Assurance and Advisory
Business Services

St. Lawrence Centre for the Arts

Audit Results – December 31, 2006

Report to the Finance Committee of the Board of Directors

Ernst & Young

Quality In Everything We Do

ERNST & YOUNG

- Chartered Accountants
Ernst & Young Tower
P.O. Box 251, 222 Bay St.
Toronto-Dominion Centre
Toronto, Canada M5K 1J7

- Phone: (416) 864-1234
Fax: (416) 864-1174

March 30, 2007

Members of the Finance Committee of the Board of Directors
of St. Lawrence Centre for the Arts

Dear Members of the Finance Committee:

We are pleased to present the results of our audit of the financial statements of the St. Lawrence Centre for the Arts (the "organization" or the "Centre").

This report to the Finance Committee summarizes the issues of audit significance discussed with management and provides the communications required by our professional standards.

Our audit was designed to express an opinion on the December 31, 2006 financial statements of the organization. In planning the audit we held discussions with management, considered current and emerging business needs, along with an assessment of risks that could materially affect the financial statements and aligned our audit procedures accordingly. We received the full support and assistance of the organization's personnel in conducting our audit.

This report is intended solely for the use of the Finance Committee, the Board of Directors, management and ultimately the City of Toronto Council, and is not intended to be and should not be used by anyone other than these specified parties. We disclaim any responsibility to any third party who may rely on it. Further, this report is a by-product of our audit of the December 31, 2006 financial statements and indicates matters identified during the course of our audit. Our audit did not necessarily identify all matters that may be of interest to the Finance Committee in fulfilling its responsibilities.

We appreciate this opportunity to meet with you to discuss the contents of this report and answer any questions you may have about these or any other audit-related matters.

Very truly yours,

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

Diana Brouwer / Michelle Panza
416-943-7177 / 905-882-2993

Required Communications

Generally accepted auditing standards in Canada require the auditor to communicate certain matters to the Finance Committee that may assist them in overseeing management's financial reporting and disclosure process. Below we summarize these required communications as they apply to your organization.

Area	Comments
Auditors' Responsibilities Under Generally Accepted Auditing Standards (GAAS) As set out in the planning document presented to the Finance Committee, we designed our audit to express an opinion on your organization's financial statements. The financial statements are the responsibility of management. Our audit was designed in accordance with GAAS to obtain reasonable, rather than absolute, assurance that the financial statements are free from material misstatement. As a part of our audit, we obtained a sufficient understanding of the internal control structure to plan our audit and to determine the nature, timing and extent of testing performed.	We anticipate issuing an unqualified audit opinion dated February 23, 2007 upon approval of the financial statements by the Board of Directors and completion of certain outstanding procedures. The following procedures are outstanding: ● Confirmation from the Committee that there are no areas of concern that have not been addressed in this document; and ● Management representation letter
Changes to Audit Approach Outlined in Planning Document In our planning document, we indicated that we would conduct our audit in accordance with Canadian generally accepted auditing standards in order to deliver to you our final report for your 2006 financial statements. Our plan to you indicated that our strategy would be mainly substantive in nature as the operations of the Centre are relatively simple and as such the use of confirmations and specific testing of account balances is the more efficient approach for us to take.	There were no changes to the audit approach outlined in the planning document.
Adoption of, or Changes in, an Accounting Principle , Including Material Alternative Accounting Treatments Discussed with Management and Acceptability of a Particular Policy used by Management We determine that the Finance Committee is informed about the initial selection of, and any changes in, significant accounting principles or their application when the accounting principle or its application, including alternative methods of applying the accounting principle, has a material effect on the financial statements. In addition, we report to the Finance Committee all alternative accounting treatments within Canadian generally accepted accounting principles (GAAP) for policies and practices related to material items (including recognition, measurement, presentation and disclosure alternatives) that have been discussed with management during the current audit period including acceptability of the policies or methods ultimately selected by management.	None.

Required Communications (continued)

Area	Comments
Sensitive Accounting Estimates and Disclosures	
The preparation of financial statements requires the use of accounting estimates. Certain estimates and disclosures are particularly sensitive due to their significance to the financial statements and the possibility that future events may differ significantly from management's current judgments. We determine that the Finance Committee is informed about management's process for formulating particularly sensitive accounting estimates and disclosures and about the basis for our conclusions regarding the reasonableness of those estimates.	There are no significant judgments or estimates required to prepare the financial statements where actual amounts are likely to be significantly different from the estimates.
Major Issues Discussed with Management Including Accounting for Significant Unusual Transactions and for Controversial or Emerging Areas	
We determine that the Finance Committee is informed about the methods used to account for significant unusual transactions and the effects of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.	We are not aware of any significant unusual transactions recorded by the organization or of any significant accounting policies used by the organization related to controversial or emerging areas for which there is a lack of authoritative guidance.
Significant Audit Adjustments and Unrecorded Audit Differences Considered by Management to be Immaterial	
We provide the Finance Committee with information about adjustments arising from the audit (whether recorded or not) that could in our judgment either individually or in the aggregate have a significant effect on the organization's financial statements.	There were adjustments made during the audit, none of which were significant.
We inform the Finance Committee about unrecorded audit differences accumulated by us (i.e. adjustments either identified by us or brought to our attention by management) during the current audit period and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.	There were no unrecorded audit adjustments that could, in our judgment, either individually or in the aggregate, have a significant effect on the financial reporting process. Refer to "Summary of Audit Differences" section for details of the unrecorded differences.

Required Communications (continued)

Area	Comments
Disagreements with Management	None.
Serious Difficulties Encountered in Dealing with Management when Performing the Audit	None.
Significant Weaknesses in Internal Controls We communicate all significant weaknesses in internal control over financial reporting that may have been identified during the course of our audit.	No significant weaknesses in internal control were identified.
Fraud and Illegal Acts We report to the Finance Committee fraud and illegal acts involving senior management and fraud and illegal acts (whether caused by senior management or other employees) that cause a material misstatement to the financial statements. We are also required to make inquiries of the Finance Committee related to fraud, including both (1) their views about the risks of fraud, and (2) their knowledge of any actual or suspected fraud.	We are not aware of any matters that require communication. We would request that the Committee members raise with us any areas of risk not addressed in our communications and that they inform us of their knowledge of any actual or suspected fraud.
Consultation with Other Accountants	None of which we are aware.
Other Information in Documents Containing Audited Financial Statements Our financial statement audit opinion relates only to the financial statements and accompanying notes.	None.

Required Communications (continued)

Area	Comments
Related Party Transactions	
Related party transactions identified by the auditor that are not in the normal course of operations or that involve significant judgments made by management concerning measurement or disclosure must be disclosed to the Finance Committee.	None of which we are aware.
Major Issues Discussed with Management in Connection with Initial or Recurring Retention	None.
Matters Relating to Component Entities of the Organization	
When the financial statements of an organization (primary entity) include financial information from financial statements of a component entity (a subsidiary, investee (other than a portfolio investment), or joint venture; or an entity whose financial information from financial statements is included with those of the primary entity), the auditor communicates with the Finance Committee those matters relating to the component entities that in the auditor's judgment are of significance in the context of the primary entity (for example, weaknesses in systems of internal control that have resulted, or could result, in material errors in the primary entity's consolidated financial statements).	None of which we are aware.
Auditors' Independence	
Canadian generally accepted auditing standards (GAAS) require that we communicate at least annually with you regarding all relationships between your organization and Ernst & Young that, in our professional judgment, may reasonably be thought to bear on our independence.	Refer to "Independence Letter" section.

Required Communications (continued)

Area	Comments
Other Audit and Non-Audit Services Provided to Your Organization	None.
Fees	• A summary of our fees is included below for your reference.

	2006	**2005**
	$	**$**
Annual audit fees	$10,000	$10,000
Other audit related fees	$ 3,700	---

Fees are inclusive of expenses and GST in accordance with our agreed proposal with the City of Toronto.

Items of Audit Significance Discussed with Management

During the course of planning and executing our audit, the following items/matters of audit significance were discussed with management:

Item	Description	Audit Results and Comments
Related Party Transactions	• The Centre continues to have its maintenance performed through the City. • In previous years there were discrepancies between the Centre and the City with respect to the amount of costs charged. • Approval was given to the Centre to offset trade payables with the Centre in the amount of $101,134 – as per Council approval in February 2005, Policy and Finance Committee Report 2 Clause 8. This is disclosed in note 6.	• Management provided a reconciliation of the City of Toronto balance to ensure that the year-end amounts were appropriately accounted for and in agreement with the City. • In addition, we have confirmed all year-end balances with the City and, as such, we agree that all the balances with the City have been properly reflected in the accounts of the Centre for 2006.
Building renovations	• During 2006, the Centre began renovations on the building. The Centre finished phase 1 of 2 by the end of the year and spent $878K on renovations to the exterior of the building (Phase 2 to begin in 2007 involves renovations to the interior of the building). As the renovations were completed in November, amortization should have been recorded. The Centre adjusted their statements for amortization for one month of $2.9K. In addition, the Centre capitalized costs of $7K that were deemed to be repairs in nature. The Centre adjusted for this as well. • The Centre has approval by the City to proceed with the second phase of the renovations in 2007. • The City is funding 50% of the hard costs, up to a maximum of $1.5M. The Centre is responsible to fund the other 50%. At December 31, 2006, the City had funded $300,044 towards the renovations. In addition, at its meeting in September 2006, City Council agreed to provide a loan of $0.9 million to the Centre for Phase 2 of the project effective January 2007.	• The renovations were separately classified in the notes to the financial statements as Building Improvements (Exterior). • We concur with the adjustment for amortization and items that represent repairs in nature. • We confirmed the amount funded with the City and agree with the disclosure of future funding to be made available.

Items of Audit Significance Discussed with Management

Capital Assets Acquired as a result of the Flood	• During the year a flood, occurred which damaged fixed assets with a total net book value of $4.5K. Claims processed by the insurance company totaled $13.9K resulting in a gain of $9.4K. The gain was recorded as a reduction to fixed assets when it should have been recorded as revenue in the statement of operations. • In addition to the above, the Centre incurred a major water bill as a result of the flood which was recorded by the Centre twice in error.	• The gain was subsequently reclassified from capital assets to revenue in the statement of operations. • The over accrual was subsequently adjusted.
Accounts Receivable	• The Centre continues to have certain accounts that have been overdue for an extended period of time.	• While management continues to work on its collection efforts, we have determined that, in our opinion, there is an additional $3,246 [2005 - $2,680] that should be provided for in the current year. This amount is on the summary of audit differences.
Changes to the 2006 Financial Statements	The following change was made to the statements in 2006 (as compared to the 2005 presentation): • Expanding note for additional disclosure on City relationship with various funding.	• We have agreed the disclosure to City of Toronto Council approved documents.

Summary of Audit Differences

During the course of our audit, we accumulate differences between amounts recorded by your organization and amounts that we believe are required to be recorded under generally accepted accounting principles. Following is a summary of those differences we have identified through the date of this report:

	Recording Differences Would Have Increased (Decreased) Net Assets/Deficiency of Revenue over Expenses	
	2006	**2005**
	$	$
Known Audit Differences:		
Socan royalty fees overaccrued	Nil	2,053
Sick pay underaccrual	Nil	(5,976)
Likely Audit Differences:		
Allowance for Doubtful Accounts understated	(3,246)	(2,680)
Total Unadjusted Audit Differences Before Turnaround Effect of Prior Year Differences	(3,246)	(6,603)
Turnaround Effect of Prior Year Differences in Net Assets	6,603	
Total Unadjusted Audit Differences in Income After Turnaround Effect of Prior Year Differences	3,357	

Independence Letter

March 30, 2007

The Finance Committee of the Board of Directors of
St. Lawrence Centre for the Arts

We have been engaged to audit the financial statements of St. Lawrence Centre for the Arts (the "Centre") for the year ending December 31, 2006.

Pursuant to Canadian generally accepted auditing standards, we communicate at least annually with you regarding all relationships between Ernst & Young and its related entities and the Centre and its related entities, if any that, in our professional judgment, may reasonably be thought to bear on our independence.

We have prepared the following comments to facilitate our discussion with you regarding independence matters arising since February 17, 2006, the date of our last letter.

We are not aware of any relationships between Ernst & Young and the Centre that, in our professional judgment, may reasonably be thought to bear on our independence, since February 17, 2006.

Canadian generally accepted auditing standards require that we confirm our independence to the finance committee in the context of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario. Accordingly, 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 March 30, 2007.

The total fees charged to the Centre during the period January 1, 2006 to March 30, 2007 are set out in the Audit Results package.

This report is intended solely for the use of the finance committee, the Board of Directors, management, and others within the Centre (ultimately the City of Toronto) and should not be used for any other purposes.

Yours truly,

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

Diana Brouwer
416-943-7177

Letter of Recommendations

March 30, 2007

Members of the Finance Committee
of the Board of Directors
of the St. Lawrence Centre for the Arts

Dear Members of the Finance Committee:

In planning and performing our audit of the financial statements of St. Lawrence Centre for the Arts for the year ended December 31, 2006, we considered its internal control structure to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. Our consideration of internal control for the limited purpose of determining the nature, timing, and extent of our auditing procedures to express an opinion on the Centre's 2006 financial statements would not necessarily disclose all deficiencies in internal control over financial reporting. While our purpose was not to provide assurances on the internal control structure, certain matters came to our attention that we want to report to you. These matters, along with our recommendations, are described in the accompanying memorandum. This report is intended solely for the use of the Finance Committee, the Board of Directors and management, and is not intended to be and should not be used by anyone other than these specified parties. We disclaim any responsibility to any third party who may rely on it.

We would be pleased to discuss the above matters or to respond to any questions, at your convenience.

Very truly yours

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

Diana Brouwer
416-943-7177

Letter of Recommendations

The following points are a carried forward from the prior year letter.

Investments and the Unspent Ticket Surcharge funds

Observation and Recommendation

2005:

Our audit and review of the Centre's accounts for the year ended December 31, 2005 has shown that the Centre has invested $1,154,888. The invested balance is meant to cover both the internally restricted amount for the Piano Acquisition Reserve Fund, $64,882, and for ticket surcharge money received but not yet spent for capital improvements, $1,172,575. If the Centre had the full funds invested then the balance held as at December 31, 2005 should be $1,237,457 – a deficiency of $82,569.

The deficiency in the above noted balance indicates that the Centre is using those funds to finance day to day operations. While the Piano Reserve is an internally restricted amount the capital ticket surcharge funds are externally imposed restrictions. If only the ticket surcharge funds were invested then it would indicate the Centre is using approximately $17,687 of those funds for operations of which $14,881 is represented by the cash balance and there is $3,376 of interest accruals in the receivable balance of the Centre as at December 31, 2005. The Centre is obligated to use the funds collected from ticket surcharges on capital improvements at the Centre.

As disclosed in note 1 to the financial statements, the City is responsible for any operating deficiencies of the Centre. As at December 31, 2005, the City owes the Centre $451,209 with respect to the current and previous years' deficiency amounts. If the City were to pay the Centre the amount owing, net of any payables owing back to them, then the Centre would not require the use of the ticket surcharge funds for its day to day operations.

We recommend that the Centre enter into discussions with the City on a plan to address the funding of the Centre and the clearing up of previous years balances. Resolving the delay in cash flows from the City will eliminate the current issue of using the restricted funds on current operations.

2006 Update:

This issue has been resolved in 2006.

Management's Comments

2005:

In previous years the investment balance has been in excess of the fund balance and therefore there was no need to draw on the balance for current operations. The deficiency as at December 31, 2005 is mainly related to timing of expenditures being made and the maturities of investments in the portfolio. Management does monitor the fund balance on an ongoing basis and we continue to work with the City in resolving the outstanding balances between them and the Centre. With significant capital improvements of the Centre taking place beginning in 2006, we will continue to actively monitor these accounts and keep the Board informed of any funding concerns.

Letter of Recommendations

Inventory of Supplies

Observation and Recommendation

2005:

Management of the Centre is very conscious of the day to day supplies it holds and tracks each of the categories for amounts on hand. Typical industry practice would have these types of costs expensed as incurred. The amount for the Centre for 2005 is approximately $19,000 (2004 - $21,000). While we understand that the Centre has a need to track such costs, it does not really represent an asset to the Centre that can be used to discharge its liabilities; as such, we recommend that management consider changing its method of accounting for these costs to expensing them as incurred.

2006 Update:

This issue has been resolved in 2006.

Management's Comments

2005:

Management agrees with the recommendation.

Letter of Recommendations

Amortization

Observation, Implication and Recommendation

Our audit and review of the Centre's amortization policy has shown that amortization of fixed assets begins in the quarter following the acquisition of that asset. This could result in an understatement amortization depending on the date of acquisition.

We recommend that the Centre adopt a policy of amortizing assets in the month following the acquisition.

Management Comments

Management agrees with the recommendation.

Letter of Recommendations

Personnel Files

Observation, Implication and Recommendation

Through our audit process, we noted that some of the personnel forms were not up to date and were revised upon identification at year end. This could result in employees being paid at an incorrect amount.

We recommend that personnel records be updated as soon as wage rate change and/or job positions change.

Management Comments

Management agrees with the recommendation.

ERNST & YOUNG LLP www.ey.com/ca