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Calgary Arts Development Authority Ltd.

December 31, 2017

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Dear Audit Committee Members:

We have prepared this report to assist you with your review of the financial statements of Calgary Arts Development Authority Ltd. ("CADA") and the carrying out of your oversight role. We are here to help you. We encourage you to ask us for more information on any of the matters covered in this report and beyond.

We appreciate the assistance of management and staff in conducting our work. We hope this year- end report is of assistance to you as you carry out your agenda, and we look forward to discussing our findings and answering your questions at the upcoming meeting.

Yours very truly,

Laura Rivero

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I. Audit findings

Status

As of the date of this report, we have completed the audit of the financial statements, with the exception of certain remaining procedures which include:

– completing our discussions with those charged with the Audit Committee members

– updating financial statement note 14 – controlled and related entity – cSPACE Projects

– obtaining evidence of the Board's approval of the financial statements

– specific topic discussion update

– receipt of signed management representation letter (to be signed upon Board approval of the financial statements)

– receipt of signed Board of Director's resolutions for the following transactions:

  – resolution for the internally restricted amounts for specific purpose

Please refer to the Appendices for our draft audit report. We will update you on any significant matters arising from the completion of the audit, including completion of the above procedures. Our audit report will be dated upon approval of the financial statements.

Confirmation of independence

We confirm that we are independent to CADA within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any applicable legislation or regulations from January 1, 2017 up to the date of our audit report.

Significant audit, accounting and reporting matters

The significant financial reporting risks identified during our audit planning are listed below:

Non-use of Statement of Remeasurement Gains and Losses
– Section 1201.092 of Public Sector Accounting Standards ("PSAS") requires presentation of a Statement of Remeasurement Gains and Losses. – As there are no items to be reported on the Statement of Remeasurement of Gains and Losses, the statement has not been prepared.
KPMG Enterprise comments
– KPMG concurs with management's assessment that there are no items to be reported on the Statement of Remeasurement Gains and Losses. – Although the statement has been excluded from the financial statements we are required to refer to the Statement of Remeasurement Gains and Losses in the opinion paragraph of our auditors' report.

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I. Audit findings (continued)

Non-use of Net Debt Model Format
– PSAS requires a net debt presentation for the statement of financial position in the summary financial statements of government. – Net debt presentation reports the difference between financial assets and liabilities as net debt or net financial assets as an indicator of the future revenues required to pay for past transactions and events. – CADA operates within the government reporting entity as it is controlled by the City of Calgary, and does not finance its expenditures by independently raising revenues. Accordingly, the financial statements do no report a net debt indicator.
KPMG Enterprise comments
– KPMG concurs with management's assessment that the net debt indicator can be excluded.

City of Calgary Grant
– During the year ended December 31, 2015, CADA signed an agreement with the City of Calgary. The term of the agreement is from October 1, 2015 to December 31, 2018, unless terminated earlier. – As per the agreement, the City shall provide CADA an annual grant and paid in quarterly instalments. Seventy-five percent of the grant is restricted to use as Grant Investment Funds. CADA will only use Grant Investment Funds for allocation to Arts organizations and artists to promote, support and encourage the development of the Arts in Calgary. The remaining twenty-five percent of the grant can be used as operating funds and arts development program funding to support the business plan for overall operating costs of CADA. – The agreement goes on to state that within 60 days of the end of each fiscal year CADA shall report to the Director of Recreation regarding any unspent funds and their recommendation for possible use of such funds. The Director shall have sole discretion to approve CADA's recommendations, require repayment of these funds or authorize other use of these funds.
KPMG Enterprise comments
– KPMG obtained and reviewed the funding agreement between the City of Calgary and CADA. – KPMG agreed cash receipts (including the additional $3 million contribution during the year ended December 31, 2017 related to the City's Emergency Resilience Fund and Cornerstone grant) to bank statement and tested a sample of expenses incurred to third party documentation. No issues were noted. – KPMG calculated the percentage of funds that were granted within the year and the percentage that was used as operating funds. CADA is in compliance with the funding requirements.

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I. Audit findings (continued)

2017 Budget
– Section 1201.130 of PSAS requires a comparison of the results for the accounting period with those originally planned. – CADA has disclosed the 2017 fiscal budget was approved on December 6, 2016 in the statement of operations along with the actual fiscal 2017 results.
KPMG Enterprise comments
– As part of our audit procedures we agreed the 2017 budgeted presented on the statement of operations to that approved by the Board of Directors with no issues noted.

Other matters

Related party transactions
– CADA had no related party transactions during the year.
KPMG Enterprise comments
– KPMG was alert to potential related party transactions throughout our fieldwork and found no related party transactions requiring disclosure in the financial statements. – KPMG would like to confirm with the Audit committee whether they are aware of any related parties or related party transactions.

cSPACE Projects ("cSPACE")
– cSPACE is a wholly owned subsidiary of CADA. – CADA has elected not to consolidate CADA but has provided information from the financial statements of cSPACE in the notes to the financial statements.
KPMG Enterprise comments
– KPMG has agreed the figures to the financial statements of cSPACE with no issues noted.

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I. Audit findings (continued)

Significant qualitative aspects of accounting practices

– Significant accounting policies included in the financial statements are consistent from a year-to-year basis and are as disclosed in the notes to the financial statements.

Critical accounting estimates

– We did not identify any significant accounting estimates during our audit.

– Management describes their accounting estimates that are subject to uncertainty in the notes to the financial statements.

Significant disclosures

– Significant disclosures included in the financial statements are consistent with prior year.

Illegal and fraudulent acts

– We did not identify, during our financial statement audit, any illegal acts or possibly illegal acts.

– We did not identify, during our financial statement audit, any:

  – Matters that pose question regarding the honesty and integrity of management;

  – Fraud or suspected fraud involving employees who have significant roles in internal control over financial reporting;

  – Fraud or suspected fraud (whether caused by management or other employees) that results, or may result, in a non-trivial misstatement of the financial statements; and

  – Matters that may cause future financial statements to be materially misstated.

Dealings with management

– We received the full cooperation of management and employees of CADA and, to our knowledge had completed access to the accounting records and other documents that we needed in order to carry out our audit.

– We had no disagreements with management and we have resolved all auditing, accounting, and presentation issues to our satisfaction.

Consultation with other accountants

– We are not aware of consultations by management with other external accountants.

Issues discussed with management that influence our appointment

– We did not engage in discussions with management about any issues in connection with our appointment as auditors.

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I. Audit findings (continued)

Misstatements

Identification of misstatements

Misstatements identified during the audit have been categorized as follows:

– Uncorrected misstatements, including disclosures

– Corrected misstatements, including disclosures

Uncorrected misstatements

Professional standards require that we request of management and those charged with governance that all uncorrected misstatements be corrected. We have made this request of management. However, management has decided not to correct these misstatements and represented to us that the uncorrected misstatements individually and in the aggregate are, in their judgement, not material to the financial statements.

We concur with management's representation. Accordingly, the uncorrected misstatements have no effect on our audit report

We highlight the following uncorrected misstatements:

Description	Income effect (Decrease) Increase	Assets (Decrease) Increase	Financial position Liabilities (Decrease) Increase	Equity (Decrease) Increase
Rolled forward from prior year – unrecorded leasehold inducement.	$ –	$ –	$ 24,770	$ (24,770)
To record current year lease impact on the unrecorded leasehold inducement in fiscal 2017.	3,416	–	(3,416)	3,416
Total pre-tax misstatements	$ 3,416	$ –	$ 21,354	$ (21,354)

Corrected misstatements

No corrected misstatements were identified during our audit.

Refer to Management's representation in the Appendices for all corrected audit misstatements, including disclosures.

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II. Appendices

A. Draft audit report

B. Management representation letter

C. Other

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Draft Audit Report

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Calgary Arts Development Authority Ltd.:

We have audited the accompanying non-consolidated financial statements of Calgary Arts Development Authority Ltd., which comprise the non-consolidated statement of financial position as at December 31, 2017, the non-consolidated statements of operations, changes in net assets and cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Non-Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these non-consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of non-consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these non-consolidated 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 non-consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the non-consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the non-consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the non-consolidated 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 non-consolidated 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 non-consolidated financial statements present fairly, in all material respects, the non-consolidated financial position of Calgary Arts Development Authority Ltd. as at December 31, 2017, and its non-consolidated results of operations, its non-consolidated remeasurement gains and losses, its changes in net assets, and its non-consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Chartered Professional Accountants

•, 2018

Calgary, Canada

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Management representation letter

KPMG LLP
Bow Valley Square II
205 - 5th Avenue SW, Suite 3100
Calgary, Alberta T2P 4B9
Canada

•, 2018

Ladies and Gentlemen:

We are writing at your request to confirm our understanding that your audit was for the purpose of expressing an opinion on the financial statements (hereinafter referred to as "financial statements") of Calgary Arts Development Authority Ltd. ("the Entity") as at and for the period ended December 31, 2017.

GENERAL:

We confirm that the representations we make in this letter are in accordance with the definitions as set out in **Attachment I** to this letter.

We also confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

RESPONSIBILITIES:

1) We have fulfilled our responsibilities, as set out in the terms of the engagement letter dated November 17, 2017, for:

   a) the preparation and fair presentation of the financial statements and believe that these financial statements have been prepared and present fairly in accordance with the relevant financial reporting framework

   b) providing you with all information of which we are aware that is relevant to the preparation of the financial statements, such as all financial records and documentation and other matters, including (i) the names of all related parties and information regarding all relationships and transactions with related parties; and (ii) the complete minutes of meetings, or summaries of actions of recent meetings for which minutes have not yet been prepared, of shareholders, board of directors and committees of the board of directors that may affect the financial statements, and providing you with access to such relevant information. All significant board and committee actions are included in the summaries.

   c) providing you with additional information that you may request from us for the purpose of the engagement.

   d) providing you with unrestricted access to persons within the Entity from whom you determined it necessary to obtain audit evidence.

   e) such internal control as we determined is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. We also acknowledge and understand that we are responsible for the design, implementation and maintenance of internal control to prevent and detect fraud.

f) ensuring that all transactions have been recorded in the accounting records and are reflected in the financial statements.

g) providing you with written representations that you are required to obtain under your professional standards and written representations that you determined are necessary.

INTERNAL CONTROL OVER FINANCIAL REPORTING:

2) We have communicated to you all deficiencies in the design and implementation or maintenance of internal control over financial reporting of which management is aware.

FRAUD & NON-COMPLIANCE WITH LAWS AND REGULATIONS:

3) We have disclosed to you:

a) the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud

b) all information in relation to fraud or suspected fraud that we are aware of and that affects the Entity and involves: management, employees who have significant roles in internal control, or others, where the fraud could have a material effect on the financial statements

c) all information in relation to allegations of fraud, or suspected fraud, affecting the Entity's financial statements, communicated by employees, former employees, analysts, regulators, or others

d) all known instances of non-compliance or suspected non-compliance with laws and regulations, including all aspects of contractual agreements, whose effects should be considered when preparing financial statements

e) all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

SUBSEQUENT EVENTS:

4) All events subsequent to the date of the financial statements and for which the relevant financial reporting framework requires adjustment or disclosure in the financial statements have been adjusted or disclosed.

RELATED PARTIES:

5) We have disclosed to you the identity of the Entity's related parties.

6) We have disclosed to you all the related party relationships and transactions/balances of which we are aware.

7) All related party relationships and transactions/balances have been appropriately accounted for and disclosed in accordance with the relevant financial reporting framework.

ESTIMATES:

8) Measurement methods and significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

MISSTATEMENTS:

9) The effects of the uncorrected misstatements described in Attachment II are immaterial, both individually and in the aggregate, to the financial statements as a whole.

NON-SEC REGISTRANTS OR NON-REPORTING ISSUERS:

10) We confirm that the Entity is not a Canadian reporting issuer (as defined under any applicable Canadian securities act) and is not a United States Securities and Exchange Commission ("SEC") Issuer (as defined by the Sarbanes-Oxley Act of 2002). We also confirm that the financial statements of the Entity will not be included in the consolidated financial statements of a Canadian reporting issuer audited by KPMG or an SEC Issuer audited by any member of the KPMG organization.

APPROVAL OF FINANCIAL STATEMENTS:

11) Patti Pon has the recognized authority to take, and has taken, responsibility for the financial statements.

Yours very truly,

____

By: Ms. Patti Pon, President & CEO

cc: Audit Committee

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Attachment I – Definitions

MATERIALITY

Certain representations in this letter are described as being limited to matters that are material. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both.

FRAUD & ERROR

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorization.

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

RELATED PARTIES

In accordance with Canadian public sector accounting standards *related party* is defined as:

- Related parties exist when one party has the ability to exercise, directly or indirectly, control, joint control or significant influence over the other. Two or more parties are related when they are subject to common control or common significant influence. Two not-for-profit organizations are related parties if one has an economic interest in the other. Related parties also include management and immediate family members.

In accordance with Canadian public sector accounting standards a *related party transaction* is defined as:

- A related party transaction is a transfer of economic resources or obligations between related parties, or the provision of services by one party to a related party, regardless of whether any consideration is exchanged. The parties to the transaction are related prior to the transactions. Then the relationship arises as a result of the transaction, the transaction is not one between related parties.

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Attachment II – Misstatements

Description	Income effect (Decrease) Increase	Assets (Decrease) Increase	Financial position Liabilities (Decrease) Increase	Equity (Decrease) Increase
Rolled forward from prior year – unrecorded leasehold inducement.	$ –	$ –	$ 24,770	$ (24,770)
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New Auditor Reporting

In response to investors demanding more than a binary pass/fail opinion from the auditors' report, the new and revised auditor reporting standards have introduced significant changes to the traditional auditors' report we provide.

In April 2017, the Auditing and Assurance Standards Board (AASB) in Canada approved the new and revised auditor reporting standards as Canadian Auditing Standards (CASs).

What's new?

Highlights of the new auditors' report include:

Change	Applicability
Re-ordering of the auditors' report including moving opinion to the first section	Listed and non-listed entities
Expanded descriptions of management's, those charged with governance and auditors' responsibilities	Listed and non-listed entities
Disclosure of name of the engagement partner	Listed entities
Description of key audit matters (KAMs)	Applicable only when required by law or regulation or when the auditors is engaged to do so

When are the new requirements effective?

The new and revised standards in Canada will be effective for audits of financial statements for periods ending on or after December 15, 2018 with early application permitted.

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Public Sector Accounting Board: Accounting Standards for Government Not-for-Profit Organizations

The Public Sector Accounting Board of Canada is responsible for setting the accounting standards that your organization is required to apply in preparing the general purpose financial statements. **The following new or revised accounting standards approved by the Board may have an impact on your financial statements over the next two years as described below.** We encourage Management to review these standards and determine whether the impact, if any, on your organization's financial statements.

In addition, we provide a summary of the status of the Board's deliberations on the future of accounting standards for government not-for-profit organizations. KPMG will continue to update you as these deliberations progress.

Summary of New and Revised Accounting Standards

Assets

PSAB issued Section PS3210 Assets which provides a definition of assets. Assets are defined as follows:

- Assets embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows.
- The public sector entity can control the economic resource and access to the future economic benefits.
- The transaction or event giving rise to the public sector entity's control has already occurred.

The standard also includes disclosure requirements related to economic resources that are not recorded as assets to provide the user with better information about the types of resources available to the public section entity. This standard is effective for fiscal periods beginning on or after April 1, 2017.

Contingent Assets

PSAB issued Section PS3320 Contingent Assets which defines and establishes disclosure standards for contingent assets. Contingent assets have two basis characteristics:

- An existing condition or situation that is unresolved at the financial statement date.
- An expected future event that will resolve the uncertainty as to whether an asset exists.

The standard also has specific disclosure requirements for contingent assets when the occurrence of the confirming event is likely. This standard is effective for fiscal periods beginning on or after April 1, 2017.

Contractual Rights

PSAB issued Section PS3380 Contractual Rights which defines contractual rights to future assets and revenue and establishes disclosure requirements. Information about a public sector entity's contractual rights should be disclosed in notes or schedules to the financial statements and should include descriptions about their nature and extent and the expected timing. The standard also indicates that the exercise of professional judgment would be required when determining contractual rights that would be disclosed.

Factors to consider include, but are not limited to:

(a) contractual rights to revenue that are abnormal in relation to the financial position or usual business operations; and

(b) contractual rights that will govern the level of certain type of revenue for a considerable period into the future.

This standard is effective for fiscal periods beginning on or after April 1, 2017.

Related Party Transactions

PSAB issued Section PS2200 Related Party Transactions which defines related party and provides disclosures requirements. Related parties could be either an entity or an individual. Related parties exist when one party has the ability to control or has shared control over another party. Individuals that are key management personnel or close family members may also be related parties.

Disclosure is only required when the transactions or events between related parties occur at a value different from what would have been recorded if they were not related and the transactions could have a material financial impact on the financial statements. Material financial impact would be based on an assessment of the terms and conditions underlying the transaction, the financial materiality of the transaction, the relevance of the information and the need for the information to enable the users to understand the financial statements.

This standard also specifies the information required to be disclosed including the type of transactions, amounts classified by financial statement category, the basis of measurement, and the amounts of any outstanding items, any contractual obligations and any contingent liabilities. The standard also requires disclosure of related party transactions that have occurred where no amounts has been recognized.

This standard is effective for fiscal periods beginning on or after April 1, 2017. In conjunction with the approval of this standard, PSAB approved the withdrawal of Section PS 4260, Disclosure of Related Party Transactions by Not-for-Profit Organizations, effective for fiscal periods beginning on or after April 1, 2018. Government not-for-profit organizations currently applying Section PS 4260, will therefore only be required to adopt the new standard in their fiscal period beginning on or after April 1, 2018.

Inter-entity Transactions

PSAB issued Section PS3420 Inter-entity Transactions that specifies how to account for transactions between public sector entities within the government reporting entity. This standard relates to the measurement of related party transactions for both the provider and the recipient and includes a decision tree to support the standard. Transactions are recorded a carrying amounts with the exception of the following:

- Transactions in the normal course of business are recorded at exchange amount
- Transactions with fair value consideration are recorded at exchange amount
- Transfer of an asset or liability at nominal or no consideration is recorded by the provider at carrying amount and the recipient has the choice of either carrying amount or fair value.
- Cost allocations are reported using the exchange amount and revenues and expenses are reported on a gross basis.
- Unallocated costs for the provision of goods or services may be recorded by the provider at cost, fair value or another amount dictated by policy, accountability structure or budget practice

This standard is effective for fiscal periods beginning on or after April 1, 2017. In conjunction with the approval of this standard, PSAB approved the withdrawal of *Section PS 4260, Disclosure of Related Party Transactions by Not-for-Profit Organizations,* effective for fiscal periods beginning on or after April 1, 2018. Government not-for-profit organizations currently applying Section PS 4260 will therefore only be required to adopt the new standard in their fiscal period beginning on or after April 1, 2018.

Deliberations on the Future of Accounting Standards for Not-for-Profit Organizations

In April 2013, the Accounting Standards Board ("AcSB") and the Public Sector Accounting Board ("PSAB") jointly issued a Statement of Principles ("SOP") that proposed to revise Part III of the CPA Canada Handbook and the CPA Public Sector Accounting Handbook to streamline and improve the existing standards for financial reporting by not-for-profit organizations and Government not-for-profit organizations. The SOP garnered much interest from the Not-for-Profit community and, based on the feedback the Boards received, the proposals did not proceed further through the accounting standards development process. In March 2015, citing different financial reporting challenges, user needs and differing priorities faced by PSAB and the AcSB, the Boards announced that they would independently pursue improvements to not-for-profit accounting standards, but collaborate on common issues.

Based on the responses from the SOP, the Public Sector Accounting Board decided that making substantive changes to the Accounting Standards for Government Not-for-Profit Organizations was not a priority at this time. The Board's long-term strategy is to better align the accounting standards used by not-for-profit organizations (as provided in the Section 4200 series in the Accounting Handbook) with those used by other government entities, where practical.

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KPMG's Thought Leadership

Cyber Security - It's more than just Technology

Organizations are subject to increasing amounts of legislative and public pressures to show they are managing and protecting their information appropriately. Simultaneously, the threats from cyber criminals and hacktivists are growing in scale and sophistication. Organizations are also increasingly vulnerable as a result of technological advances and changing working practices including remote access, cloud computing, mobile technology and services on demand. The financial and reputational costs of not being prepared against a cyber-attack could be significant.

Cyber Security is not solely about Information Technology; it is fundamentally an operational and governance issue. Not-for-profit organizations should develop an operations-wide understanding of their threats, safeguards, and responses. Preparing this summary diagnostic will require the involvement of individuals in all areas of the organization, including those involved in hiring, procurement, customer relations and management. Key elements to consider include:

- Assessing the likelihood and intensity of a cyber-attack, based on the value of your information and your public profile
- Assessing your vulnerabilities to a cyber-attack
- Preparing your people, processes, infrastructure and technology to resist a cyber-attack, and to minimize its impact
- Detecting a cyber-attack and initiating your response
- Containing and investigating the cyber-attack
- Recovering from a cyber-attack and resuming business operations
- Reporting on and improving security
- Doing a "lesson learned" process to identify improvements

Not-for-profit organizations are at particular risk due to the information they maintain, including research data, member or student data, and health information. The reputational risk of this information not being adequately protected can often outweigh the financial consequences of a breach.

Not-for-profit organizations need to review their operations and consider cyber risks, then assess the organization's cyber maturity in addressing those risks. Structured models for completing this exercise exist for organizations of all sizes, as no one is immune to the risk of a cyber-attack.

KPMG in Canada, in collaboration with Imagine Canada, presented a webinar called "Cyber Security: The new threat for Not-for-Profit Organizations".

We encourage you to view this webinar on Imagine Canada's website at:
http://sectorsource.ca/resource/video/cyber-security-not-profit-organizations-presented-kpmg

This Report should not be used for any other purpose or by anyone other than those charged with governance. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this Report has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.