
St. Lawrence Centre for the Arts

*2013 Year-end report
to the Finance
Committee*

*Prepared as of
April 16, 2014*





April 16, 2014

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 (PSAS), including accounting standards that only apply to government not-for-profit organizations for the year ended December 31, 2013. 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 23, 2014. 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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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 2013 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 items:

- i. Audit procedures on 2013 budget presented on the statement of operations
- ii. Receipt of legal letter from City of Toronto
- iii. Subsequent events update with management
- iv. Receipt of signed management representation letter
- v. Approval of the financial statements by the Finance Committee and Board of Directors

b. Key issues for discussion

Discussion item	Summary	For further reference
Items discussed with management	<ul style="list-style-type: none"> • During the course of our work we discussed the following items with management: <ul style="list-style-type: none"> - Related party transactions - Internal control recommendations 	Section 4 Section 7
Summary of unadjusted items	<ul style="list-style-type: none"> • As a result of our audit, we identified unadjusted items with an effect of \$5,000 on the deficiency of revenue over expenses for the year. • Unadjusted items, including disclosure exceptions or items not impacting deficiency of revenue over expenses are listed in Section 5. • In our opinion, the financial statements, taken as a whole, are free of material misstatement. 	Section 5
Fraud	<ul style="list-style-type: none"> • No instances of fraud were noted as part of our audit procedures. 	Section 3
Management representations	<ul style="list-style-type: none"> • 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 C. 	Appendix C

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	2	416 218 1395	michael.nicolo@ca.pwc.com
Natalia Glavina	Engagement manager	3	416 218 1456	natalia.glavina@ca.pwc.com
Akanksha Arora	Engagement senior	3	416 218 1500	akanksha.arora@ca.pwc.com

b. 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, 2013 and for the year then ended in accordance with 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 segment 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.

c. 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.

d. Our service deliverables

Our audit and audit related service deliverables with respect to 2013 are:

	Audit and audit related services	Timing
Audit opinion	Financial statement audit for the Centre.	March / April 2014
Control recommendations	Report significant weaknesses in control and our recommendations to the Finance Committee.	April 23, 2014
Other services	Final report on the results of the audit to the Finance Committee.	April 23, 2014

3. 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.

Risk area (including key judgments and estimates)	Management’s response	Our audit approach
<p>Treatment of related party transactions</p> <p>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.</p>	<p>Management separately tracks and monitors amounts received from the City to ensure that they are spent in accordance with funding arrangements.</p>	<p>We confirmed all balances with the City related to the grant, grant payables and others payables to ensure they have been accurately and completely reflected in the accounts of the Centre.</p>

Risk area (including key judgments and estimates)	Management's response	Our audit approach
<p>Deferred capital contributions and ticket sales</p> <p>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.</p>	<p>Management monitors restricted revenues to ensure that they are in accordance with revenue recognition criteria and funding arrangements.</p>	<p>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.</p>
<p>Payroll</p> <p>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.</p>	<p>There are various controls in place to ensure the accuracy of the payroll, including hires, terminations, and changes to salaries and benefit amounts.</p>	<p>We validated key management controls around the payroll cycle and substantially tested payroll reconciliation for the current year.</p>
<p>Management override of controls</p> <p>Canadian GAAS requires that the risk of material misstatement due to management override of controls be considered a significant risk on every audit engagement.</p> <p>This represents the risk that internal controls of the Centre may be circumvented to achieve desired financial results or gain inappropriate access to financial resources.</p> <p>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.</p>	<p>Management ensures appropriate segregation of duties and authorization of manual journal entries.</p> <p>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.</p>	<p>We assessed the risk of management override of controls throughout our audit by performing the following:</p> <ul style="list-style-type: none"> • Tested the details supporting the financial statement balances by agreeing all material items to supporting ledgers/records, as well as performed testing of manual journal entries. • Reviewed a sample of significant and unusual journal entries to assess their appropriateness. • Incorporated a level of unpredictability throughout our audit procedures. Our unpredictability procedures included testing small dollar value of ancillary revenue items. • 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. <p>Based on the results of our audit procedures, we did not note any instances of override of controls or fraud.</p>

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
Overall materiality	2% of expenditures	\$72,000
Unadjusted and adjusted items in excess of this amount are reported to the Finance Committee	10% of overall materiality	\$7,200

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	<ul style="list-style-type: none"> • Through our audit process (and prior years' audits), we have developed an understanding of your oversight processes including: <ul style="list-style-type: none"> - Monthly reporting comparing financial statements to budget - Quarterly reporting to the City of Toronto - Periodic reporting to the Board of Directors • Are there any new processes or changes to the above that we should be aware of?
Required discussion	<p>We are not aware of any fraud at the current time.</p> <p>We would like to ask: Are you aware of instances of actual, suspected or alleged fraud affecting the Centre?</p>

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:

- inquired of management, the Finance Committee and others related to any knowledge of fraud or suspected fraud;
- 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.

4. *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 PSAS.

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	<p>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 and payable balance.</p> <p>We have received the City confirmation and have fully reconciled the balances per confirmation to the financial statements. All of the amounts have been accurately and completely reflected in the accounts of the Centre.</p>

5. 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. As a result of our audit, we did not identify any adjustments required to the financial statements. The unadjusted item, which is described below, is individually and in the aggregate immaterial to the financial statements taken as a whole.

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

Unadjusted items

If all of the items (including differences in estimates) were adjusted, the effect on the Centre's financial statements would be as follows:

Description	Deficiency of revenue over expense (Overstated) understated \$	Statement of financial position		
		Assets (overstated) understated \$	Liabilities overstated (understated) \$	Net assets overstated (understated) \$
DR Capital assets DR Amortization of capital assets DR Interest expense CR Building operations expense CR Unrestricted net assets <i>To adjust for lease payments on photocopier as payments under capital lease and not operating lease</i>	5,000 26,000 (26,000)	16,250		(21,250)
Total unadjusted differences	5,000	16,250	NIL	(21,250)

6. *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	<ul style="list-style-type: none"> • 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 C.
Significant deficiencies in internal control	<ul style="list-style-type: none"> • 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 7.
Significant difficulties or disagreements that occurred during the audit	<ul style="list-style-type: none"> • No difficulties or disagreements occurred while performing our audit that requires the attention of the Finance Committee.
Fraud and illegal acts	<ul style="list-style-type: none"> • No fraud or illegal acts came to our attention as a result of our audit procedures.

7. 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 internal control recommendations; however, we want to bring to your attention items discussed with management and the Finance Committee in the prior year.

Items resolved in the current year:

Internal control observation	Recommendation	Management’s response
<p>Due from the City</p> <p>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.</p>	<p>2011 Recommendation:</p> <p>We recommend that management follow up with the City on balances outstanding greater than six months on a timelier basis.</p> <p>2012 Update:</p> <p>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.</p> <p>2013 Update:</p> <p>In the current year, management wrote off unconfirmed balances with the City in the amount of \$28,858. No further action required.</p>	<p>2011 Response:</p> <p>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.</p> <p>2012 Update:</p> <p>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.</p>

8. 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 scepticism - 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	<ul style="list-style-type: none"> 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 Centre's business.
Sharing and collaborating	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> Listening to and understanding others' perspectives allow for enhanced dialogue and allow 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	<ul style="list-style-type: none"> Our understanding of the business and execution of a quality audit allow us to identify issues that are important to the Finance Committee and management. Within the realms of our independence rules, there are 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.

9. 2013 audit 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	Actual fees	Actual fees
	2014	2013	2012
	\$	\$	\$
Audit of the financial statements	\$14,290	\$13,360	\$12,500

Should we incur additional costs due to changes in the level of effort or scope changes, we will advise management and seek their approval.

Conditions that could result in additional costs include, but are not limited to, the following:

1. Delays in receiving requested information that results in idle staff time or staffing changes or any changes to the trial balance subsequent to the agreed upon date that results in additional audit testing.
2. Time incurred to review and/or test multiple versions of audit schedules.
3. Time incurred to review management's position paper and resolve significant accounting matters.
4. Time incurred to quantify and perform additional audit procedures, as necessary, to validate adjustments.
5. Significant revisions to the financial statements (i.e. re-writing of note disclosures or pervasive mathematical errors and/or internal inconsistencies) and reviewing multiple versions of the financial statements (i.e. more than two versions).
6. Additional meetings with the Audit Committee / Board and additional drafting sessions.

10. Changes for not-for-profit organizations

As part of our commitment to quality service, we now draw your attention to new and emerging accounting, auditing and regulatory developments together with their assessed impact on the Centre's financial reporting:

Improvements proposed by the Accounting Standards Board and Public Sector Accounting Board

In April 2013, the Accounting Standards Board (AcSB) and Public Sector Accounting Board (PSAB) issued a statement of principles on Improvements to Not-for-Profit Standards. These principles are expected to be incorporated into future exposure drafts issued by each Board. The proposals would affect Part III of the CPA Canada Handbook – Accounting, and the CPA Canada Public Sector Accounting (PSA) Handbook including the PS 4200 series of Sections, to improve existing standards for financial reporting by NFPOs. The effects of these proposals would be significant. The timing of the exposure drafts and effective dates for individual standards has not yet been determined. More details can be found in Appendix E.

We would be pleased to discuss any questions you have regarding this change, at your request.