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St. Lawrence Centre for the Arts

2011 Year-end report to the Finance Committee

Prepared as of April 5, 2012

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April 5, 2012

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

Dear Members of the Finance Committee

We have substantially completed our audit of the financial statements of the St. Lawrence Centre for the Arts (the Centre) prepared in accordance with Canadian generally accepted principles (GAAP) for the year ended December 31, 2011. We propose to issue an unqualified report on those financial statements, pending resolution of outstanding items outlined on page 1. Our draft auditor's report is included in Appendix B.

We have issued 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 issues dealt with during the audit process.

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

We would like to express our sincere thanks to the management and the staff of the Centre who have assisted us in carrying out our work and we look forward to our meeting on April 13, 2012. Should you have any questions or concerns prior to the Finance Committee meeting, please do not hesitate to contact me in advance.

Yours very truly,

PricewaterhouseCoopers LLP

Jeffrey Goldfarb
Partner
Audit and Assurance Group

cc: Jim Roe, General Manager

PricewaterhouseCoopers LLP, Chartered Accountants
North American Centre, 5700 Yonge Street, Suite 1900, North York, Ontario, Canada M2M 4K7
T: +1 416 218 1500, F:+1 416 218 1500, www.pwc.com/ca

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Appendices

1. Executive summary

a. Status of the audit

We have substantially completed our audit of the 2011 financial statements (the financial statements). Our auditor's report will be issued once we receive and have completed our audit work on the outstanding items noted below.

This document includes the required communications between an auditor and Finance Committee, as required by Canadian Auditing Standards.

The following items will need to be completed/received prior to the issuance of our opinion. We will provide an update on the status of these items at our upcoming meeting.

Outstanding items as at April 5, 2012	Status as at April 13, 2012
i. Receipt of legal letter responses from lawyers	
ii. Subsequent events update with management	
iii. Receipt of signed management representation letter	
iv. Approval of the financial statements by the Finance Committee / Board of Directors	

b. Key issues for discussion

Discussion item	Summary	For further reference
Client service team	• Jeffrey Goldfarb is your engagement leader; Natalia Glavina is your engagement manager.	Page 3
Independence	• We are independent of the Centre as at April 5, 2012. • Our independence letter can be found in Appendix E.	Appendix E
2011 audit fees	• Our proposed audit fee for 2011 is $11,650, which is consistent with prior year.	Page 3
Service deliverables	• The scope of our services remains consistent with the prior year: an audit of financial statements of the Centre and the expression of an opinion on the Centre's financial statements.	Page 4
Audit approach	• Our audit approach will consist of a mixture of key controls reliance and substantive detail testing. • Consistent with Canadian Auditing Standards, we also implement a level of unpredictability into our procedures each year.	Page 5
Materiality	• We have calculated materiality to be $80,000. • Unadjusted and adjusted items over $4,000 will be reported to the Finance Committee.	Page 7
Fraud	• We did not note any instances of fraud as part of our audit procedures	Page 7
Items discussed with Management	• During the course of our work we discussed the following items with management: o Treatment of related party transactions o Treatment of photocopier leases o Deferred capital contributions o Internal controls recommendations	Page 9, 12
Summary of unadjusted and adjusted items	• As a result of our audit, we identified unadjusted items with an effect of $20,875 overstatement of deficiency for the year. • Unadjusted and adjusted items, including disclosure exceptions or items not impacting net income are listed in appendix C. • In our opinion, the financial statements, taken as a whole, are free of material misstatement.	Appendix C
Management representations	• Under Canadian Auditing Standards, 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 D.	Appendix D
Changes to accounting standards for not-for-profit organizations (NPOs)	• Effective January 1, 2012, the Centre will have to adopt new accounting standards. • The standards may have a significant impact on the financial reporting for your organization. • We understand that management is aware of the change in accounting standards and is developing a project plan to implement the changes for the 2012 financial statements.	Page 18

2. *Audit administration*

a. Your team

Your client service team comprises the following individuals:

Name	Role	Phone number	Email address
Jeffrey Goldfarb	Engagement leader	416 218 1531	jeffrey.goldfarb@ca.pwc.com
Michael Nicolo	Engagement senior manager	416 218 1395	michael.nicolo@ca.pwc.com
Natalia Glavina	Engagement manager	416 218 1456	natalia.glavina@ca.pwc.com

b. Independence

Generally accepted auditing standards require that we confirm our independence to the Finance Committee annually. We are not aware of any relationships that may reasonably be through to bear on our independence. Our confirmation letter is set out in Appendix E.

c. Our fees

Our estimated fees are based on the estimated time required by the individuals assigned to the engagement. Our fees exclude taxes and out-of-pocket costs, as outlined in our engagement letter provided to the City.

Our fees for the audit of the financial statements of the Centre for the year ended December 31, 2011 are $11,650, which is consistent with prior year.

3. *Scope of our services*

a. Our audit objectives

As the Centre's auditor, our primary responsibility is to form and express an opinion on the Centre's financial statements as at December 31, 2011 and for the year ended in accordance with Canadian generally accepted principles. The financial statements are prepared by management with the oversight of those charged with governance (Finance Committee). An audit of the financial statements does not relieve management or the Finance Committee of its responsibilities.

We conducted our audit in accordance with Canadian Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

In addition, we are committed to being a trusted advisor to management and to the Finance Committee. Where appropriate, we will discuss not-for-profit standards, provide management our views and insights and also advise management of other services we feel could be helpful – at all times staying within the realms of our independence rules.

b. Engagement terms

Our engagement letter (included in Appendix A) which was agreed to by the City, sets out the terms and conditions for our engagement as the independent auditor of the Centre for the year ended December 31, 2011.

In addition, our engagement letter outlines our responsibilities as the auditor and the responsibilities of management.

c. Our service deliverables

Our audit and audit related service deliverables with respect to 2011 are:

	Audit and audit related services	**Timing**
Audit opinion	• Financial statement audit for the Centre.	• March 2012
Control recommendations	• Report significant weaknesses in control and our recommendations to the Finance Committee.	• April 2012
Other services	• Final report on the results of the audit to the Finance Committee.	• April 2012

4. How we perform the audit

a. Our audit approach

Our audit approach is designed to allow us to execute a quality and efficient audit. We do this by:

i. Gaining an understanding of the business by focusing on new developments and key business issues affecting the Centre as well as management's monitoring of controls and business processes;

ii. Identifying significant audit risks, sharing our perspectives, obtaining your feedback and ensuring our audit is tailored to these risks;

iii. Using well-reasoned professional judgment, especially, in areas that are subjective or require estimates; and

iv. Leveraging reliance where possible on the Centre's internal controls and information technology and data systems.

In the current year, our planned work will include 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.

Throughout the audit, we scale our work based on the size of an account balance, its complexity and its impact on the financial statements. As a result, you will always hear us talking to you about the key issues.

b. Risk Analysis

Significant risks are those risks of material misstatement that, in our judgment, require special audit consideration. We have identified the following significant audit risks and other risks, including business risks with a potential audit impact, as part of our planning process.

These risks were identified based on discussions with management, our knowledge of the business and current developments in your industry and the economy.

They are the most important risks from our perspective. We request your input on the following significant risks and whether there are any other areas of concern that the Finance Committee has identified.

Risk area (including key judgments and estimates)	**Management's response**	**Our audit approach**
Treatment of related party transactions A high amount of activity occurs between the Centre and the City. This includes transactions such as receipt of operating funding, loan payments and the other charges.	Management separately tracks and monitors amounts received from the City to ensure that they are spent in accordance with funding arrangements.	We will confirm all year-end balances with the City related to the grant, loan payable, receivable and others (if applicable) to ensure they have been accurately and completely reflected in the accounts of the Centre.
Deferred capital contributions and ticket sales Certain revenues relate to future performance, and have therefore not yet been earned, or to unspent capital ticket surcharges and are deferred as at the year end.	Management monitors restricted revenues to ensure that they are in accordance with funding arrangements.	We will test amounts which have been deferred to ensure that deferral is appropriate, and in accordance with funding arrangements (i.e. rental revenue deposits, capital contributions). We will also test amounts recognized as revenue in the year.
Payroll Salaries and benefits comprise a significant portion of the Centre's expenditures. It is important that control procedures in this area are effective and function properly on a continuous basis.	There are various controls in place to ensure the accuracy of the payroll, including hires, terminations, and changes to salaries and benefit amounts.	We will validate key management controls around the payroll cycle. We will also perform substantive analytical procedures on salary and benefits expenditures incurred in the current year.
Management estimates The preparation of financial statements includes the use of estimates in areas such as amortization, accruals and provisions. Due to their nature, estimates carry a higher inherent risk and therefore require additional consideration as part of an audit examination.	Management reviews its estimates on a regular basis and applies a consistent methodology to estimate the amounts, unless there has been a change in circumstances.	For all material estimates, we will review management's methodology in arriving at these estimates, to ensure that it is reasonable and has been consistently applied year over year.

c. Materiality

Misstatements, including omissions, are considered to be material if they (individually or in aggregate with other misstatements) 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. A common measure for setting materiality for a not-for-profit organization is to use ½% to 2% of revenue or expenditures.

Accordingly, we set our materiality for the audit as follows:

	Basis	Amount	Prior year's amount
Overall materiality	2% of expenditures	$80,000	$61,600
Unadjusted and adjusted items in excess of this amount are reported to the Finance Committee	5% of overall materiality	$4,000	$3,000

In the prior year, our materiality calculation was based on 1½% of expenditures. Based on our experience with the Centre, we feel that using 2% of expenditures is appropriate for the current year.

d. Discussion on fraud risk

Canadian Auditing Standards require us to discuss fraud risk annually with the Finance Committee. We understand that part of your governance role is also to consider the fraud risks facing the Centre and the responses to those risks.

Required discussion 1	• Through our audit process (and prior years' audits), we have developed an understanding of your oversight processes including: ◦ Monthly reporting comparing financial statements to budget ◦ Quarterly reporting to Board of Directors • Are there any new processes or changes to the above that we should be aware of?
Required discussion 2	We are not aware of any fraud at the current time. We would like to ask whether you are aware of instances of actual, suspected or alleged fraud affecting the entity.

An auditor's responsibilities for detecting fraud

We are responsible for planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatements, whether caused by error or fraud.

The likelihood of not detecting a material misstatement resulting from fraud is higher than the likelihood of not detecting a material misstatement resulting from error, because fraud may involve collusion as well as sophisticated and carefully organized schemes designed to conceal it.

During our audit, we will perform the following procedures in order to fulfill our responsibilities:

- inquiries of management, the Finance Committee and others related to any knowledge of fraud or suspected fraud;
- perform disaggregated analytical procedures, primarily over revenue and consider unusual or unexpected relationships identified in planning the audit;
- incorporate an element of unpredictability in the selection of the nature, timing and extent of our audit procedures;
- perform additional required procedures to address the risk of management's override of controls, including:
    - testing internal controls designed to prevent and detect fraud;
    - examine journal entries and other adjustments for evidence of the possibility of material misstatement due to fraud;
    - review accounting estimates for biases that could result in material misstatement due to fraud, (including a retrospective review of significant prior years' estimates); and
    - evaluate the business rationale of significant unusual transactions.

We would be pleased to discuss any other procedures or suggestions the Finance Committee may have.

5. Significant audit, accounting and financial reporting matters

Preparation of the financial statements requires management to select accounting policies, as well as make critical accounting estimates and disclosures that may involve significant judgment and measurement uncertainty. These matters can significantly impact the Centre's reported results.

We are responsible for discussing with the Finance Committee our views about the significant qualitative aspects of the Centre's accounting practices, including accounting policies, the accounting estimates, and financial statement disclosures in accordance with the requirements of GAAP.

Our comments and views included in this report should only be taken in the context of the financial statements as a whole and are not meant to express an opinion on any individual item or accounting estimate. We are sharing our views with you to facilitate an open dialogue of these matters.

Issue	Discussion
Treatment of related party transactions	• 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, the year-end receivable balance and loan payable balance to the City. • Based on our review of the confirmation received, all amounts have been accurately and completely reflected in the financial statements and accounts of the Centre. • As part of our controls testing, we also reviewed the business performance review controls of the Centre, focused on quarterly reporting with the City. As a result of our controls work, no significant issues were noted.
Treatment of photocopier leases	• In 2011, the Centre signed a new renegotiated lease agreement with "Docucomm" for three photocopiers for a quarterly payment of $6,500. • This lease is accounted for as an operating lease by the Centre; however it qualifies as a capital lease due to bargain purchase option to buy the photocopiers at $10 at the end of the lease term. • PwC proposed an adjustment to record this lease as a capital lease and set up an asset and a corresponding liability for obligations under capital lease. • The Centre's treatment of the photocopier leases is consistent with prior year treatment and PwC proposed adjustment is consistent with prior year adjustment.

6. Summary of unadjusted and adjusted items

We have concluded that the financial statements taken as a whole are free of material misstatement and (pending the completion, to our satisfaction, of the outstanding matters identified in section 1), we are prepared to issue an unqualified opinion on the financial statements.

Our responsibility is to issue an opinion as to whether the financial statements are free of material misstatement.

Under Canadian Auditing Standards, we are required to communicate to you the unadjusted items and the effect that they may have on our opinion and to request that unadjusted items be corrected. As a result of our audit, we identified certain items and have discussed these with management, and management adjusted the financial statements to reflect certain of these items. Management has concluded that the remaining unadjusted items, which are described in (a) below, are immaterial individually and in the aggregate.

We are also required to communicate the effects of any unadjusted items that relate to prior periods. We did not identify any such items.

Please refer to Appendix C for the details of unadjusted and adjusted items.

7. Other required communications

Canadian Auditing Standards requires that the external auditor communicate certain matters to the Finance Committee that may assist you in overseeing management's financial reporting and disclosure process.

Below, we summarize these required communications as they apply to you:

Matter to be communicated	PwC's response
Management's representations	• Under Canadian Auditing Standards, 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 D.
Significant deficiencies in internal control	• Recent changes to Canadian Auditing Standards require us to communicate to the Finance Committee internal control weaknesses identified as part of our audit that are considered to be significant deficiencies. • A significant deficiency is defined as an internal control deficiency that we consider merits the attention of the Finance Committee. • These are summarized in Section 8.
Significant difficulties or disagreements that occurred during the audit	• No difficulties or disagreements occurred while performing our audit that required the attention of the Finance Committee.
Fraud and illegal acts	• As noted in Section 4: o No fraud involving senior management, employees with a significant role in internal control, or that would cause a material misstatement of the financial statements, came to our attention as a result of our audit procedures. o We enquired with the Finance Committee whether they are aware of any known, suspected or alleged incidents of fraud.

8. Internal control recommendations

The purpose of our audit was to enable us to express an opinion on the financial statements. The audit included consideration of internal control relevant to the preparation of the 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 internal control.

During our audit, we identified the following control recommendations that we have discussed with management and wish to bring to your attention.

Internal control observation	Recommendation	Management's response
Bank reconciliations are not prepared and approved in a timely manner During our testing of reconciliations we noted that bank reconciliations were not prepared and reviewed in a timely fashion. The reconciliations for January to June were prepared in June. This increases the risk of errors not being identified or misappropriation of assets not being detected in a timely fashion.	We recommend that bank reconciliations are prepared and reviewed in a timely manner to ensure completeness, accuracy and existence of cash.	Bank reconciliations for January to June were not prepared in a timely fashion due to shortage of staff. When an additional accountant joined the team in June, all bank reconciliations were prepared and reviewed. Bank reconciliations are now up to date.
Misfiled payroll documents During our testing of controls over the payroll cycle we noted a resignation letter lacking evidence of the Centre's approval. Payroll Coordinator represented that the General Manager signed the Personnel Action Form authorizing the termination, however the form was misfiled.	Due to sensitive nature of the payroll data, care should be taken in keeping all documents safe. All employee files should be reviewed for accuracy and completeness of data and kept in a secure location. The loss or misfiling of personnel data exposes the Centre to legal liability.	The resignation letter did not need approval; it was the Personnel Action Form that had the required approval. The misfiled Personnel Action Form had been filed in the weekly payroll folder instead of the Employee's personal file. Management agreed with taking more care with personal information.
Approval of vacation Although we did not note any errors with the vacation accrual balance in the current year, we noted during our testing that not all vacation requests were properly and timely made or approved.	We recommend management comply with the Centre's vacation policy and requests are submitted on time and approved to ensure no employee takes unauthorized vacation and proper vacation accruals are recorded.	Management agrees to reinforce the policy.

Internal control observation	Recommendation	Management's response
Amortization of Property, Plant and Equipment The Centre records amortization in the quarter subsequent to when the purchase is made (i.e. if the purchase is made in Q2, amortization begins in Q3). This accounting policy results in an understatement of amortization expense in the year of acquisition.	Although we did not note any material errors in the current year, we recommend management review their accounting policy and procedures. It is best practice to record the amortization expense when the asset is put in use.	Management agreed to implement the recommendation immediately.
Due from the City The Centre calculates "Due from the City" balance as follows: deficit in the current year plus underpayment of deficit in the previous year. In 2011, the "due from City" has a balance of $23K relating to previous years. We obtained a confirmation from the City on this balance and the City did not acknowledge balance owing to the Centre for previous years. Accordingly, the balance will not be collected and should be written off (refer to Appendix C).	We recommend that management follow up with the City on balances outstanding greater than six months on a timelier basis.	Management regularly follows up with the City, however, due to the City's current backlog, issues are not resolved in a timely manner. Management will continue to follow up on receivable balances.

We would also like to provide you an update of the control recommendations identified from the prior year.

Items requiring further action:

Internal control observation	Recommendation	Management's response
Timely elimination of employees from system In our testing of controls over the payroll cycle, we noted that the Centre does not currently have a process to ensure that all terminated employees are removed from the system on a timely basis. The information is currently provided on an ad hoc basis to the payroll administrator and no record is kept of changes or related approvals. This increases the risk of overpaying a terminated employee who has not been removed from the system on a timely basis.	2010 Recommendation: We recommend that the payroll administrator and Finance Director implement the use of standing data changes forms for terminations, new hires and salary changes. A standardized form for each of these significant changes to the payroll register can reduce the risk of overpayment and increase the ability for management to track significant dates, appropriate authorization and other pertinent information. 2011 Update: Management has partially implemented the control due to the nature of the business. *Fulltime employees:* The control has been implemented. *Crew and Front of House Hourly Employees:* As these employees are hired on need basis, there is letter of resignation or offer letter. Payroll Coordinator gets an email with the names of the union crew and front of house employees who worked for that week approved by Director of Production. About twice a year Payroll Coordinator does a clean-up and removes all inactive employees (i.e. those not hired in the last six months). Last clean-up was done in October 2011.	2010 Response: Management has agreed to the recommendation and will begin implementing these procedures on a going forward basis. 2011 Update: Due to the nature of the business there are a lot of union employees and management will try to be more proactive in terminating and rehiring casual employees more timely. Management agrees to do clean up every three months.

Items that have been fully resolved in the current year:

Internal control observation	Recommendation	Management's response
Manual journal entries During the course of our testing over information technology general controls, we noted that the finance director has preparation and review privileges of manual journal entries. Although we did not note any instances of journal entries being prepared and reviewed by the same person, the existence of this ability to do so in the system increases the risk of management override of controls.	2010 Recommendation: We recommend the Finance Director have only review access, so that only approval can be initiated. We recommend another member of the accounting team prepare the manual journal entries. 2011 Update: The recommendation from prior year has been fully implemented. No further action required.	2010 Response: Management agrees with this recommendation and will review system access privileges to the system accordingly.
Review of December 31 bank reconciliation During our testing of reconciliations, we noted three year-end bank reconciliations lacking evidence of review or approval.	2010 Recommendation: We recommend that the individual who prepares the bank reconciliations to be different from the individual who reviews and approves the reconciliations. Review by way of signature and/or dating is recommended. We also recommend that bank reconciliations per reviewed shortly after preparation in order to provide useful information to management. 2011 Update: The recommendation from prior year has been fully implemented. No further action required.	2010 Response: Management is in the process of hiring a new accountant, whose role will include performing the reconciliations, in order to allow the controller to review prepared work. Management has also developed a ten day cycle following period-ends during which all month-end procedures are expected to take place.
Management expense reports approval During our testing of the authorization of management expense reports, we noted several instances where the finance director had approved her own expense report. Although our review indicated that the nature of the expense approved may have been reasonable, there is a risk of misappropriation of assets where expense reports can be self-approved.	2010 Recommendation: We recommend that all staff and management expense reports, including Amex expenses, be approved by someone other than the individual who has incurred the expense. 2011 Update: The recommendation from prior year has been fully implemented. No further action required.	2010 Response: Management agrees that no manager will be able to approve their own management expense reports going forward. A new credit card policy will be updated to include an appropriate signature authorization policy.

Internal control observation	Recommendation	Management's response
Supporting documents for standing data changes During our testing of payroll controls, we noted that supporting documents for payroll changes to crew members were not prepared. This increases the risk of incorrect data being entered into the system with respect to pay rates, hiring and termination dates.	2010 Recommendation: We recommend that offer letters and records of employment be created for employees that are hired or terminated. This creates a paper trail of all pertinent details that are sent to and processed at ADP. 2011 Update: The recommendation from prior year has been fully implemented. Crew member pay changes are per IATSE contract negotiations. All rate changes are entered into the system when negotiated. No further action required.	2010 Response: Management agrees with this recommendation and will look to update its policies around documentation preparing and retention for hiring, terminations and salary changes.
Petty Cash Policy and Control Log Currently there is no formal policy in place to manage petty cash. Petty cash as of Dec 31, 2010 was $5K. This increases the risk of misappropriation of petty cash balance.	2010 Recommendation: We recommend implementing a formal policy for managing petty cash. This could be a control log of petty cash use by person, date and amount. We also recommend this log be reconciled and reviewed on regular basis. 2011 Update: The recommendation from prior year has been fully implemented. No further action required.	2010 Response: Most significant expenses are incurred through Amex credit card use. However, the Centre will aim to create a policy for employees that will help ensure petty cash is being managed appropriately. Management agrees to implement a control log system for petty cash use. Moreover, a reconciliation of these funds to the control log will be performed on a regular basis.
Overall segregation of duties Due to the size of the Centre, we noted many areas where the reporting and accounting functions are performed by the Finance Director. This increases the risk of error and possibility for management override of controls.	2010 Recommendation: We recommend that he Finance Director delegate certain responsibilities to the accounting team, or other capable staff, with the appropriate training. This will enable the Finance Director to independently review the work prepared by the staff. We also recommend that the work of the Finance Director be reviewed periodically.	2010 Response: Management is in the process of hiring one more individual to the accounting team for support, and to improvement the overall segregation of duties at the Centre.

Internal control observation	Recommendation	Management's response
	2011 Update: Management has hired an accounting staff to perform functions previously performed by the Finance Director, who is now reviewing the work of the new accounting staff. No further action required.	
Overall segregation of duties Due to the size of the Centre, we noted many areas where the reporting and accounting functions are performed by the Finance Director. This increases the risk of error and possibility for management override of controls.	2010 Recommendation: We recommend that he Finance Director delegate certain responsibilities to the accounting team, or other capable staff, with the appropriate training. This will enable the Finance Director to independently review the work prepared by the staff. We also recommend that the work of the Finance Director be reviewed periodically. 2011 Update: Management has hired an accounting staff to perform functions previously performed by the Finance Director, who is now reviewing the work of the new accounting staff. No further action required.	2010 Response: Management is in the process of hiring one more individual to the accounting team for support, and to improvement the overall segregation of duties at the Centre.

9. Changes to accounting standards for Not-for-Profit Organizations

In December 2010, the Canadian Accounting Standards Board issued new accounting standards for not-for-profit organizations (NPOs) and changes for government not-for-profit organizations (GNPOs). Under the previous approach, both GNPOs and non-government NPOs were directed to follow the Canadian Institute of Chartered Accountants' (CICA) Handbook, which includes standards developed to deal with the unique circumstances of many NPOs — the 4400 series. The new accounting framework will now be dependent on your organization's classification as either an NPO or GNPO.

These requirements will be effective on January 1, 2012 for the Centre. It is anticipated that, as an entity reporting to the City and consolidated in the City's results, the Centre will be required to adopt either Public Sector Accounting Standards (PSAS) in their entirety or PSAS plus the new section applicable to GNPOs (section 4200 of the Public Sector Handbook). Management should consult with the City and determine what course of action is required.

The accounting and presentation implications of adopting the Public Sector Standards including the 4200 series include the following:

- With respect to pension plans, neither the corridor approach nor full recognition of actuarial gains and losses are allowed – all actuarial gains and losses are amortized over the average remaining service life of the employee group. There are other changes in the calculation methodology including the discount rate and a requirement to recognize plan amendments immediately.

- Other employee future benefits – leave benefits, such as sick pay, are accrued under PSAS regardless of vesting provisions.

- There are several changes to standards relating to financial instruments, including the requirement to account for embedded derivatives separately from the host contract and removing the ability to apply hedge accounting. A new statement of remeasurement gains and losses captures fair value changes in financial instruments.

- Segments are distinguishable activities or group of activities; disclosure is encouraged for organizations diverse enough to warrant disclosures. Previously, only publicly accountable companies required segment disclosure. Reportable segments are identified differently under PSAS.

- If the S4200 option is not taken, there are numerous differences in presentation with respect to the primary statements. For example, statement of financial position classifications will now include financial and non-financial assets. The statement of operations will include budget information, and a statement of changes in net debt will be required.

To assist you in understanding the impact of these new standards, we have attached a PwC publication "Keeping you informed" in Appendix G (previously provided as a part of the report to the Finance Committee for the year ended December 31, 2010).

To assist with the transition to the PSA Handbook, the staff of PSAB have prepared a high-level comparison of Public Sector 4200 Series and other standards in the PSA Handbook. It covers significant recognition and measurement differences only and does not necessarily include all of the differences that might arise in a particular entity's circumstances. Presentation and disclosure requirements are not within the scope of this comparison. We have attached this publication in Appendix H.

The standards may have a significant impact on the Centre. We understand that management is aware of the change in accounting standards and is developing a project plan to implement the changes for the 2012 financial statements.