
The Board of Directors of the Hummingbird Centre for the Performing Arts

*2014 year-end report
to the Board of
Directors*

*Prepared as of
April 15, 2015*

*Operating as “The Sony Centre for
the Performing Arts”*



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April 15, 2015

Members of the Board of Directors
The Sony Centre for the Performing Arts

Dear Members of the Board:

We have substantially completed our audit of the financial statements (the financial statements) of The Sony Centre for the Performing 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, 2014. We propose to issue our auditor's report on those financial statements, pending resolution of outstanding items outlined on page 1. Our draft auditor's report is included as Appendix A.

We prepared 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 matters dealt with during the audit process.

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

We would like to express our sincere thanks to the management and staff of the organization who have assisted us in carrying out our work, and we look forward to our meeting on April 29, 2015. If you have any questions or concerns prior to the Board meeting, please do not hesitate to contact us in advance.

Yours very truly,

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

cc: Mark Hammond, Interim Chief Executive Officer
William Milne, Director of Finance & Personnel

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Communications to the Board of Directors

Key matters for discussion	Comments
Status of the audit	<p>PricewaterhouseCoopers LLP (PwC or we) have substantially completed our audit of the financial statements (the financial statements). Significant outstanding items at time of mailing include the following:</p> <ul style="list-style-type: none"> - Receipt of legal letters from City of Toronto, Heydary Hayes and Hicks Morley - Subsequent events update with management - Receipt of signed management representation letter - Approval of the financial statements by the Board of Directors
Service deliverables	<p>We have audited the organization's financial statements as of December 31, 2014 and for the year then ended prepared in accordance with PSAS.</p>
Audit timeline	<p>We worked with management to develop this project timeline:</p> <ul style="list-style-type: none"> - Interim visit: December 10, 2014 - Year-end visit: March 23, 2015 - Clearance meeting with management: April 2015 - Year-end Board of Directors meeting: April 29, 2015 - Delivery of financial statements: May 2015
Audit approach	<p>Our audit approach is a mixture of tests of internal controls and substantive testing. In the current year, our work included testing of key controls in the following areas:</p> <ul style="list-style-type: none"> - Purchases, payables and disbursements - Payroll - Revenue <p>All other areas were subject to tests of detail and substantive analytical testing.</p>
Materiality	<p>Misstatements are considered to be material if they could reasonably be expected to influence the economic decisions of users of the financial statements. We set a materiality of \$380,000 and are reporting unadjusted and adjusted items over \$19,000 to the Board. See details in Appendix B.</p>
Fraud and illegal acts	<p>We discuss fraud risk annually with the Board. Through our planning process (and prior years' audits), we developed an understanding of your oversight processes and have designed our audit procedures to address these risks.</p> <p>No fraud involving senior management, or employees with a significant role in internal control or that would cause a material misstatement of the financial statements and no illegal acts came to our attention as a result of our audit procedures. We wish to reconfirm that the Board is not aware of any known, suspected or alleged incidents of fraud or illegal acts not previously discussed with us.</p>

<i>Key matters for discussion</i>	<i>Comments</i>
Subsequent events	<p>No subsequent events which would impact the financial statements other than those disclosed have come to our attention.</p> <p>We would like to reconfirm that the Board is not aware of any other subsequent events that might affect the financial statements.</p>
Internal control recommendations	During the audit we did not note any significant deficiencies. Our internal control recommendations are summarized in Appendix C.
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.
Professional fees	Professional fees are in accordance with the fee schedule agreed to with the City of Toronto. Any additional fees are in compliance with the billing guidelines agreed to with the City.
Significant accounting, auditing and reporting matters discussed with management	
Risk of material misstatement due to management override	Accounting regulatory authorities require that the risk of material misstatement due to management override of controls be considered a significant risk on every audit engagement. In addition to our substantive testing of various transactions throughout the year, we incorporated an element of unpredictability into our audit procedures. We noted no issues as a result of our testing.
Revenue recognition	<p>Management recognizes revenue based on separate criteria per revenue stream. Management ensures processes are in place to record revenue accurately and in the proper period.</p> <p>We selected a sample of revenue transactions for the year and traced to supporting documentation, including Ticketmaster statements, dates of shows held during the year or other available evidence, to ensure proper cut-off and accuracy of the amounts recorded. Amounts deferred on the statement of financial position were also tested using the same testing methodology. We noted no issues as a result of our testing.</p>
Related party transactions – City of Toronto	<p>As a significant amount of activity occurs between the City and the Centre, we requested a confirmation from the City of all amounts received during the year and balances outstanding at the year-end. This included funding received, loan payable, trade receivable and payable balances, the Facility Fee Reserve fund balance, Capital Works Program funding and the Stabilization Reserve fund 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>

<i>Key matters for discussion</i>	<i>Comments</i>
Prior year findings of the Auditor General	<p>Per discussion with management and review of available documentation, there are no new developments relating to the findings of the Auditor General in the previous fiscal year.</p> <p>Accordingly, status of accounting issues has been rolled forward resulting in certain unadjusted misstatements being carried forward as noted in Appendix B.</p>
Budgeted figures	<p>Currently, under PSAS for government not-for-profit organizations, presentation of the budgeted figures is not a requirement. This budgeted information has been presented to comply with the City audit team's reporting requirements.</p>

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. 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. This report has been prepared solely for your use. It was not prepared for, and is not intended for, any other purpose. No other person or entity shall place any reliance upon the accuracy or completeness of statements made herein. PwC does not assume responsibility to any third party, and, in no event, shall PwC have any liability for damages, costs or losses suffered by reason of any reliance upon the contents of this report by any person or entity other than you.

Appendix A: Draft auditor's report

Appendix B: Summary of unadjusted items

We noted the following unadjusted differences arising from prior year matters that are relevant to the current year's audit:

<i>Description</i>	<i>Assets</i> <i>(Overstated) Understated</i> \$	<i>Liabilities</i> <i>Overstated (understated)</i> \$	<i>Net assets</i> <i>Overstated (understated)</i> \$	<i>Deficiency of revenue over expense</i> <i>(Overstated) understated</i> \$
Dr. AP and accrued liabilities Cr. Accumulated net surplus		51,905	(51,905)	
<i>To adjust for overstated accrued liabilities</i>				
Dr. Capital assets Dr. Net Assets Dr. Transfer to City Dr. Amortization Expense Cr. Amortization of revenue Cr. Deferred Revenue Cr. Due from/to City	15,634 (140,706)	 (15,634)	109,438	31,268 31,268 (31,268)
<i>To record in-kind deferred sponsorship revenue and related capital assets omitted in 2010 as well as relating amortization and revenue to date</i>				
Dr. Due from / to City of Toronto Cr. Loan Payable	126,500	(126,500)		
<i>To record loan from Sodexo which was accounted for as revenue in 2010</i>				
Total	\$1,428	\$(90,229)	\$57,533	\$31,268

As a result of our audit, we conclude that the above unadjusted items are immaterial - individually and in total - to the financial statements taken as a whole.

Appendix C: Internal Control Recommendations

Internal control observation	Recommendation	Management's response
<p>Tracking of capital assets</p> <p>Capital assets are compiled, tracked and amortized by category using an excel spreadsheet. The Centre does not maintain a fixed asset register.</p> <p>Finance has no effective way of confirming all assets are in existence and is reliant on line management expertise as to the obsolescence of certain assets.</p>	<p><i>2011 Recommendation:</i></p> <p>Although we did not note any errors in the current year, we recommend that management update the excel spreadsheet by performing a count of all capital assets.</p> <p>Further, we recommend that management develops a system of identifying and tracking the capital assets (i.e. developing a diagram showing locations of all capital assets in use at the Centre).</p> <p>We also recommend that management considers obtaining a capital asset module for their current accounting system as manually computing depreciation expense, additions and disposals exposes the Centre to the risk of error.</p> <p><i>2012 Update:</i></p> <p>No changes from prior year. Control weakness still noted.</p> <p><i>2013 Update:</i></p> <p>No changes from prior year. Control weakness still noted.</p> <p><i>2014 Update:</i></p> <p>No changes from prior year. Control weakness still noted.</p>	<p><i>2011 Response:</i></p> <p>We agree that it would be desirable to have all purchased assets kept in an asset register with sufficient detail, identification and location indicators to be able to perform a physical count and verification of assets owned. We will evaluate available options and the internal time and cost resources needed to implement such a system.</p> <p><i>2012 Update:</i></p> <p>We are in the process of performing a physical count and verification of all assets owned.</p> <p><i>2013 Update:</i></p> <p>Physical count has been completed and no material issues noted. The 2014 approved budget includes funding for the purchase of an asset tracking system compatible with our accounting system. The tracking system is expected to be in place by the end of fiscal 2014.</p> <p><i>2014 Update:</i></p> <p>Asset tracking module has been acquired and installed; we are in the process of uploading historical asset details into the system, and are working in conjunction with the upcoming Building Audit with an expectation to be completed prior to fiscal end 2015.</p>

Internal control observation	Recommendation	Management's response
<p>Entries being prepared outside of accounting system</p> <p>As part of management financial statement close process, computations such as amortization of deferred capital contribution, capital asset depreciation and transfer to/from City are tracked in a separate excel spreadsheet and recorded to the financial statements.</p> <p>These accounts are not recorded in the accounting system of the Centre. Since these entries are not tracked in the accounting system they are susceptible to errors due to incorrect formula being used in excel, transposition and typographical errors.</p>	<p><i>2011 Recommendation:</i></p> <p>Although we did not note any errors in the current year, we recommend that management tracks all entries and adjustments via the accounting system. This will ensure that balances per the accounting system are correctly reflected in the financial statements and that the Centre's accounting records are in accordance with PSAS requirements. This will mean lower chance of error.</p> <p>Due to cost effectiveness reasons, if management chooses to track items separately in excel, care should be taken in ensuring that correct entries are posted to the financial statements. This can be done by ensuring all entries are reviewed prior to posting.</p> <p><i>2012 Update:</i></p> <p>Management provided a more fulsome tracking methodology from general ledger balance to the statement line items. The control weakness, however, is still noted as the entries are still being prepared outside of the accounting system.</p> <p><i>2013 Update:</i></p> <p>No changes from prior year. Control weakness still noted.</p> <p><i>2014 Update:</i></p> <p>No changes from prior year. Control weakness still noted.</p>	<p><i>2011 Response:</i></p> <p>Although we understand the concern raised by the external auditor, we continue to believe the current practice is the most efficient in our circumstances. The entries handled outside the general ledger are of a nature that facilitates the ease of preparation of financial reports for the City and the board. We will provide the auditor with more fulsome tracking methodology from general ledger balance to statement line item.</p> <p><i>2013 Update:</i></p> <p>We continue to believe the current practice is the most efficient for our circumstances because of the different reporting demands we face from the City and the Board of Directors. The few entries handled outside the general ledger are of a nature that facilitates the ease of preparation of the individual financial reports for each entity. We will provide the auditor with more fulsome tracking of such entries.</p> <p><i>2014 Update:</i></p> <p>We continue to believe the current practice is the most efficient for our circumstances because of the different reporting demands we face from the City and the Board of Directors. The few entries handled outside the general ledger are of a nature that facilitates the ease of preparation of the individual financial reports for each entity. We will continue to provide the auditor with fulsome tracking of such entries.</p>

Appendix D: Management representation letter

Appendix E: Changes affecting NPOs

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

In 2013, the Accounting Standards Board (AcSB) and Public Sector Accounting Board (PSAB) issued a Statement of Principles (SOPs) on Improvements to Not-for-Profit Standards. The AcSB and PSAB received a substantial number of responses from a broad variety of stakeholders in the private and public sectors, providing a variety of carefully considered positions on each of the principles described in the SOPs. Out of the 290 comment letters received to date, approximately 190 provided responses to the AcSB, 45 to PSAB and 55 to both Boards. As a result of the volume of responses, it will take some time for the Boards to fully analyze the responses, conger with the AcSB/PSAB Joint Not-for-Profit Task Force, determine what other outreach may be needed to ensure a full understanding of the comments received and make any decisions as to future directions that each Board may wish to take with respect to next steps.

Appendix F: Other appendices

