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

2014 year-end report to the Board of Directors

Prepared as of May 13, 2015

pwc

May 13, 2015

Members of the Board of Directors
Toronto Centre for the Arts

Dear Members of the Board:

We have substantially completed our audit of the financial statements (the financial statements) of Toronto Centre for the Arts (the Centre) prepared in accordance with Canadian public sector accounting standards (PSAS), including accounting standards that only apply to government not-for-profit organizations for the year ended December 31, 2014. We propose to issue our auditor's report on those financial statements, pending resolution of outstanding items outlined on page 1. Our draft auditor's report is included as Appendix A.

We prepared 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 matters dealt with during the audit process.

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

We would like to express our sincere thanks to the management and staff of the organization who have assisted us in carrying out our work, and we look forward to our meeting on May 20, 2015. If you have any questions or concerns prior to the Board meeting, please do not hesitate to contact us in advance.

Yours very truly,

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

c.c.: Pim Schotanus, General Manager

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Communications to the Board of Directors

Key matters for discussion	*Comments*
Status of the audit	PricewaterhouseCoopers LLP (PwC or we) have substantially completed our audit of the financial statements (the financial statements). Significant outstanding items at time of mailing include the following: • Subsequent events update with management • Receipt of signed management representation letter • Approval of the financial statements by the Board of Directors
Service deliverables	We have audited the organization's financial statements as of December 31, 2014 and for the year then ended prepared in accordance with PSAS.
Audit timeline	We worked with management to develop this project timeline: – Interim visit: December 15, 2014 – Year-end visit: April 13, 2015 – Clearance meeting with management: April 2015 – Year-end Board meeting: May 20, 2015 – Delivery of financial statements: After approval by the Board
Audit approach	Our audit approach is a mixture of tests of internal controls and substantive testing. In the current year, our work included testing of key controls in the following areas: • Purchases, payables and disbursements • Payroll All other areas were subject to tests of detail and substantive analytical testing.
Materiality	Misstatements are considered to be material if they could reasonably be expected to influence the economic decisions of users of the financial statements. We set a materiality of $151,000 and are reporting unadjusted items over $15,000 to the Board. No misstatements were noted during our audit.
Fraud and illegal acts	We discuss fraud risk annually with the Board. Through our planning process (and prior years' audits), we developed an understanding of your oversight processes and have designed our audit procedures to address these risks. No fraud involving senior management, or employees with a significant role in internal control or that would cause a material misstatement of the financial statements and no illegal acts came to our attention as a result of our audit procedures. We wish to reconfirm that the Board is not aware of any known, suspected or alleged incidents of fraud or illegal acts not previously discussed with us.

Key matters for discussion	***Comments***
Subsequent events	No subsequent events which would impact the financial statements other than those disclosed have come to our attention. We would like to reconfirm that the Board is not aware of any other subsequent events that might affect the financial statements.
Internal control recommendations	During the audit we did not note any significant deficiencies. Our internal control recommendations are summarized in Appendix B.
Management's representations	Under Canadian GAAS, 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.
Professional fees	Professional fees are in accordance with the fee schedule agreed to with the City of Toronto. Any additional fees are in compliance with the billing guidelines agreed to with the City.
Significant accounting, auditing and reporting matters discussed with management	
Risk of material misstatement due to management override	Accounting regulatory authorities require that the risk of material misstatement due to management override of controls be considered a significant risk on every audit engagement. In addition to our substantive testing of various transactions throughout the year, we incorporated an element of unpredictability into our audit procedures. We noted no issues as a result of our testing.
Revenue recognition	Management recognizes revenue based on separate criteria per revenue stream. Management ensures processes are in place to record revenue accurately and in the proper period. We selected a sample of revenue transactions for the year and traced to supporting documentation, dates of shows held during the year or other available evidence, to ensure proper cut-off and accuracy of the amounts recorded. Amounts deferred on the statement of financial position were also tested using the same testing methodology. We noted no issues as a result of our testing.

Key matters for discussion	*Comments*
Related party transactions – City of Toronto	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 received in the year, and year-end receivable and payable balances. We have received the City confirmation and have fully reconciled the balances per confirmation to the financial statements. All of the amounts have been accurately and completely reflected in the accounts of the Centre. The Centre has a working capital deficiency and accumulated deficit. The Centre is dependent on the continued financial support of the City. As noted in the notes to the financial statements, 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 amount of the transfer of the operating excess (deficiency) to (from) the City is based on excess (deficiency) of revenue after adjustments for non-cash items. The financial statements are prepared on a going concern basis assuming that the Centre will continue to receive funding to support operations for the next 12 months subsequent to December 31, 2015.
Budgeted figures	Currently, under PSAS for government not-for-profit organizations, presentation of the budgeted figures is not a requirement. This budgeted information has been presented to comply with the City audit team's reporting requirements.

Appendix A: Draft auditor's report

Appendix B: Internal Control Recommendations

Internal control 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 GM 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 GM 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 and 2012 Update:* Control weakness still noted. *2013 Update:* We noted that the GM has delegated a significant number of accounting tasks to the Director of Finance. The accounting related tasks still performed by the GM include preparation of financial statements and notes disclosures. Further delegation should be considered by the GM. *2014 Update:* No changes from prior year. Control weakness still noted.	*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 Update:* Management agrees with this recommendation. *2012 Update:* Management request through the 2013 budget process for additional staff resources was turned down due to the overall budget pressure facing the City and the fact that the Centre's 2013 base operating budget request was already increased by 98% as a result of Dancap's departure from the Main Stage during 2012. The Centre continues to balance the need to minimize overhead expenses while striving to segregate accounting duties as recommended during the 2010 audit. *2013 Update:* Management considers further delegation of tasks to be

Internal control observation	**Recommendation**	**Management's response**
		unnecessary as financial reporting matters and City communication is best handled by the GM. *2014 Update:* The overall situation with regards to the GM preparing financial statements and note disclosures remains unchanged. The GM, in consultation with the Board and the City, should continue to explore ways to add resources to the finance team at the Centre in order to provide better overall segregation of duties. It has also come to our attention that, given the lack of resources, the GM continues to be the sole source for financial reports provided to the Finance and Audit Committee and the Board.
Cheque signing authority It was noted that the Director of Finance and Administration and the Director of Operations have joint signing authority for cheques up to $50,000. Considering their relationship, this creates a perceived conflict of interest and presents a risk of inappropriate segregation of duties among senior management.	*2014 Recommendation:* We recommend that the Director of Finance and Administration and the Director of Operations should not be named as authorized joint signatories for cheques given the perceived conflict of interest and issue relating to segregation of duties. We also recommend that these individuals should not have authorization to approve each other's expenses for the same reason. To prevent cheque signing being delayed, the Centre may consider adding another member of senior management to the list of authorized signatories who could sign jointly with the Director of Finance and Administration and the Director of Operations. Further, expense reports for both individuals should be approved by the General Manager.	*2014 Response:* The GM concurs with the auditor's recommendation and will implement the necessary changes to resolve this matter.

Appendix C: Management representation letter

Appendix D: Changes affecting NPOs

Improvements proposed by the Accounting Standards Board and Public Sector Accounting Board

In 2013, the Accounting Standards Board (AcSB) and Public Sector Accounting Board (PSAB) issued a Statement of Principles (SOPs) on Improvements to Not-for-Profit Standards. The AcSB and PSAB received a substantial number of responses from a broad variety of stakeholders in the private and public sectors, providing a variety of carefully considered positions on each of the principles described in the SOPs. Out of the 290 comment letters received to date, approximately 190 provided responses to the AcSB, 45 to PSAB and 55 to both Boards. As a result of the volume of responses, it will take some time for the Boards to fully analyze the responses, conger with the AcSB/PSAB Joint Not-for-Profit Task Force, determine what other outreach may be needed to ensure a full understanding of the comments received and make any decisions as to future directions that each Board may wish to take with respect to next steps.

Appendix E: Other appendices