



# Calgary Arts Development Authority Ltd.

**Audit Findings Report**  
**For the year ended December 31, 2016**





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,

Chartered Professional Accountants  
Carlos Alvarez  
Partner  
403-691-8454  
carlosalvarez@kpmg.ca



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## I. Audit findings

### Our responsibilities

- Our responsibilities in carrying out our audit, as well as management's responsibilities, are set out in the engagement letter dated February 14, 2017.

### Materiality

- We determine materiality in order to plan and perform the audit and to evaluate the effects of identified misstatements on the audit and of any uncorrected misstatements on the financial statements;
- For the current year, materiality of \$225,000 has been determined for the audit of CADA based on a percentage of revenues. The posting threshold for reporting misstatements has been determined to be \$11,250.





### Annual inquiries related to risk of fraud

- Canadian Auditing Standards require that we ask you the following questions in connection with your oversight of management's process for identifying and responding to the risks for fraud.
- How do you provide effective oversight of management's process for identifying and responding to fraud risks, including programs and controls to prevent, detect, and deter fraud?
- Are you aware of any instances of actual, suspected or alleged fraud, including misconduct of unethical behavior related to financial reporting or misappropriation of assets? If so, how have the allegations been addressed?

### Independence

- We confirm that we are independent with respect to Calgary Arts Development Authority Ltd. within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any applicable legislation or regulation.

### Significant financial reporting risks

- There were no significant financial reporting risks identified during our audit planning.



## 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.

### 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 not report a net debt indicator.

### KPMG Enterprise comments

- KPMG concurs with management's assessment that the net debt indicator can be excluded.



#### 2016 Budget

- Section 1201.130 of PSAS requires a comparison of the results for the accounting period with those originally planned.
- CADA has disclosed the 2016 fiscal budget approved on November 24, 2015 in the statement of operations along with the actual fiscal 2016 results.

#### KPMG Enterprise comments

As part of our audit procedures we agreed the 2016 budgeted presented on the statement of operations to that approved by the Board of Directors with no issues noted.

#### 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 \$1 million contribution during the year ended December 31, 2016) 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.



### *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.

Flow Through Fund with The Calgary Foundation: update on discussions



## ***Significant qualitative aspects of accounting practices***

### ***Significant accounting policies***

- Significant accounting policies included in the financial statements are as disclosed in Note 2 to the financial statements.
- In the course of the financial statement audit, we identified no material issues with respect to accounting policies adopted by management.

### ***Significant 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 with the inclusion of additional disclosures required under PSAS.
- CADA is allowed to use PSAS as it is controlled by the City of Calgary (the "City"). If CADA were not controlled by the City then PSAS would not be an accounting framework option available. As CADA is controlled by the City, its results are required to be consolidated into the City under current accounting rules.



## Misstatements

### *Identification of misstatements*

Misstatements identified during the audit have been categorized as follows:

- uncorrected misstatements, including disclosures, and;
- 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 judgment, not material to the financial statements.

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

Refer to Management's representation in the Appendices for all uncorrected audit misstatements.

### *Corrected misstatements*

No corrected misstatements were identified during our audit.





## II. Appendices

Management representation letter

Current developments



KPMG LLP  
Bow Valley Square II  
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Calgary, Alberta T2P 4B9  
Canada

March 28, 2017

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 non-consolidated financial statements (hereinafter referred to as "financial statements") of Calgary Arts Development Authority Ltd. (the "Entity") as at and for the year ending December 31, 2016.

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 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:

**GENERAL:**

- 1) We have fulfilled our responsibilities, as set out in the terms of the engagement letter dated October 21, 2015, 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 relevant information, such as all financial records and related data and 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 access to such relevant information;
  - c) such internal control as management determined is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
  - d) ensuring that all transactions have been recorded in the accounting records and are reflected in the financial statements.

**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, 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 and all the related party relationships and transactions / balances of which we are aware and all related party relationships and transactions / balances have been appropriately accounted for and disclosed in accordance with the relevant financial reporting framework.

### **ESTIMATES:**

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

### **NON-SEC REGISTRANTS OR NON-REPORTING ISSUERS:**

- 7) 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.



**MISSTATEMENTS:**

- 8) 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.
- 9) There were no corrected misstatements identified during our audit.

Yours very truly,

CALGARY ARTS DEVELOPMENT AUTHORITY LTD.

A handwritten signature in black ink, appearing to read "Patti Pon", written over a horizontal line.

By: Ms. Patti Pon, President & CEO

I have the recognized authority to take, and assert that I have taken, responsibility for the financial statements



## **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.



**Attachment II – Misstatements**

|  | Income effect          | Financial position               |                                       |                                  |
|--|------------------------|----------------------------------|---------------------------------------|----------------------------------|
| Description  | (Decrease)<br>Increase | Assets<br>(Decrease)<br>Increase | Liabilities<br>(Decrease)<br>Increase | Equity<br>(Decrease)<br>Increase |
| Rolled forward from prior year   |                        |                                  |                                       |                                  |
| Unrecorded leasehold inducement.   | \$ –                   | \$ –                             | \$ 28,186                             | \$ (28,186)                      |
| Reported in the current year   |                        |                                  |                                       |                                  |
| To record current year impact on the unrecorded leasehold inducement in fiscal 2016. | 3,416                  | –                                | (3,416)                               | 3,416                            |
| Total misstatements  | \$ 3,416               | \$ –                             | \$ 24,770                             | \$ (24,770)                      |

The following entries were less than our audit posting misstatement threshold but included for information purposes.

|  | Income effect          |                                  | Financial position                               |  |                                  |
|--|------------------------|----------------------------------|--|--|----------------------------------|
| Description  | (Decrease)<br>Increase | Assets<br>(Decrease)<br>Increase | Current<br>Liabilities<br>(Decrease)<br>Increase | Long Term<br>Liabilities<br>(Decrease)<br>Increase | Equity<br>(Decrease)<br>Increase |
|  |                        |                                  |  |  |                                  |
| To adjust for stale dated cheque provided to granting organizations. | \$ –                   | \$ –                             | \$ (9,000)                                       | –  | \$ 9,000                         |
| Long term portion of 4 year commitment from RBC                      | –                      | –                                | \$(8,250)  | \$8,250  | –                                |
| Total misstatements  | \$ –                   | \$ –                             | \$ (17,250)                                      | \$8,250  | \$ 9,000                         |





## NPO Accounting Standards Update

### **Canadian 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”) which proposes to revise Part III of the CPA Canada Handbook and the CPA Public Sector Accounting Handbook to improve the existing standards for financial reporting by not-for-profit organizations and Government not-for-profit organizations.

The SOP proposed to remove many of the special rules that not-for-profit organizations use today in preparing their financial statements and require that they adopt rules that are more aligned with commercial enterprises and the public sector standards.

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.

The AcSB included not-for-profit organizations in its recently issued-for-comment draft strategic plan for 2016–2021. The proposed core strategy includes maintaining a separate set of accounting standards for areas unique to not-for-profit organizations, while continuing to direct them to Part II of the *CPA Canada Handbook – Accounting* for non-unique areas (such as employee future benefits and financial instruments). The AcSB has formed a not-for-profit advisory committee to provide input into this process.

The AcSB has approved three projects to address the proposals in the Statement of Principles. These three projects are outlined below.

#### **i. Accounting Standards Improvement – Phase 1**

- Tangible capital assets
- Intangible assets
- Works of art, historical treasures, collections and similar items
- Related party transactions
- Allocated expenses

#### **ii. Accounting Standards Improvement – Phase 2**

- Controlled and related entities
- Expense reporting by function and object
- Economic interests

#### **iii. Contributions – Revenue Recognition and Related Matters**

- Contributions
- Size exemption (\$500,000) for tangible capital assets and intangibles
- Financial statement presentation

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