



Request to Write-Off an Intercompany Receivable from TO Live

Date: November 22, 2019
To: General Government and Licensing Committee
From: Chief Financial Officer and Treasurer and Controller
Wards: All

SUMMARY

This report outlines the history of a \$3.695 million payable from TO Live to the City of Toronto (City), along with support for a recommendation to Toronto City Council (Council) to write off this balance in 2019.

The receivable and corresponding payable has been in the general ledger for the City of Toronto and the Toronto Centre for the Arts (TCA), formally the North York Performing Arts Centre Corporation (NYPACC), since 2007. The \$3.695 million balance consists of expenditures made on TCA's behalf between the years 2000 and 2004, which include operating and capital expenditures, and 2005 and 2006 theatre operating surpluses. The payable to the City was audited and reported in the TCA annual financial statements since that date and was confirmed and eliminated upon consolidation of the TCA financial results in the City's audited, consolidated, financial statements. During the 2018 amalgamation of the City's three theatre organizations into TO Live, information about the outstanding balance was sought by TO Live's new management and Board, who requested that the City review possible accounting options.

Given the age of the receivable/payable and the lack of supporting documents, City Council is being requested to write-off this balance in 2019.

RECOMMENDATIONS

The Chief Financial Officer and Treasurer and the Controller recommend that:

1. City Council write-off the \$3.695 million balance receivable from TO Live in the 2019 fiscal year.

FINANCIAL IMPACT

As the \$3.695 million receivable balance from TO Live was not allowed for in the City's books, the write-off will be recorded as an expenditure in the City's accounts, impacting the overall final 2019 surplus position.

City Council should note that approval of this write-off would create a non-cash revenue entry on TO Live's books, enhancing their 2019 ending financial position. The impact of this entry should not be reflected in TO Live's final budget surplus (transfer to/from the City).

Both entries would be a one-time impact on the accounts.

DECISION HISTORY

Under the City's Write-off Policy, and in accordance with the Financial Control By-law, Chapter 17, any recommended write-off exceeding \$50,000 requires City Council approval. As such, the \$3.695 million receivable from TO Live would require City Council approval before the amount could be written off the City's books.

A link to the City's Accounts Receivable write-off policy follows:

http://insideto.toronto.ca/accounting_services/pdf/acctreceivable_policy.pdf

A link to the Financial Control By-law, Chapter 71 follows:

https://www.toronto.ca/legdocs/municode/1184_071.pdf

COMMENTS

Prior to 2004, the City paid operating expenses for NYPACC, later TCA and recorded expenditures in the City's SAP financial system. The expenses paid included hydro, rent deposits, staffing costs, capital and maintenance. The end of year receivable balances also included TCA's 2005 and 2006 annual surpluses. In 2007, TCA's financial processes were separated from those of the City, but a receivable balance for \$3.695 million remained in the City's books, while a corresponding payable was carried in the TCA books.

The intercompany balance has not changed since the 2007 year end; since then, the balance was confirmed as part of the year-end audit confirmation process and, since the agency had an offsetting payable, was eliminated in the City's audited, consolidated financial statements. TCA continued to carry the payable in their Board approved, audited financial statements; for the 2015 to 2017 fiscal years, the balance was recorded in the TCA statements, but not specifically disclosed (audited financial statement presentation netted receivable and payable balances). The TO Live Board has not yet approved the 2018 audited financial statements.

With the amalgamation of the three City theatres into one operating entity, TO Live's new management questioned the balance. A meeting was held in late 2018 between City and TO Live staff where it was agreed that both groups would seek further supporting documentation on the nature of the balance.

Throughout 2019, TO Live and City staff reviewed all available paper files that could be found (recognizing retention policy is seven years), old audit working papers, system entries and available system backup. Given the age of the outstanding balance, neither group was able to find supporting documents that helped determine the nature of the balance or approved the payment arrangements made, other than a system ledger containing expenditure information that provided brief descriptions of payments made.

Despite significant efforts both within the City and at TO Live, all investigative options to determine the nature of this receivable/payable relationship and balance have been exhausted.

As a result, a recommendation was made to the Controller, and Chief Financial Officer and Treasurer, to write-off the amount. Given the requirements of the Financial Control By-law, Chapter 71, Council approval is required since this amount exceeds \$50,000.

It should be noted that Accounting Services has begun a full review of the City's general ledger, intended to identify other possible unsupported accounts and balances. The objective of this review is to clean up the City's accounts and ready for the transition to a new cost centre and chart of accounts structure which incorporates proper accounting principles and practices.

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SIGNATURE

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