by the former City of North York prior to 1994 in the amount of $10,023 (2010 - $10,023). The loan payable is non-interest bearing. The fair value of this loan payable cannot be reasonably determined as there are no fixed terms of repayment. The City has indicated it will not demand payment of this loan within the next year.

d) As part of the terms of the agreement between the Centre and the City, any operating excess or deficiency is to be transferred to or recovered from the City. The City is responsible for the entire deficit in the year. The transfer of operating income (deficit) to (from) the City is calculated as follows:

	2011 $	2010 $
Excess of expenses over revenue before transfer from the City of Toronto	(898)	(356)
Transfer from the Stabilization Reserve Fund (note 7)	209	48
Add (deduct) non-cash items		
Amortization of capital assets	1,402	1,365
Amortization of deferred capital contributions	(1,068)	(1,036)
Transfer (from) to the City of Toronto	(355)	21

4 Licence agreement

On December 21, 2007, the Centre entered into a licence agreement for the use of the Centre's Main Stage Theatre for certain performances from August 4, 2008 to January 11, 2009. On January 9, 2009, the agreement was extended for an indefinite period of time. In addition to the rental fee, the licensee is required to pay for certain costs specific to its use of the Main Stage Theatre.

(in thousands of dollars)

On March 7, 2008, the Centre and the licensee entered into a Master Licence Agreement from the date of the agreement until December 31, 2010, providing the licensee first right to use the premises, including the Main Stage Theatre. In addition to the rental fee, the licensee is required to pay for certain costs specific to its use of the Main Stage Theatre. On January 9, 2009, this agreement was extended to the later of December 31, 2011 or the last day of the licence agreement noted above. On June 16, 2011, the Centre executed the second amending agreement to the Master Licence Agreement dated March 7, 2008, extending the Master Licence Agreement to December 31, 2012. The second amending agreement to the Master Licence Agreement provides a minimum guarantee for 2012 of $408.

All proceeds from the sale of tickets at the Centre pertaining to these agreements are to be held in trust until the completion of the applicable performance, at which time the ticket proceeds for that performance are paid to the licensee. As at December 31, 2011, $37 (2010 - $47) of advance ticket sales was held in trust.

5 Capital assets

Capital assets consist of the following:

			2011
	Cost $	Accumulated amortization $	Net $
Building	45,649	20,593	25,056
Furnishings and equipment	4,588	2,811	1,777
Computer equipment	360	290	70
	50,597	23,694	26,903

			2010
	Cost $	Accumulated amortization $	Net $
Building	45,649	19,451	26,198
Furnishings and equipment	4,414	2,589	1,825
Computer equipment	296	252	44
	50,359	22,292	28,067

The North York Performing Arts Centre Corporation
(operating as The Toronto Centre for the Arts)
Notes to Financial Statements
December 31, 2011

(in thousands of dollars)

6 Deferred capital contributions

The changes in deferred capital contributions during the year are due to the following:

	2011			2010
	Capital Maintenance Reserve Fund $	Other capital contributions $	Total $	Total $
Balance - Beginning of year	7,900	20,265	28,165	28,485
Ticket surcharge	248	-	248	688
Interest earned	74	-	74	28
Purchase of capital assets funded	(239)	239	-	-
Amortization of deferred capital contributions	-	(1,068)	(1,068)	(1,036)
Balance - End of year	7,983	19,436	27,419	28,165

The Capital Maintenance Reserve Fund, which consists of unspent capital ticket surcharges, is invested by the City. The capital surcharge on the sale of tickets for performances is considered to be externally restricted with the funds and interest earned on the funds only to be used for capital improvements of the Centre.

The North York Performing Arts Centre Corporation

(operating as The Toronto Centre for the Arts)

Notes to Financial Statements

December 31, 2011

(in thousands of dollars)

At the year-end, capital contributions consist of the following:

	2011			2010
	Capital Maintenance Reserve Fund $	Other capital contributions $	Total $	Total $
Gross capital contributions received from the City	-	30,660	30,660	30,660
Other	-	10,563	10,563	10,324
Capital Maintenance Reserve Fund	7,983	-	7,983	7,900
	7,983	41,223	49,206	48,884
Less: Accumulated amortization	-	(21,787)	(21,787)	(20,719)
	7,983	19,436	27,419	28,165

(in thousands of dollars)

7 Stabilization reserve

During 2003, the Centre entered into an agreement with the City that established, in the accounts of the City, The North York Performing Arts Centre Corporation Operating Stabilization Reserve Fund (the Stabilization Reserve Fund) for the purpose of putting aside income earned in profitable years in order to offset deficits in other years. This agreement provided that transfers were to be made to the Stabilization Reserve Fund based on the cash basis of accounting and therefore exclude amortization. Beginning with the year ended December 31, 2006, the transfer of the current year operating income is no longer automatically added to the Stabilization Reserve Fund. The transfer is only added to this fund if approved by the City Council. For the fiscal years ended December 31, 2010 and 2011, the City has not added to this fund the transfer of current year operating income as disclosed in note 3(d). This fund resides in the City's financial statements and is not included in the Centre's financial statements. As at December 31, 2011, the balance in the Stabilization Reserve Fund is $1,016 (2010 - $1,225).

8 Employee benefits

The Centre makes contributions to the Ontario Municipal Employees Retirement Fund (OMERS), which is a multi-employer pension plan, on behalf of most of its employees. The plan is a defined benefit plan, which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay. Employees and employers contribute jointly to the plan.

Because OMERS is a multi-employer pension plan, any pension plan surpluses or deficits are a joint responsibility of all Ontario municipalities and their employees. As a result, the Centre does not recognize any share of the OMERS pension surplus or deficit. Employers' current service contributions to the OMERS pension plan in 2011, which were expensed, are $80 (2010 - $55) and are included in salaries, wages and benefits.

In addition to the OMERS plan, the Centre has arrangements with bargaining units to make contributions to registered retirement savings plans on behalf of its employees that are not participating in OMERS. Contributions expensed in connection with these plans for 2011 amounted to $143 (2010 - $106) and are included in salaries, wages and benefits.

9 Statement of cash flows

The net change in non-cash working capital balances related to operations consists of the following:

	2011 $	2010 $
Funds held in trust	10	133
Accounts receivable	3	(115)
Prepaid expenses	(10)	-
Accounts payable and accrued liabilities	(9)	(423)
Deferred revenue	194	(162)
Advance ticket sales	(70)	(38)
	118	(605)

(in thousands of dollars)

Non-cash investing and financing activities excluded from the statement of cash flows include interest earned on the Capital Maintenance Reserve Fund of $74 (2010 - $28) (note 6), which is included in the receivable from the City of Toronto.

10 Financial risk management

The main risks to which the Centre's financial statements are exposed are as follows:

Credit risk

Credit risk is the risk one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Centre is subject to credit risk with respect to accounts receivable of $146 (2010 - $149). As at December 31, 2011, two accounts represent 82% of the total accounts receivable balance (2010 - three accounts represented 93%). Revenue derived from one customer totalled 58% of revenue from operations (2010 - one customer totalled 71%).

Liquidity risk

Liquidity risk is inability of an entity to meet its current obligations from proceeds of current assets.

The Centre believes it has moderate exposure to liquidity risk given the value of the accounts payable and accrued liabilities, deferred revenue and advance ticket sales.

11 Capital management

In managing capital, the Centre focuses on liquid resources available for operations. The Centre's objective is to have sufficient liquid resources to continue operating despite adverse financial events and to provide it with the flexibility to take advantage of opportunities that will advance its purposes. The need for sufficient liquid resources is considered in the preparation of an annual budget and in the monitoring of cash flows and actual operating results compared to budget. As at December 31, 2011, the Centre has met its objective of having sufficient liquid resources to meet its current obligations.

12 Comparative figures

Certain comparative figures have been reclassified from those previously presented to conform to the presentation of the 2011 financial statements.

Appendix B: Summary of unadjusted and adjusted items

a. Unadjusted items

The only unadjusted item in current year relates to a prior period unadjusted difference.

	Deficiency of revenue over expense	**Statement of financial position**		
Description	**(Over) under stated** **$**	**Assets (over) under stated** **$**	**Liabilities over (under) stated** **$**	**Net assets over (under) stated** **$**
Dr. Revenue Cr. Retained Earnings *(To correct for overstatement of current year revenue and understatement of opening retained earnings)*	6,309			(6,309)
Dr. Expenses Cr. Revenue *(To reclassify revenues recorded in operating expenses)*	9,000 (9,000)			
Total unadjusted differences	**6,309**	**NIL**	**NIL**	**(6,309)**

b. Adjusted items

	Deficiency of revenue over expense	Statement of financial position		
Description	**(Over) under stated $**	**Assets (over) under stated $**	**Liabilities over (under) stated $**	**Net assets over (under) stated $**
Dr. Other Revenue	79,723			
Cr. Payroll Expense	(74,802)			
Cr. Operating Expense	(542)			
Cr. Operating Revenue	(4,379)			
(To net other revenue against payroll expense related to City Culture's employee)				
Dr. Deferred Revenue			31,893	
Cr. Accounts Payable			(31,893)	
(To reclassify Livent payable from deferred revenue to accounts payable)				
Dr. Payroll Expense	169,047			
Cr. Accruals			(169,047)	
(To record payroll expense for the last pay period in 2012 for crew and front of house staff)				
Dr. Cash		7,610		
Cr. Cash held in Trust		(7,610)		
(To reclassify cash held in trust to cash account to reflect cash for 2011 revenues)				
Dr. Operating Revenue	6,000			
Cr. Accounts Receivable		(6,000)		
(To record credit issued to Dancap)				
Total adjusted differences	**175,047**	**(6,000)**	**(169,047)**	**NIL**

Appendix C: Management representation letter

[Client Letterhead]

PricewaterhouseCoopers
North American Life Building
5700 Yonge Street Suite 1900
Toronto, Ontario M2M 4K7

May 30, 2012

We are providing this letter in connection with your audit of the financial statements of North York Performing Arts Centre Corporation (operating as the Toronto Centre for the Arts or the Centre) as of December 31, 2011 and for the years then ended for the purpose of expressing an opinion as to whether such financial statements present fairly, in all material respects, the financial position, the results of operations and the cash flows of the Centre in accordance with Canadian generally accepted accounting principles.

Management's responsibilities
We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter. In particular, we confirm to you that:

- We are responsible for the preparation and fair presentation of the financial statements in accordance with Canadian generally accepted accounting principles;
- We are responsible for designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. In this regard, we are responsible for establishing policies and procedures that pertain to the maintenance of accounting systems and records, the authorization of receipts and disbursements, the safeguarding of assets and for reporting financial information in accordance with Canadian generally accepted accounting principles;
- We have provided you with all relevant information and access, as agreed in the terms of the audit engagement; and
- All transactions have been recorded in the accounting records and are reflected in the financial statements.

We confirm the following representations:

Preparation of financial statements
The financial statements include all disclosures necessary for fair presentation in accordance with Canadian generally accepted accounting principles and disclosures otherwise required to be included therein by the laws and regulations to which the Centre is subject.

We have appropriately reconciled our books and records (e.g. general ledger accounts) underlying the financial statements to their related supporting information (e.g. sub ledger or third party data). All related reconciling items considered to be material were identified and included on the reconciliations and were appropriately adjusted in the financial statements. There were no material unreconciled differences or material general ledger suspense account items that should have been adjusted or reclassified to another account balance. There were no material general ledger suspense account items written off to a balance sheet account, which should have been written off to a profit and loss account and vice versa. All intracompany and intercompany accounts have been eliminated or appropriately measured and considered for disclosure in the financial statements.

Accounting policies
We confirm that we have reviewed the Centre's accounting policies and, having regard to the possible alternative policies, our selection and application of accounting policies and estimation techniques used for the preparation and presentation of the financial statements is appropriate in the Centre's particular circumstances to present fairly in all material respects its financial position, results of operations and cash flows in accordance with Canadian generally accepted accounting principles.

Internal controls over financial reporting
We have designed disclosure controls and procedures to provide reasonable assurance that material information relating to the Centre is made known to us by others.

We have designed internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles.

We have disclosed to you all deficiencies in the design or operation of disclosure controls and procedures and internal control over financial reporting that we are aware as of December 31, 2011.

Disclosure of information
We have provided you with:

- Access to all information of which we are aware that is relevant to the preparation of the financial statements, such as records, documentation and other matters including:
    - Contracts and related data;
    - Information regarding significant transactions and arrangements that are outside of the normal course of business;
    - Minutes of the meetings of shareholders, management, directors and committees of directors. The most recent meeting of the Board was held on March 2, 2012;
- Additional information that you have requested from us for the purpose of the audit; and
- Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

Completeness of transactions
All contractual arrangements entered into by the Centre with third parties have been properly reflected in the accounting records or/and, where material (or potentially material) to the financial statements, have been disclosed to you. We have complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance.

Fraud
We have disclosed to you:

- The results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- All information in relation to fraud or suspected fraud of which we are aware affecting the Centre involving management, employees who have significant roles in internal control or others where the fraud could have a material effect on the financial statements; and
- All information in relation to any allegations of fraud, or suspected fraud, affecting the Centre's financial statements, communicated by employees, former employees, analysts, regulators or others.

Compliance with laws and regulations
We have disclosed to you all aspects of laws, regulations and contractual agreements that may affect the financial statements, including actual or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

We are not aware of any illegal or possibly illegal acts committed by the Centre's directors, officers or employees acting on the Centre's behalf.

Accounting estimates and fair value measurements
Significant assumptions used by the Centre in making accounting estimates, including fair value accounting estimates, are reasonable.

For recorded or disclosed amounts in the financial statements that incorporate fair value measurements, we confirm that:

- the measurement methods are appropriate and consistently applied;
- the significant assumptions used in determining fair value measurements represent our best estimates, are reasonable and have been consistently applied;
- no subsequent event requires adjustment to the accounting estimates and disclosures included in the financial statements; and
- The significant assumptions used in determining fair value measurements are consistent with the Centre's planned courses of action. We have no plans or intentions that have not been disclosed to you, which may materially affect the recorded or disclosed fair values of assets or liabilities.

Significant estimates and measurement uncertainties known to management that are required to be disclosed in accordance with Canadian Institute of Chartered Accountants (CICA) Handbook Section 1508, Measurement Uncertainty and CICA Handbook Section 3862, Financial Instruments – Disclosures, have been appropriately disclosed.

Related parties
We confirm the completeness of information provided to you regarding the identification of related parties as defined by CICA Handbook Section 3840, Related Party Transactions, which include, but are not limited to directors, officers, senior members of management, or immediate family members of such individuals, or entities over which these individuals are able to exert significant influence. We also confirm the completeness of information provided to you regarding the nature of the Centre's relationships with and transactions involving those entities.

The identity and relationship of and balances and transactions with related parties have been properly recorded and adequately disclosed in the financial statements, as required by Canadian generally accepted accounting principles.

The list of related parties attached to this letter as Appendix A accurately and completely describes the Centre's related parties and the relationships with such parties.

All balances and transactions with the City of Toronto have been accurately and completely reflected in the financial statements.

Going concern
We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements (e.g. to dispose of the business or to cease operations).

Assets and liabilities
We have satisfactory title or control over all assets. All liens or encumbrances on the Centre's assets and assets pledged as collateral, to the extent material, have been disclosed in the financial statements.

Receivables recorded in the financial statements represent bona fide claims against debtors for sales or other charges arising on or before the statement of financial position date and are not subject to discount except for normal cash discounts. Receivables classified as current do not include any material amounts that are collectible after one year. All receivables have been appropriately reduced to their estimated net realizable value.

We have recorded or disclosed, as appropriate, all liabilities, in accordance with Canadian generally accepted accounting principles. All liabilities and contingencies, including those associated with guarantees, whether written or oral, under which the Centre is contingently liable in accordance with Accounting Guideline 14, *Disclosure of Guarantees*, or CICA Handbook Section 3290, *Contingencies*, have been disclosed to you and are appropriately reflected in the financial statements.

Litigation and claims
All known actual or possible litigation and claims, which existed at the statement of financial position date or exist now, have been disclosed to you and accounted for and disclosed in accordance with Canadian generally accepted accounting principles, whether or not they have been discussed with legal counsel.

Misstatements detected during the audit
Certain representations in this letter are described as being limited to those matters that are material. Items are also considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement.
We confirm that the financial statements are free of material misstatements, including omissions.

The effects of the uncorrected misstatements in the financial statements, as summarized in the accompanying schedule (Appendix B), are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We confirm that we are not aware of any uncorrected misstatements other than those included in Appendix B.

The adjusted misstatements identified during your audit and summarized in the attached table (Appendix C) have been approved by us and adjusted in the financial statements.

Events after balance sheet date
We have identified all events that occurred between the statement of financial position date and the date of this letter that may require adjustment of, or disclosure in, the financial statements, and have effected such adjustment or disclosure.

Cash and banks
The books and records properly reflect and record all transactions affecting cash funds, bank accounts and bank indebtedness of the Centre.

All cash balances are under the control of the Centre, free from assignment or other charges, and unrestricted as to use, except as disclosed to you.

The amount shown for cash on hand or in bank accounts excludes trust or other amounts which are not the property of the Centre.

Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, line of credit, or similar arrangements have been properly disclosed.

All cash and bank accounts and all other properties and assets of the Centre of which we are aware are included in the financial statements at December 31, 2011.

Accounts receivable
All amounts receivable by the Centre were recorded in the books and records.

Amounts receivables amounted to $146,000 and are considered to be fully collectible.

Amounts receivable that are non-interest bearing and are expected to be received more than a year after initial recognition date have been initially recognized at fair value, using an appropriate discount rate, and subsequently measured at amortized cost.

All receivables were free from hypothecation or assignment as security for advances to the Centre, except as hereunder stated.

The Centre has accounted for and disclosed transfers of receivables (including securitizations) in accordance with the provisions of AcG-12, *Transfers of Receivables*.

Loans receivable
We have reviewed loans receivable for impairment, and made appropriate allowances thereon if necessary, in accordance with CICA 3025, *Impaired Loans*. We have measured impaired loans based upon the present value of expected future cash flows discounted at the loan's effective interest. The allowance for loan losses encompasses probable credit losses related to specifically-identified loans as well as probable credit losses inherent in the remainder of the loan portfolio that have been incurred as of December 31, 2011. The allowance does not include an amount for loan losses expected to be incurred subsequent to December 31, 2011.

Credit risk
The following information about each class of financial asset, both recognized and unrecognized, has been properly disclosed in the financial statements:

- Amount of the maximum credit risk exposure without regard to collateral; and
- Significant concentrations of credit.

Property, Plant and Equipment
All charges to property, plant and equipment asset accounts represented the actual cost of additions to property, plant and equipment.

No significant property, plant and equipment additions were charged to repairs and maintenance or other expense accounts.

Book values of property, plant and equipment sold, destroyed, abandoned or otherwise disposed of have been eliminated from the accounts.

Property, plant and equipment assets owned by the Centre are being depreciated on a systematic basis over their estimated useful lives and the provision for depreciation was calculated on a basis consistent with that of the previous date.

All lease agreements covering property leased by or from the Centre have been disclosed to you and classified as capital, operating, sales-type or direct financial leases as appropriate.

Assets held under capital leases are being amortized on a systematic basis over the period of expected use.

There have been no events or changes in circumstances that indicate the carrying value of a long-lived asset is not recoverable; accordingly management was not required to perform an impairment test in accordance with CICA 3063, Impairment of Long-lived Assets during the period. We believe that the carrying amount of the Centre's long-lived assets is fully recoverable.

Accounts Payable
Amounts payable that are non-interest bearing and are expected to be paid more than a year after initial recognition date have been initially recognized at fair value, using an appropriate discount rate, and subsequently measured at amortized cost.

Long-term debt
All borrowings and financial obligations of the Centre of which we are aware are included in the financial statements at December 31, 2011, as appropriate. We have fully disclosed to you all borrowing arrangements of which we are aware.

The Centre has appropriately classified as current and non-current its loan to the City of Toronto in the Centre's classified statement of financial position as of December 31, 2011 in accordance with the appropriate authoritative guidance. In evaluating the appropriate classification of its borrowings, the Centre considered all relevant facts and circumstances, for example: contractual terms, the existence of call options, subjective acceleration clauses, material adverse changes clauses, lock-box arrangements, covenant violations, renewal features, conversion features, redemption features, and ability and intent to refinance.

Unearned revenue and deferred credits
All material amounts of unearned revenue and deferred credits including deferred income taxes were appropriately recorded in the books and records.

Commitments
Provisions have been made for losses to be sustained in the fulfillment of, or from inability to fulfill, any sales commitments.

Provisions have been made for losses to be sustained as a result of purchase commitments for inventory quantities in excess of normal requirements or at prices in excess of prevailing market prices.

Financial Instruments
The carrying values of the Centre's financial instruments approximate their fair values unless otherwise noted.

The Centre has chosen to apply the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3861, Financial Instruments – Disclosure and Presentation, in place of Section 3862, Financial Instruments – Disclosures, and Section 3863, Financial Instruments – Presentation.

Revenue Recognition
The conditions, including reasonably dependable estimates, for use of percentage-of-completion accounting under generally accepted accounting principles are present.

We have reviewed the criteria for revenue recognition included in CICA 3400, *Revenue,* and EIC 141, *Revenue Recognition,* and EIC 123, *Reporting Revenue Gross as a Principal vs. Net as an Agent,* namely, evidence of arrangement, delivery, fixed price and collectability and is recognizing revenue in accordance with these standards.

We have fully disclosed to you all sales terms (whether written or oral), including all customer-acceptance provisions, rights of return or price adjustments, and all warranty provisions.

We did not issue any side letters in regards to our sales agreements.

Art Collection
The art collection recorded in the financial statements is property of the Centre. Amounts reflected have been accurately and completely recorded.

Yours truly,

North York Performing Arts Centre Corporation
(operating as the Toronto Centre for the Arts or the Centre)

Pim Schotanus, General Manager

Appendix A – List of related parties

City of Toronto

Appendix B – Summary of Uncorrected Misstatements (SUM)

	Deficiency of revenue over expense	Statement of financial position		
Description	**(Over) under stated $**	**Assets (over) under stated $**	**Liabilities over (under) stated $**	**Net assets over (under) stated $**
Dr. Revenue Cr. Retained Earnings *(To correct for overstatement of current year revenue and understatement of opening retained earnings)*	6,309			(6,309)
Dr. Expenses Cr. Revenue *(To reclassify revenues recorded in operating expenses)*	9,000 (9,000)			
Total unadjusted differences	**6,309**	**NIL**	**NIL**	**(6,309)**

Appendix C – Summary of Adjusted Misstatements (SAM)

	Deficiency of revenue over expense	Statement of financial position		
Description	**(Over) under stated $**	**Assets (over) under stated $**	**Liabilities over (under) stated $**	**Net assets over (under) stated $**
Dr. Other Revenue	79,723			
Cr. Payroll Expense	(74,802)			
Cr. Operating Expense	(542)			
Cr. Operating Revenue	(4,379)			
(To net other revenue against payroll expense related to City Culture's employee)				
Dr. Deferred Revenue			31,893	
Cr. Accounts Payable			(31,893)	
(To reclassify Livent payable from deferred revenue to accounts payable)				
Dr. Payroll Expense	169,047			
Cr. Accruals			(169,047)	
(To record payroll expense for the last pay period in 2012 for crew and front of house staff)				
Dr. Cash		7,610		
Cr. Cash held in Trust		(7,610)		
(To reclassify cash held in trust to cash account to reflect cash for 2011 revenues)				
Dr. Operating Revenue	6,000			
Cr. Accounts Receivable		(6,000)		
(To record credit issued to Dancap)				
Total adjusted differences	**175,047**	**(6,000)**	**(169,047)**	**NIL**

Appendix D: Independence letter

April 27, 2012

Toronto Centre for the Arts
5040 Yonge Street
Toronto, ON M2N 6R8

Dear Members of the Board of Directors:

We have been engaged to audit the consolidated financial statements of North York Performing Arts Centre Corporation (operating as the Toronto Centre for the Arts, referred to here as the Centre) for the year ended December 31, 2011.

Canadian generally accepted auditing standards require that we communicate at least annually with you regarding all relationships between the Centre, its management and us that may reasonably be thought to bear on our independence.

In determining which relationships to report, these standards require us to consider relevant rules and related interpretations prescribed by the Ontario Provincial Institute and applicable legislation covering such matters as:

a. holding a financial interest, either directly or indirectly, in a client;
b. serving as an officer or director of a client;
c. performance of management functions for an assurance client;
d. personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client or its management;
e. economic dependence on a client;
f. long association of senior personnel with a listed entity audit client;
g. audit committee approval of services to a listed entity audit client; and
h. provision of services in addition to the audit engagement.

We have prepared the following comments to facilitate our discussion with you regarding independence matters arising since April 21, 2011, the date of our last letter.

We are not aware of any relationships between the Centre or its management and PricewaterhouseCoopers LLP that may reasonably be thought to bear on our independence that have occurred from April 21, 2011 to April 27, 2012.

We hereby confirm that we are independent with respect to the Centre within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario as of April 27, 2012.

PricewaterhouseCoopers LLP, Chartered Accountants
North American Centre, 5700 Yonge Street, Suite 1900, North York, Ontario, Canada, M2M 4K7
T: +1 416 218 1500, F: +1 416 218 1499, www.pwc.com/ca

This report is intended solely for the use of the Audit Committee, the Board of Directors, management and others within the Centre and should not be used for any other purpose.

Yours very truly,

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

Appendix E: PwC's Tax Summary re : Highlights of 2012 Federal Budget relating to Charities, Other Not-for-profit entities, and Charitable Giving

The Honourable Jim Flaherty, Minister of Finance, presented Economic Action Plan 2012 on March 29 in the House of Commons at approximately 4 p.m. EDT.

Herewith is PwC's tax summary which highlights announcements in the 2012 Federal budget as it relates to charities, other not-for-profit entities, and charitable giving.

There were no announcements in the 2012 Federal Budget regarding tax incentives for donative giving and no announcements with respect to non-profit organizations (i.e., those that are not registered charities) and their tax-exempt tax status.

For additional details, see PwC's Tax Memo on the 2012 Federal Budget attached in Appendix F.

www.pwc.com/ca

March 29, 2012 Federal budget

How it affects you and the charitable and not-for-profit sector

pwc

Charities and giving

Charities and giving

Gifts to foreign charities

Proposals

- Extension of qualified donee status for designated foreign charitable organizations
- Granting of qualified donee status by the Minister of Revenue in consultation with the Minister of Finance for a foreign charitable organization that:
    - is not resident in Canada; and
    - has received a gift from the Government of Canada in the preceding 24 month period; and
    - carries on relief activities in response to a disaster; or
    - provides urgent humanitarian aid; or
    - carries on activities of national interest of Canada.
- Designated status will apply for 24 months from the date of designation
- Donation tax relief for Canadians who make donations to these designated foreign charitable organizations
- Applicable for applications submitted on or after January 1, 2013 and the Royal Assent date for the enacting legislation

Charities and giving

Penny gifts

Proposals

- The Government of Canada will move to eliminate the Canadian penny.

Considerations

- With the proposed elimination of the Canadian penny, the Government of Canada will work with charities and other not-for-profit entities to promote penny donations by the public.

Charities

GST rebates for printed books and publications

Proposals

- A rebate of the GST (or the federal portion of HST) paid to acquire and import:
  - printed books;
  - audio recordings of printed books; and
  - bound or unbound printed versions of religious scripture

  will be made available to registered charities and prescribed qualifying non-profit literacy organizations that provide these publications free of charge.
- Applicable for GST incurred on acquisitions and importations of qualifying publications that become payable after March 29, 2012

Charities

Political activity expenditures and sanctions

Proposals

- Additional measures to improve compliance and increase disclosure of political activities:
  - gifts by a registered charity to another qualified donee where the gift can reasonably be considered to support the political activities of the qualified donee, are considered to be political activities expenditures of the gifting charity
  - increased sanctions for registered charities and registered Canadian amateur athletic associations that exceed political activity expenditure limits per annum
  - increased sanctions for registered charities and registered Canadian amateur athletic associations that fail to report the required information regarding their political activities and funding sources
    - including a suspension of tax-receipting privileges

Considerations

- There will be practical complexities for granting charities or RCAAAs when making gifts to qualified donees where the qualified donees undertake political activities.
- There is uncertainty as to whether the sanctions for failure to provide inaccurate or incomplete information will extend to all sections of the T3010 annual information return.

Charities

Charitable donation tax shelters

Proposals

- Participants in charitable donation tax shelters will be prevented from making a claim or deduction if the particular tax shelter is unregistered and/or if penalties imposed on the tax shelter for being unregistered or filing false information on a registration application have not been paid
  - increased penalties for violations being the higher of the existing limits (greater of $500 and 25% of the consideration received in respect of the tax shelter) and 25% of asserted property value that the tax shelter participant can donate
- Increased penalties for promoters when:
  - annual information returns are not filed once the Canada Revenue Agency issues a demand to file;
  - promoter fails to report amounts paid by the participant in respect of the tax shelter.
- Tax shelter identification numbers will be valid for only one calendar year
- Applicable on Royal Assent date for the enacting legislation

Those are the 2012 federal budget highlights

Want more details?

Consult our tax memo: www.pwc.com/ca/budget

Contact your PwC advisor

or

Brenda Lee-Kennedy at brenda.lee-kennedy@ca.pwc.com

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Appendix F: PwC's Tax Memo on 2012 Federal Budget

Tax memo

Canadian tax updates

pwc

2012 Federal budget: Continued tightening

Outlines tax measures in the 2012 federal budget.

March 29, 2012

On March 29, 2012, the Federal Minister of Finance, Jim Flaherty, presented the majority government's budget. The budget does not change corporate or personal tax rates. This *Tax memo* discusses the tax initiatives proposed in the budget.

Business tax measures

General SR&ED Investment Tax Credit (ITC) rate reduced

SR&ED ITC rates are presently 35% for qualifying Canadian-controlled private corporations (CCPCs) and 20% for other corporations. The 35% rate applies on the first $3 million of qualified SR&ED expenditures incurred in a year and is refundable.

The budget proposes that the general 20% ITC rate be reduced to 15% for taxation years ending after 2013. For a taxation year that includes January 1, 2014, the 5% reduction in the ITC rate will be prorated accordingly.

The 35% rate for qualifying CCPCs remains unchanged. After 2013, SR&ED expenditures in excess of the $3 million expenditure limit will earn ITCs at the reduced rate of 15%.

Although a key recommendation in the Jenkins Report, there is no additional reduction in the amount of SR&ED refundability available to CCPCs, other than as a result of the changes proposed in the budget.

SR&ED capital expenditures eliminated

Capital expenditures used all or substantially all in SR&ED are a) fully deductible in the year and b) earn ITCs.

The budget proposes to exclude capital expenditures from being a deductible SR&ED expenditure and also from any ITC entitlement. This change also applies to exclude payments made for the use or the right to use property, which if acquired by the taxpayer would be a capital property of the taxpayer. Consequently, lease costs of equipment will no longer qualify for ITCs.

This change will apply to capital property acquired on or after January 1, 2014, and to amounts paid or payable after 2013 in respect of the use of, or the right to use, capital property.

Overhead proxy rate reduced

SR&ED overhead expenditures can be claimed by using the elective proxy method or the traditional method (i.e., identifying each overhead expenditure directly related and incremental with SR&ED activities on an item-by-item basis). The proxy method allows taxpayers to claim as SR&ED overhead expenditures 65% of the total salary and wages of employees directly engaged in SR&ED.

The budget proposes to reduce the 65% proxy rate to 60% for 2013 and to 55% after 2013. The proxy rate that will apply for taxation years that include days in 2012, 2013, or 2014 will be pro-rated based on the number of days in the taxation year that are in each of those calendar years.

This reduction will require taxpayers that typically elect to use the proxy method to consider whether the traditional method would be more beneficial.

SR&ED contract payments reduced

A taxpayer who contracts SR&ED work to be undertaken on its behalf by an arm's length party is entitled to deduct the contract payment and claim an ITC.

The budget proposes to disallow from the expenditure base for ITC purposes the "profit element" of arm's length SR&ED contracts. Taxpayers will now be able to claim only 80% of the SR&ED contract amount paid to an arm's length contractor.

This change will apply to expenditures incurred on or after January 1, 2013.

Furthermore, consistent with the proposed change to disallow ITCs on capital expenditures, arm's length contract payments must also be reduced for any amount paid in respect of a capital expenditure incurred by the performer in fulfilling the contract. The performer will be required to inform the payer of these amounts.

The capital expenditures incurred by a performer in fulfilling a SR&ED contract will first reduce the contract amount before the 80% eligibility ratio is applied.

In addition, the amount that the performer is required to net against its own SR&ED qualifying expenditures as a result of the contract payment will be reduced by the amount the performer received with respect to the capital expenditure.

Contingency fee arrangements

The Jenkins Report observed that the SR&ED program is criticized for excessive complexity, which results in high compliance costs, forcing companies to retain consultants on a contingency fee arrangement and consequently diminish the benefits available under the program.

The budget proposes that "In the coming year, the Government will conduct a study, including consultations with taxpayers, to better understand why firms choose to hire consultants on a contingency-fee basis and determine what action is required."

Enhancing predictability

The budget announced new funding of $6M over two years for the Canada Revenue Agency (CRA) to implement changes to the administration of the SR&ED program. The CRA will:

- conduct a pilot project to determine feasibility of a formal pre-approval process;
- enhance the existing online self-assessment eligibility tool;
- work collaboratively with industry representatives to address emerging issues;
- make more frequent and effective use of "tax alerts;" and
- improve the Notice of Objection process to allow for a second review of scientific eligibility determinations.

For more on these SR&ED measures
Register for PwC's webcast
Tuesday, April 3, 2012, 3:00 p.m. - 4:00 p.m. (EST)
Contact: Caitlin Crowley, 416 941 8383, ext. 13158
caitlin.b.crowley@ca.pwc.com

Transfer pricing – Secondary adjustments

Where the Canadian transfer pricing rules have applied to adjust for tax purposes amounts related to transactions between a Canadian corporation and one or more non-arm's length non-residents (a "primary adjustment"), the related benefit to the non-residents is generally treated by the CRA as a deemed dividend (a "secondary adjustment"). The budget proposes to confirm this deemed dividend treatment for secondary adjustments and the related CRA administrative practice that eliminates the deemed dividend if the amount of a primary adjustment is repatriated to the Canadian corporation. No deemed dividend will arise in respect of a primary adjustment related to certain controlled foreign affiliates.

Thin capitalization rules

The budget proposes changes to the thin capitalization rules that limit the deductibility of interest expense of a Canadian-resident corporation that will:

- for years beginning after 2012, reduce the debt-to-equity ratio from 2-to-1 to 1.5-to-1;
- for years that begin after March 28, 2012, extend the thin capitalization rules to apply to debts of a partnership in which a Canadian-resident corporation is a member;
- for years that end after March 28, 2012, treat disallowed interest as dividends for Part XIII withholding tax purposes; and
- prevent double taxation in circumstances where a controlled foreign affiliate of a Canadian-resident corporation lends funds to the corporation and the interest is included in the foreign accrual property income of the affiliate.

For the purposes of applying the thin capitalization rules to partnerships, debts of the partnership are allocated to partners based upon their proportionate interest in the partnership. The partnership will not be denied an interest deduction, where the corporate partner exceeds the permitted debt-to-equity ratio. Instead, the corporation will have an income inclusion equal to a portion of the deductible interest of the partnership.

Disallowed interest will be treated as dividends paid at the time the interest is paid, or the end of the corporation's taxation year if unpaid at that time, subject to an election to allocate disallowed interest to the latest interest payments made in a year. Withholding tax will be due based on these deemed payment dates.

Foreign affiliate dumping

The budget proposes to introduce rules to curtail a variety of transactions involving an investment in a foreign affiliate by a Canadian subsidiary of a foreign parent corporation, referred to as foreign affiliate dumping transactions. In such cases, property transferred by the Canadian corporation in respect of the investment (other than shares of the corporation) is deemed to be a dividend to the foreign parent and no amount may be added to the paid-up capital of shares of the Canadian corporation because of the investment, including for the purposes of the thin capitalization rules.

These measures will not apply where a "business purpose" test is met and the budget sets out factors to be considered in applying this test. Comments regarding these tests will be accepted until May 31, 2012.

These measures will apply to transactions after March 28, 2012, other than certain transactions that occur before 2013 between arm's length persons.

Tax avoidance through the use of partnerships

The budget proposes two measures to ensure that partnerships cannot be used to circumvent the intended application of sections 88 and 100 of the *Income Tax Act*.

Section 88 contains rules that enable a taxable Canadian corporation (the Parent) that has acquired control of another taxable Canadian corporation (the Subsidiary) to increase the cost of certain capital assets acquired by the Parent on a vertical amalgamation with, or winding-up of, the Subsidiary (the section 88 "bump"). The budget generally denies a bump in respect of a partnership interest to the extent that the accrued gain in respect of the partnership interest is reasonably attributable to the amount by which the fair market value of "income assets" (assets that would not themselves be eligible for the bump) exceed their cost amount. This measure applies if the income assets are held directly by the partnership or indirectly through one or more other partnerships.

This measure applies to amalgamations that occur, and windings-up that begin, after March 28, 2012. An exception is available for a taxable Canadian corporation amalgamating with its subsidiary before 2013, or beginning to wind up its subsidiary before 2013, if before March 29, 2012, certain other conditions are met.

Section 100 is meant to ensure that income assets held by a partnership are fully taxable on the sale of the partnership by a taxpayer to a tax-exempt person. The budget extends the application of section 100 to the sale of a partnership interest to a non-resident person, unless the partnership uses all of its property in carrying on business through a permanent establishment in Canada. The budget also clarifies that section 100 will apply to dispositions made directly, or indirectly as part of a series of transactions, to a tax-exempt or non-resident person.

This measure applies to dispositions of interests in partnerships that occur after March 28, 2012. An exception is available for an arm's length disposition before 2013 that the taxpayer was obligated to make pursuant to a written agreement entered into before March 29, 2012.

Eligible dividend designations

For dividends paid after March 28, 2012:

- a corporation can designate, at the time it pays a taxable dividend, any portion of the dividend to be an eligible dividend; and
- the Minister of National Revenue will be allowed to accept late designations of eligible dividends that are made within three years after the day the designation was first required to be made.

Tax compliance burden

The budget proposes to reduce the tax compliance burden for small businesses and announces several administrative improvements by the CRA:

- Written responses to business enquiries – Starting April 16, 2012, businesses will be able to submit questions and receive answers to specific enquiries electronically using the CRA's My Business Account portal.
- CRA's My Business Account Portal – Starting April 16, 2012, business owners can input address changes online and balances such as non-capital loss and refundable dividend tax on hand from the last five tax-year ends will be automatically displayed.
- Business section on the CRA's website – Modifications are intended to provide a "one-stop shop" for businesses and a clear path to available electronic services with a new task-based page.
- Penalties – The CRA has a new administrative policy intended to ensure that penalties for late-filed information returns are charged in a fair and reasonable manner.
- Tax fairness – Revised pages on the CRA website are intended to make information on complaints and disputes easier to see. Information on recourse mechanisms to notices of assessment and reassessment will be added. The CRA is also updating publications related to tax fairness and developing new content and new types of content on this topic.

Clean energy generation equipment (Classes 43.1 and 43.2)

The capital cost allowance (CCA) system currently provides accelerated CCA deductions for investment in specified clean energy generation and conservation equipment, and eligible equipment that generates or conserves energy.

For assets acquired after March 28, 2012, Class 43.2 is enhanced as follows:

- the restriction that heat energy generated from waste-fuelled thermal energy equipment must be used in an industrial process or a greenhouse has been removed;

- district energy system equipment is expanded to include those that distribute thermal energy primarily generated by waste-fuelled thermal energy equipment; and
- the list of eligible waste used in waste-fuelled thermal energy equipment or a cogeneration system is expanded to include the residue of plants.

In addition, equipment using eligible waste fuels will no longer be eligible under Class 43.1 or Class 43.2 if the applicable environmental laws and regulations of Canada or of a province, territory, municipality, or a public or regulatory body are not complied with at the time the equipment first becomes available for use.

Corporate Mineral Exploration and Development Tax Credit

The budget phases out the 10% corporate tax credit for pre-production mining and development expenses, as follows:

- 10% for mining exploration expenses incurred in 2012, 5% in 2013 and nil after 2013; and
- 10% for development expenses incurred before 2014, 7% in 2014, 4% in 2015 and nil after 2015.

Additional transitional relief will apply at a 10% rate for pre-production development expenses incurred before 2016 in certain cases where a written agreement was entered into before March 29, 2012.

Exploration and pre-production development expenses will continue to qualify as Canadian exploration expenses.

Atlantic Investment Tax Credit

The budget phases out the 10% Atlantic Investment Tax Credit (AITC) for certain oil and gas and mining activities, for assets acquired after March 28, 2012, from 10% if acquired before 2014, to 5% in 2014 and 2015 and nil after 2015.

Transitional relief will apply at a 10% rate for assets acquired before 2017 in cases where a written agreement was entered into before March 29, 2012.

The budget ensures that “qualified property” for the AITC includes certain electricity generation equipment and clean energy generation equipment used primarily in an eligible activity in the Atlantic region. This measure applies to assets acquired after March 28, 2012, except that it does not apply to assets acquired for use primarily in oil and gas or mining activities.

Hiring credit for small business

The temporary hiring credit introduced in the 2011 budget will be extended for one year. As a result, up to $1,000 can be claimed against a small employer’s increase in its 2012 Employment Insurance (EI) premiums over those paid in 2011. The credit is available to employers whose total EI premiums were $10,000 or less in 2011.

Base erosion rules – Canadian banks

The budget proposes to alleviate the tax cost to Canadian banks using excess liquidity of their foreign affiliates in their Canadian operations. Amendments are also to be developed to ensure that certain securities transactions in the course of the bank’s business of facilitating trades for arm’s length customers are not inappropriately caught by the base erosion rules.

Life insurers

The Investment Income Tax (IIT) levied on life insurers will be recalibrated when appropriate to neutralize impacts of proposed technical improvements to the IIT base. The government will undertake consultations on these improvements. The changes will apply to life insurance policies issued after 2013.

Partnership waivers

Under current rules, members of a partnership may designate a partner who is authorized to file an objection to the CRA on behalf of all its partners. The budget proposes that a single designated partner of a partnership may also be empowered to waive, on behalf of all its partners, the three-year time limit for making a determination by the CRA. This measure will apply on royal assent to the enacting legislation.

Taxation of corporate groups

The budget reaffirms the government's commitment to continue to explore whether new rules for the taxation of corporate group could improve the functioning of the corporate tax system.

Personal tax measures

Old age security eligibility

The age eligibility for Old Age Security and the Guaranteed Income Supplement will increase from 65 to 67, starting April 2023, with full implementation by January 2029. This change will not affect individuals who are 54 or older on March 31, 2012.

Overseas Employment Tax Credit

Commencing 2013, the Overseas Employment Tax Credit (OETC) will be phased out over four years. During the phase-out period the factor (currently 80%) applied to an employee's qualifying foreign employment income in determining the OETC will be reduced to 60% for 2013, 40% for 2014, 20% for 2015 and nil for 2016 and thereafter.

These phase out rules will not apply to qualifying foreign employment income earned by an employee in connection with a project or activity to which the employee's employer had committed in writing before March 29, 2012. In this circumstance the factor will remain 80% until 2016 and subsequent years when it will be nil.

Medical Expense Tax Credit

The list of expenses eligible for this credit will include blood coagulation monitors for use by individuals who require anti-coagulation therapy, for expenses incurred after 2011.

Registered Disability Savings Plans

The budget proposes several changes to the rules governing Registered Disability Savings Plans (RDSPs):

- Plan holders – Certain family members will be allowed to temporarily become the plan holder of the RDSP for an individual who might not be able to enter into a contract. This measure will apply from the date of royal assent until the end of 2016.
- Government repayments – For RDSP withdrawals made after 2013, the 10-year repayment rule for government repayments will be replaced with a proportional repayment rule.
- Withdrawals – Changes to the rules governing maximum and minimum withdrawals, intended to provide greater flexibility, will apply after 2013.
- Registered Education Savings Plan (RESP) investment income – After 2013, investment income earned in an RESP can be transferred tax free to an RDSP if the plans share a common beneficiary and certain other conditions are met.
- Termination of an RDSP – In certain cases, the period for which an RDSP may remain open when a beneficiary becomes ineligible for the Disability Tax Credit is extended.
- Administrative changes – Measures are intended to reduce the administrative burden when an RDSP is transferred from one issuer to another.

Group sickness or accident insurance plans

Employer contributions to a group sickness or accident insurance plan will be included in an employee's income for the year in which the contributions are made, to the extent the contributions are not in respect of a wage-loss replacement benefit payable on a periodic basis. This measure will generally apply in respect of employer contributions made after March 28, 2012, relating to coverage after 2012.

Retirement Compensation Arrangements

The CRA has identified several arrangements that seek to take advantage of various features of the Retirement Compensation Arrangement (RCA) rules to obtain unintended tax benefits. To prevent the use of similar schemes in the future, the budget proposes new prohibited investment and advantage rules that will impose significant tax penalties where an RCA engages in non-arm's length transactions.

The new rules will be closely based on existing rules for Tax-Free Savings Accounts, Registered Retirement Savings Plans and Registered Retirement Income Funds. They will apply to:

- investments acquired, or that become prohibited after March 28, 2012; and
- advantages extended, received or receivable after March 28, 2012 (including advantages related to property acquired or transactions occurring previously, subject to transitional rules).

In addition, the budget proposes a new restriction on RCA tax refunds in certain cases when RCA property has lost value. This measure will apply in respect of RCA tax on RCA contributions made after March 28, 2012.

Employees Profit Sharing Plans

To ensure that Employees Profit Sharing Plans (EPSPs) are used for their intended purposes, the budget introduces a special tax payable by specified employees (generally an employee who has a significant interest in, or does not deal at arm's length with, the employer).

The tax will be payable on the portion of an employer's EPSP contribution, allocated by the trustee to a specified employee, that exceeds 20% of the employee's salary received in the year from the employer. The tax rate will equal the top combined marginal rate of the province in which the employee resides (except for Quebec residents, for which the tax rate will equal the top federal marginal tax rate).

This measure will generally apply to EPSP contributions made after March 28, 2012.

Mineral exploration tax credit

The mineral exploration tax credit is extended by one year to flow-through share agreements entered into before April 1, 2013.

Life insurance policy exemption test

The budget proposes technical improvements to update and simplify the test that determines whether a life insurance policy is an exempt policy. The government will undertake consultations on these improvements. The changes will apply to life insurance policies issued after 2013.

Governor General's salary

Commencing 2013, the income tax exemption for the Governor General will end.

Sales and excise tax measures

Health measures

Generally for supplies made after March 29, 2012, the budget proposes to improve the application of the Goods and Services Tax/Harmonized Sales Tax (GST/HST) to:

- Pharmacists' services – Services rendered by pharmacists for non-dispensing health care services will be GST/HST exempt. In addition, the GST/HST exemption for diagnostic services will be extended to those ordered by pharmacists if certain conditions are met.
- Corrective eyewear – Corrective eyeglasses or contact lenses supplied by opticians will be zero-rated if certain conditions are met.
- Medical and assistive devices – The budget proposes to zero-rate blood coagulation monitoring or metering devices (and associated test strips and reagents) and medical and assistive devices supplied on the written order of a medical practitioner, registered nurse, occupational therapist or physiotherapist (if these supplies currently qualify for zero-rating only if supplied on the order of a medical practitioner).
- Drugs – Isosorbide-5-mononitrate will be added to the list of zero-rated non-prescription drugs.

GST rebate for books

Charity and qualifying non-profit literacy organizations prescribed by regulation will be allowed to claim a rebate of the GST (and the federal portion of the HST) they pay to acquire printed books to be given away. This measure will apply to acquisitions and importations of printed books in respect of which tax has become payable after March 29, 2012.

GST/HST streamlined accounting thresholds

To simplify GST/HST compliance for small businesses and public service bodies the budget doubles the existing streamlined accounting thresholds. This measure will generally apply to GST/HST reporting periods of a person beginning after 2012.

Foreign-based rental vehicles

Foreign-based rental vehicles temporarily imported by Canadian residents will be provided:

- a full GST/HST exemption if the Canadian resident was outside Canada at least 48 hours; and
- a partial GST/HST exemption in other cases.

In addition, the Green Levy and the automobile air conditioner tax will not apply to foreign-based rental vehicles temporarily imported by Canadian residents.

These changes will apply to foreign-based rental vehicles temporarily imported by Canadian residents after May 31, 2012.

Fuel-inefficient vehicles

On February 17, 2012, the Minister of Natural Resources announced that Canada will change the vehicle fuel consumption testing requirements to better align with those in the United States. To ensure this change does not affect the application of the Green Levy, the Excise Tax Act will be amended to ensure that the weighted average fuel consumption rate for purposes of the Green Levy continues to be determined by reference to the current test method.

The necessary legislative amendments will apply on royal assent to the enacting legislation.

Other tax measures

Gifts to foreign charities

The budget proposes to modify the rules whereby gifts can be made to foreign charities. The Minister of Finance and the Minister of Revenue will have the discretionary power to grant qualified donee status to foreign charities.

Charities – Enhancing transparency

The budget proposes:

- to apply sanctions to charities with respect to political activities such as suspending tax receipting privileges;
- when it is reasonable to consider that a purpose of a gift was to support political activities, it will be deemed to be an expenditure on political activities; and
- to modify the tax shelter rules to encourage tax shelter reporting by modifying and introducing new penalties.

Most-Favoured-Nation (MFN) rate

For goods imported after March 29, 2012, the budget eliminates the 5% Most-Favoured-Nation (MFN) rate of duty on certain imported oils used as production inputs in gas and oil refining as well as electricity production.

Travellers' exemptions

The travellers' exemptions will increase for Canadian residents returning to Canada after May 31, 2012. For those out of the country:

- from 24 to 48 hours – the exemption increases from $50 to $200; and
- 48 hours or more – the exemption will be $800. This new threshold replaces the current 48-hour and 7-day exemptions.

Previously announced measures

The budget confirms that the government will proceed with the following previously announced measures:

- legislative proposals released on July 16, 2010, relating to income tax technical and bijuralism amendments;
- the March 4, 2010 budget measures, some of which were included in legislative proposals released on August 27, 2010;
- legislative proposals released on November 5, 2010, relating to income tax technical amendments;

- legislative proposals released on December 16, 2010, relating to Real Estate Investment Trusts;
- GST/HST changes released on January 28, 2011, relating to financial institutions;
- legislative proposals released on March 16, 2011, in draft form relating to the deductibility of contingent amounts, withholding tax on interest paid to non-residents and the tax treatment of certain life insurance corporation reserves;
- measures announced on July 20, 2011, relating to specified investment flow-through entities, real estate investment trusts and publicly traded corporations;
- legislative proposals released on August 19, 2011, relating to foreign affiliates;
- legislative proposals released on October 31, 2011, relating to income and sales and excise tax technical amendments;
- measures announced on November 10, 2011 to improve the caseload management of the Tax Court of Canada;
- income and GST/HST amendments to accommodate the introduction of Pooled Registered Pension Plans (including legislative proposals released on December 14, 2011);
- automobile expense amounts for 2012 announced on December 29, 2011; and
- measures announced on February 17, 2012, relating to transitional rules for the elimination of the HST in British Columbia.

The government also reaffirms the government's commitment to move ahead with technical amendments to improve the operation of the tax system.

For more help

For more help on how the budget changes affect you or your business, please contact:

- your PricewaterhouseCoopers LLP tax adviser;
- any of the individuals listed at **www.pwc.com/ca/taxcontacts**; or
- a member of PwC's Canadian National Tax Services (CNTS). For more on CNTS and its members, go to: **www.pwc.com/ca/cnts**.

More 2012 budgets are coming!
PwC will keep you up-to-date on tax changes in Canada's federal and provincial budgets.
Go to **www.pwc.com/ca/budget**.