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St. Lawrence Centre for the Arts

2012 Year-end report to the Finance Committee

Prepared as of April 10, 2013

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April 10, 2013

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 (the financial statements) of St. Lawrence Centre for the Arts (the Centre) prepared in accordance with Canadian public sector accounting standards for not-for- profit organizations (PSAS) for the year ended December 31, 2012. We propose to issue an unqualified report on those financial statements, pending resolution of outstanding items outlined on page 3. 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 organization who have assisted us in carrying out our work and we look forward to our meeting on April 17, 2013. 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

Michael Nicoló
Partner
Audit and Assurance Group

cc: Jim Roe, General Manager

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

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Appendices

The matters raised in this and other reports that will flow from the audit are only those that have come to our attention arising from or relevant to our audit that we believe need to be brought to your attention. They are not a comprehensive record of all the matters arising and, in particular, we cannot be held responsible for reporting all risks in your business or all internal control weaknesses. This report has been prepared solely for your use and should not be quoted in whole or in part without our prior written consent. No responsibility to any third party is accepted, as the report has not been prepared for, and is not intended for, any other purpose. Comments and conclusions should only be taken in context of the financial statements as a whole as we do not mean to express an opinion on any individual item or accounting estimate.

1. *Executive summary*

a. Status of the audit

We have substantially completed our audit of the 2012 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 the Finance Committee, as required by Canadian generally accepted auditing standards (Canadian GAAS).

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 item	**Status as at April 17, 2013**
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	• Michael Nicoló is your engagement leader; Natalia Glavina is your engagement manager.	Page 3
Independence	• We are independent of the Centre as at April 10, 2013. • Our independence letter can be found in Appendix E.	Page 3
2012 audit fees	• Our estimated audit fees for 2012 are $12,500 (2011 - $11,650).	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 $74,700. • Unadjusted and adjusted items over $3,700 will be reported to the Finance Committee.	Page 7
Items discussed with management	• During the course of our work we discussed the following items with management: – Treatment of related party transactions – Conversion to Public Sector Accounting Standards – Internal control recommendations	 Page 9 Page 11
Summary of unadjusted items	• As a result of our audit, we identified unadjusted items with an effect of $25,935 overstatement deficiency for the year. • Unadjusted and adjusted items, including disclosure exceptions or items not impacting net loss are listed in Appendix C. • In our opinion, the financial statements, taken as a whole, are free of material misstatement.	Page 10
Fraud	• No instances of fraud were noted as part of our audit procedures	Page 8
Management representations	• Under Canadian GAAS, 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

2. *Audit administration*

a. Your team

Your client service team comprises the following individuals:

Name	Role	Number of years on engagement	Phone number	Email address
Michael Nicoló	Engagement leader	1	416 218 1395	michael.nicolo@ca.pwc.com
Natalia Glavina	Engagement manager	2	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 independence letter is set out in Appendix E.

c. Our fees

Our estimated fees were based on the expected time required to complete the audit. Our fees excluded taxes and out-of-pocket costs, as outlined in our engagement letter.

Service description	Estimated fees 2013 $	Estimated fees 2012 $	Actual fees 2011 $
Audit of the financial statements	$13,360	$12,500	$11,650

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, 2012 and for the year then ended in accordance with Canadian Public Sector Accounting Standards for not-for-profit organizations (PSAS). The financial statements are prepared by management with the oversight of those charged with governance (the 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 GAAS. 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 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) sets out the terms and conditions for our engagement as the independent auditor of the Centre for the above mentioned year.

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 2012 are:

	Audit and audit related services	**Timing/status**
Audit opinions	• Financial statement audit for the Centre.	• March 2013
Control recommendations	• Report significant weaknesses in control and our recommendations to the Finance Committee.	• April 17, 2013
Other services	• Final report on the results of the audit to the Finance Committee.	• April 17, 2013

4. *How we performed 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 work included 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 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 confirmed all year-end balances with the City related to the grant and others payables 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 revenue recognition criteria and funding arrangements.	We tested 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 also tested 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 validated key management controls around the payroll cycle and substantially tested payroll reconciliation for the current year.

Risk area (including key judgments and estimates)	Management's response	Our audit approach
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 reviewed 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 1/2% 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	$74,700	$80,000
Unadjusted and adjusted items in excess of this amount are reported to the Finance Committee	5% of overall materiality	$3,700	$4,000

d. Discussion on fraud risk

Canadian GAAS requires 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 organization.

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 performed 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;
- performed disaggregated analytical procedures and considered unusual or unexpected relationships identified in planning the audit;
- incorporated an element of unpredictability in the selection of the nature, timing and extent of our audit procedures;
- performed additional required procedures to address the risk of management's override of controls, including:
  - testing internal controls designed to prevent and detect fraud;
  - examining journal entries and other adjustments for evidence of the possibility of material misstatement due to fraud;
  - reviewing accounting estimates for biases that could result in material misstatement due to fraud, (including a retrospective review of significant prior years' estimates); and
  - evaluating 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
Related party transactions – City of Toronto	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, with the exception of $28,858 which relates to the capital lease payments for the current year in the amount of $7,994 and prior years in the amount of $14,339 and to the uncollectible amounts from the City of $6,525. An adjustment has been proposed for the entire amount.
Conversion to Public Sector Accounting Standards with section 4200	During 2012 management elected to adopt PSAS. The accounting policies selected under this framework have been applied consistently and retrospectively as if these policies had always been in effect. The Centre did not utilise any transitional exemptions on the adoption of PSAS. There were no adjustments to the statements of financial position or the statements of operations, changes in net assets and cash flows. Following are the areas where the changes were noted due to the conversion: • Presentation of the statement of financial position for the three years ended December 31, 2012, December 31, 2011 and January 1, 2011. • Requirement to include a "statement of remeasurement gains and losses" • Note disclosure noting adoption of PSAS • Changes in note disclosures relating to Financial Instruments and Impairment of Long-lived Assets (now called Write-down of tangible capital assets) • Capital management note is no longer required We reviewed management's conversion program and noted no exceptions. We reviewed the selected policies and concluded that the statements are fairly presented in accordance with the newly adopted standards.

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 GAAS, 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.

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

Unadjusted misstatements for the current year are listed in Appendix C. There are no adjusted items in the current year.

7. Other required communications

Canadian GAAS 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 GAAS, 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 GAAS 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 requires the attention of the Finance Committee.
Fraud and illegal acts	• No fraud or illegal acts came to our attention as a result of our audit procedures.

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 did not identify any new control recommendations; however, we would like to provide you with an update of the control recommendations identified in prior year.

Items requiring further action:

Internal control observation	Recommendation	Management's response
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 the City" had 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. In 2012, the Centre wrote off $2K of the old balances and "due from the City" as of December 31, 2012 which included $21K relating to previous years and $8K relating to Capital Lease payments incurred during fiscal 2012. Based on the review of the confirmation for the fiscal 2012, the City did not agree with $28,858 as balance payable to the Centre. Accordingly, the balance is not collectible and should be written off (refer to Appendix C for the proposed entry).	2011 Recommendation: We recommend that management follow up with the City on balances outstanding greater than six months on a timelier basis. 2012 Update: We noted that prior year receivables of $20,862 are still included in the current year "Due from the City" balance on the financial statements. We recommend management to follow up with the City for outstanding balances and, if considered not collectible, write the amounts off.	2011 Response: 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. 2012 Update: During the year, management followed up with the City in a timely manner and per management's conversation with the City, the City had agreed to pay the outstanding balances from prior years. However per 2012 City confirmation dated April 9, 2013 the City did not confirm prior year balances. Management will follow up again for the outstanding balances in the current year.

Items that have been fully resolved in the current year:

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.	2011 Recommendation: We recommend that bank reconciliations are prepared and reviewed in a timely manner to ensure completeness, accuracy and existence of cash. 2012 Update: Our testing approach in the current year did not include testing of the bank reconciliations other than the year end bank reconciliation. We noted that the bank reconciliation as at December 31, 2012 was prepared on a timely basis. We concluded that the weakness has been resolved and no further action is required.	2011 Response: 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. 2012 Update: Bank reconciliations are now prepared on a timely basis as a part of month end close process.
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.	2011 Recommendation: 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. 2012 Update: We did not note any instances of incompliance with the policy in the current year. We concluded that the weakness has been resolved and no further action is required.	2011 Response: Management agrees to reinforce the policy. 2012 Update: Management has complied with the recommendation.

Internal control observation	Recommendation	Management's response
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.	2011 Recommendation: 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. 2012 Update: We did not note any instances of misfiled documents as a part of our payroll testing in the current year. We concluded that the weakness has been resolved and no further action is required.	2011 Response: 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. 2012 Update: In the current year management ensured that all payroll documents are filed in the personnel file timely.
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.	2011 Recommendation: 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. 2012 Update: We concluded that the weakness has been resolved and no further action is required.	2011 Response: Management agreed to implement the recommendation immediately. 2012 Update: Management has implemented the recommendation and calculating amortization based on the month of purchase.

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. 2012 Update: We did not note any terminated employees on the list of all employees. We concluded that the weakness has been resolved and no further action is required.	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. 2012 Update: *Crew and Front of House Hourly Employees:* Crew and front of house hourly employees are now inactivated in the system on a monthly basis, leading to the list of active employees being current.

9. Our commitment to audit quality

We are proud of PwC's long history of delivering high quality and recognize that quality in everything we do is paramount. We know that you expect our people to be competent, objective and embody the right level of professional skepticism - while at all times maintaining an open dialogue with your management team. We believe our core values described below ensure that we achieve audit quality and quality service at the same time.

Core value	How it helps us execute a high quality audit
Investing in relationships	• We believe that the professional relationships we foster with management and the Finance Committee allow us to have open and candid dialogue over issues including, when necessary, asking those difficult questions. • Relationships also allow us to provide timely advice and enable us to better understand the organization's business.
Sharing and collaborating	• Tackling today's complex business issues requires the collaboration of different team members from various areas of our firm such as tax or valuation experts. • Our experts will work with members of your team to help solve complex issues and bring forward best practices.
Putting ourselves in others' shoes	• Listening to and understanding others' perspectives allows for enhanced dialogue and allows us to think about issues from various points of view. • We consider issues from multiple perspectives, starting with the standards, and including the views of management and the Finance Committee as well as our assessment of what financial statement users expect. While we will express our views or preferences, we do not impose them on you unless we believe that there are no other alternatives within the standards.
Enhancing value	• Our understanding of the business and execution of a quality audit allows us to identify issues that are important to the Finance Committee and management. • Within the realms of our independence rules, it also offers opportunities to provide recommendations and insight on improvements in controls, operations and other areas of business that can enhance shareholder value.

These core values govern how we operate - the audit work and documentation of procedures in our files are also always of the same high standard. Our people are subject to continuous training to ensure that they are equipped with the right tools and best practices to achieve quality and a focus on continuous improvement.

Although our audits are planned to focus on the key risks, our professional audit standards and regulators require us to ensure that we have sufficient evidence in all areas of our files. While we strive to achieve high quality in a cost effective manner, the reality is that we are being required to do more to comply with existing standards and to meet our regulator's interpretations of what audit quality is. This means that you will see us performing procedures in areas that you might consider lower risk.

As always we welcome your feedback on our performance and your views on how we achieve quality. You have our commitment that audit quality is paramount and you can have the confidence that the audit work performed by PwC will stand up to the scrutiny of contributors and other stakeholders.