

**The Board of Directors of the Hummingbird Centre
for the Performing Arts**
(Operating as the “Sony Centre for the Performing
Arts”)

Year-end Report to the Finance Committee
for the year ended December 31, 2010

May 27, 2011

Members of the Finance Committee of the Board of Directors
The Board of Directors of the Hummingbird Centre for the Performing Arts

Dear Finance Committee Members,

We have substantially completed our audit of the financial statements of The Board of Directors of the Hummingbird Centre for the Performing Arts (operating as the Sony Centre for the Performing Arts - the Centre) for the year ended December 31, 2010 and propose to issue an unqualified report on those financial statements, pending resolution of outstanding items outlined on page 1. Our draft auditors' report is included as Appendix A.

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 your finance committee 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. 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

Sara Oates
Associate Partner – Not-for-Profit Services
Audit and Assurance Group

cc: Roy Reeves, Director of Finance and Personnel

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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 2010 financial statements. Our audit report will be issued once we receive and have completed our audit work on the outstanding items noted below.

Our audit has been performed substantially in accordance with the plan and timeline previously communicated to you.

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 May 31, 2011
i. Final documentation and review of results of actuarial work done by PwC	
ii. Legal letter confirmation responses from: <ul style="list-style-type: none">- Barbara G. Humphrey Professional Corporation- Miller Thompson LLP- Alison Fowles – City Solicitor Legal Services	
iii. Receipt and review 2010 approved annual budget from the City	
iv. Subsequent events update with management	
v. Receipt of signed management representation letter	
vi. Approval of the financial statements by the Board of Directors	

b. Key issues for discussion

The following is a summary of the key audit and financial reporting issues we discussed with management during the audit. Further details on each issue can be found within this document.

	Issue	Summary discussion	For further reference
i.	Significant audit and accounting matters	<p>We identified several areas of focus in our audit plan. We will provide an update to the finance committee on the following areas:</p> <ul style="list-style-type: none"> ◦ Related party transactions – City of Toronto ◦ Other related party transactions ◦ Treatment of investment in Centre ◦ Employee future benefits ◦ Sale of trailers ◦ Management estimates ◦ Deferred revenue and capital contributions ◦ Payroll expense and accrual 	Section 2
ii.	Summary of unadjusted items	<ul style="list-style-type: none"> • We identified several unadjusted items during the audit. At the time of this report, we have estimated that the effect on the deficit from operations is nil, compared to an overall materiality of \$175,000. This does not include the effect of any adjustments which may come out of our work on the outstanding items. 	Section 3
iii.	Control deficiencies	<ul style="list-style-type: none"> • We have discussed recommendations with respect to internal controls in the following areas: <ul style="list-style-type: none"> - Management expense reports 	Section 5
iv.	Independence	<ul style="list-style-type: none"> • We are independent of the Centre as at May 27, 2011, and our independence letter can be found in Appendix C. 	Appendix C

2. Significant audit, accounting and financial reporting matters

The preparation of the financial statements under Canadian generally accepted accounting principles (GAAP) requires management to select accounting policies as well as make critical accounting estimates and disclosures that involve significant judgment and measurement uncertainty, which can significantly impact the organization's reported results.

We are responsible for discussing with the finance committee our views about the significant qualitative aspects of the organization's accounting practices, including the appropriateness of accounting policies, the reasonability of key accounting estimates and judgments, as well as the adequacy of financial statement disclosures.

Our comments and conclusions 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.

During the audit, we discussed the following items with management:

Issue	Discussion
<p>Related party transactions – City of Toronto</p>	<p>As a significant amount of activity occurs between the City of Toronto (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>All confirmations have been received and, following adjustments for the items noted in section 3 of this report, have been satisfactorily reconciled to the financial statements. No significant issues were noted following final receipt of this confirmation from the City of Toronto.</p> <p>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.</p>
<p>Other related party transactions</p>	<p>During the year, the Centre sold services to a senior employee for \$15,153 (2009 – nil). Management has indicated that the services were valued at current market rates. This amount was included in receivables at the year-end (2009 – nil) and was paid in full in 2011.</p> <p>In addition, the centre entered into a contract with a company owned by the same senior employee for the provision of promotion services. Management has indicated that the contract was valued at current market rates and an amount of \$7,910 was paid to this company in the year.</p> <p>While the amounts recorded are not material, in order to maintain transparency and accountability, we recommend that disclosure of these transactions be included in the notes to the financial statements. These disclosures have not been reflected in the latest draft of the financial statements.</p>

Issue	Discussion
<p>Treatment of investment in Centre</p>	<p>During the year, the centre entered into an agreement with the property developer, who made an investment of \$200K in the centre. The terms of the investment agreement require that the Centre pay to the developer a return of up to 10% over the three year life of the loan and repay the capital to extent that there are net positive cash flows in the fiscal years 2010-2012. Any amounts repaid are to be applied firstly to the repayment of the investment and then to the payment of the 10% rate of return</p> <p>However, subsequent to year end, the centre has received a signed letter from the developer confirming that, the right to repayment of any of this investment has been waived. Based on the “forgiveness” of this amount, the investment of \$200K has been reflected as “other revenue” in the statement of operations.</p> <p>We have agreed this treatment to be appropriate.</p>
<p>Employee future benefits</p>	<p>Through our audit procedures on the employee future benefits obligation, we obtained and reviewed the actuarial report prepared by Buck Consulting, which calculates the value of the employee future benefit payable amount at the end of fiscal 2010. Our testing did not include a reperformance of the calculations, as we relied on the actuary for the accuracy of the calculations.</p> <p>We have agreed the liability from the Buck consulting report to the financial statements, and the disclosures on the financial statement to be appropriate, including:</p> <ul style="list-style-type: none"> • Confirmation of unamortized actuarial gain (2010 - \$411K. 2009 - \$413K), through receipt of calculation from the City of Toronto audit team • Review of the actuarial assumptions within the Buck report <p>We have also received confirmation from the City of Toronto to support a corresponding receivable of \$89K equivalent to the employee benefit obligation in the statement of financial position of the Centre. We have agreed the recording of this amount in the financial statements and the related disclosure to be appropriate.</p>
<p>Sale of trailers</p>	<p>During the year, the centre sold its temporary dressing rooms (trailers) to Ferncastle for \$450K. The sale took place prior to the year-end but the centre continues to rent the facilities from the buyer until they are no longer required. At this point the full consideration of \$450K will be payable by the buyer.</p> <p>Although it is not specifically addressed in the purchase and sale agreement, management has confirmed that legal title of the trailers transferred to Ferncastle at the date of the agreement and that the buyer assumed responsibility for the insurance of the assets. This supports the derecognition of the trailers by the centre as at the year-end. Management has provided a representation to us in this regard (see management representation letter – appendix B).</p> <p>The trailers had been fully funded by contributions in prior years and</p>

Issue	Discussion
	consequently the sale resulted in a gain of \$450K, which has been separately identified on the statement of operations.
Management estimates	<p>During the audit, During the course of our work, we noted the following areas of management judgment or estimate:</p> <p>Severance accrual In the current year, a severance accrual of \$197K (2009 - \$nil) was recorded relating to severance payments. We have reviewed the calculation of the amount and supporting documentation and noted that as well as the amounts indicated in the termination letters, benefit amounts of approximately 25% have also been accrued. Management has confirmed that this inclusion of a benefit element is appropriate and will provide a representation to us in this regard (see management representation letter – appendix B)</p> <p>Performance based bonus accrual The financial statements have been prepared on the assumption that the performance based compensation accrual of \$176K (2009 - \$181K) will be approved. We understand that the Board of Directors will approve the 2010 performance based compensation accrual as part of the financial statement approval process.</p>
Deferred revenue and capital contributions	<p>At year-end, we tested a sample of amounts included as deferred capital contributions to ensure that they related to future investment of capital for the Centre. Of the total received in the year of \$ \$3.4M, \$2.8M was provided by the capital works program fund. Our testing indicated that amounts have been accurately recorded and deferred at year end as available to the centre for future capital investment.</p> <p>Deferred revenues (which include deposits from the various license agreements which have not yet been earned) and advance ticket sales were both tested on a sample basis to underlying records. No exceptions were noted.</p>
Payroll expense and accrual	<p>We reviewed the various controls in place to ensure the accuracy of payroll information and payments, including controls around new hires, terminations, and changes to salary and benefit amounts. We reviewed the various hiring, termination and status changes forms. No exceptions were noted.</p> <p>We also performed analytical review procedures on amounts recorded for full-time staff and detailed testing of amounts recorded for contract and union staff. No exceptions were noted.</p> <p>We obtained the ADP section 5970 report on the operating effectiveness of controls at the service organization. No exceptions were noted.</p>

3. Summary of unadjusted items

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

As a result of our audit, we identified certain items and have discussed these with management. Management has adjusted the financial statements to reflect certain of these items. The items that remain unadjusted are summarized in (a) below and described further in Appendix B. Under Canadian Auditing Standards we are required to ask the finance committee to consider adjusting the financial statements for these items.

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

a. Unadjusted items

Total unadjusted items have a nil effect on the current deficit from operations. The materiality level (as previously communicated to you) is \$175,000.

Description	Excess of revenue over expense Over (under) stated	Statement of financial position		
		Assets (over) under stated	Liabilities over (under) stated	Net assets over (under) stated
To record capital addition that relates to F'10	-	175,722	(175,722)	-
To adjust for recognition of insurance claim receivable	-	(44,609)	44,609	-
To adjust for difference between the City of Toronto and the Centre's records between Facility Reserve Fund balance and Capital Works Program Fund	-	-	-	(62,184) 62,184
To reverse payable to City for difference in Facility Reserve Fund	-	-	62,184	(62,184)
Total unadjusted differences	-	131,113	(68,929)	(62,184)

b. Adjusted items

The following adjustments have been reflected in the financial statements:

Description	Excess of revenue over expense	Statement of financial position		
	Over (under) stated	Assets (over) under stated	Liabilities over (under) stated	Net assets over (under) stated
Reclassification of deferred amortization on sale of trailers	411,176 (411,176)	-	-	-
To record the employee future benefit receivable from the City of Toronto	(89,640)	89,640	-	-
Reclassification of loan from City from current to long-term	-	-	(4,650,000) 4,650,000	-
To adjust for the expense repayment to developer amount	(36,718)	-	36,718	-
Total adjusted differences	(126,358)	89,640	36,718	-

4. Other required communications

Canadian Auditing Standards require 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 the Centre:

Matter to be communicated	PwC's response
Management's representations	<ul style="list-style-type: none">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 B.
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 required the attention of the finance committee.
Fraud and illegal acts	<ul style="list-style-type: none">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.We wish to reconfirm whether the finance committee is aware of any known, suspected or alleged incidents of fraud.

5. 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 controls 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 noted no significant deficiencies in controls. We did note the following minor recommendation that have been discussed with management.

Observation	Recommendation	Management's response
<p>Management expense reports and policy</p> <p>During our testing of the authorization of management expense reports, we noted that there is currently no formal management expenditure approval policy in place. Although we did not note any issues with the approval of expenses during the course of our work, the lack of a formal policy increases the risk that, as personnel changes, existing policies may not be consistently applied.</p>	<p>We recommend that management develop a formal policy with respect to the approval of management expenses and reimbursements. We recommend that this policy detail appropriate signatory authorization.</p>	<p>Management notes that all business related expenditures must be approved by an appropriate level of management; however, they will document the existing process and policy controls in a written document.</p>

Appendix A: Draft auditor's report and draft financial statements

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

(operating as The Sony Centre for the
Performing Arts)

Financial Statements
December 31, 2010

DRAFT

**FOR DISCUSSION WITH MANAGEMENT ONLY – SUBJECT TO AMENDMENT
NOT TO BE FURTHER COMMUNICATED**

June 9, 2011

Independent Auditor's Report

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

We have audited the accompanying financial statements of The Board of Directors of the Hummingbird Centre for the Performing Arts (operating as the Sony Centre for the Performing Arts) (the centre), which comprise the balance sheet as at December 31, 2010 and the statements of operations and changes in net assets and cash flows for the year then ended, and the related notes including a summary of significant accounting policies.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation 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 the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**FOR DISCUSSION WITH MANAGEMENT ONLY – SUBJECT TO AMENDMENT
NOT TO BE FURTHER COMMUNICATED**

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the centre as at December 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Other matters

The prior year's financial statements were audited by another firm of chartered accountants who expressed an unmodified opinion in their report dated March 3, 2010.

Chartered Accountants, Licensed Public Accountants

DRAFT

**FOR DISCUSSION WITH MANAGEMENT ONLY – SUBJECT TO AMENDMENT
NOT TO BE FURTHER COMMUNICATED**

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

(operating as The Sony Centre for the Performing Arts)

Balance Sheet

As at December 31, 2010

	2010 \$	2009 \$
Assets		
Current assets		
Cash	2,597,407	569,640
Accounts receivable (note 12)	1,402,155	200,216
Due from the City of Toronto (note 3)	6,744,830	1,891,310
Inventory	-	2,806
Prepaid expenses	17,022	8,583
	<u>10,761,414</u>	<u>2,672,555</u>
City of Toronto - employee future benefits receivable	89,640	-
Capital assets - net (note 7)	3,384,149	1,326,432
Other asset (note 8)	559,534	559,534
	<u>14,794,737</u>	<u>4,558,521</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	4,563,653	2,777,911
Due to the City of Toronto		
Operating surplus (note 3)	126,358	307,258
Refundable municipal grant	-	16,761
Trade payables	9,306	18,496
Surcharge payable	220,393	-
Deferred revenue	557,261	22,126
Advance ticket sales	1,283,617	-
	<u>6,760,588</u>	<u>3,142,552</u>
Loan due to City of Toronto (note 3)	4,650,000	-
Employee future benefits (note 9)	89,640	89,537
Deferred capital contributions (note 10)	3,282,570	1,191,150
	<u>14,782,798</u>	<u>4,423,239</u>
Unrestricted Net Assets	<u>11,939</u>	<u>135,282</u>
	<u>14,794,737</u>	<u>4,558,521</u>
Commitments and contingencies (note 14)		

Approved by the Board of Directors

Director

Director

FOR DISCUSSION WITH MANAGEMENT ONLY – SUBJECT TO AMENDMENT

NOT TO BE FURTHER COMMUNICATED

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

(operating as The Sony Centre for the Performing Arts)

For the year ended December 31, 2010

	2010 \$	2009 \$
Revenue		
Operating		
Performance	5,244,325	-
Rental	560,297	-
Ancillary	1,705,562	163,244
Other recoveries (note 3)	474,638	591,617
Interest and other	1,943	449
City of Toronto		
Grant	1,087,100	1,144,339
Funding from the Facility Fee Reserve Fund (note 6)	1,166,700	1,498,427
Other revenue	200,000	-
Amortization of deferred capital contributions	441,198	98,967
	<u>10,881,763</u>	<u>3,497,043</u>
Expenses		
Operating		
Salaries, wages and benefits (note 9)	4,043,266	1,963,284
Presentation and production	4,781,016	50,000
Ancillary	780,879	142,258
Building operations	629,315	437,997
Administration	619,370	420,811
Amortization of capital assets	467,469	114,025
Loss on disposal of internally funded capital assets (note 7)	7,432	14,500
Gain on disposal of externally funded capital assets (note 7)	(449,999)	-
	<u>10,878,748</u>	<u>3,142,875</u>
Excess of revenue over expenses before the following	3,015	354,168
Transfer to the City of Toronto (note 3)	<u>(126,358)</u>	<u>(307,258)</u>
Excess (deficiency) of revenue over expenses for the year	(123,343)	46,910
Unrestricted net assets - Beginning of year	<u>135,282</u>	<u>88,372</u>
Unrestricted net assets - End of year	<u>11,939</u>	<u>135,282</u>

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

(operating as The Sony Centre for the Performing Arts)

Statement of Cash Flows

For the year ended December 31, 2010

	2010 \$	2009 \$
Cash provided by (used in)		
Operating activities		
Excess (deficiency) of revenue over expenses for the year	(123,343)	46,910
Add (deduct): Non-cash items		
Amortization of deferred capital contributions	(441,198)	(98,967)
Amortization of capital assets	467,469	114,025
Gain on disposal of externally funded capital assets (note 7)	(449,999)	-
Loss on disposal of internally funded capital assets (note 7)	7,432	14,500
	(539,639)	76,468
Net change in non-cash working capital balances related to operations (note 11)	1,637,212	300,606
Change in employee future benefits	103	27,426
	1,097,676	404,500
Investing activities		
Purchase of capital assets	(3,386,362)	(76,468)
Financing activities		
Due from the City of Toronto	(4,853,520)	(249,254)
Accounts payable and accrued liabilities - redevelopment charges	1,133,611	1,381,500
Loan proceeds from the City of Toronto	4,650,000	2,238,560
Repayment of city loan	-	(4,000,000)
Contributions received for capital purchases	3,386,362	-
	4,316,453	(629,194)
Increase (decrease) in cash during the year	2,027,767	(301,162)
Cash - Beginning of year	569,640	870,802
Cash - End of year	2,597,407	569,640

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

(operating as The Sony Centre for the Performing Arts)

Notes to Financial Statements

December 31, 2010

1 Operations and relationship with the City of Toronto

The Board of Directors of the Hummingbird Centre for the Performing Arts operates under the name, The Sony Centre for the Performing Arts (the centre).

The centre manages a theatre and centre for meetings, receptions and displays with the same name under the terms of an agreement between the centre and the City of Toronto (the city).

The centre is continued as a city board pursuant to the City of Toronto Act, 2006.

On June 30, 2008, the centre ceased programming operations to upgrade the mechanical and electrical systems along with refurbishing the internal areas of the centre. The centre resumed full operations in October of 2010.

The centre is a registered charitable organization and, as such, is not subject to income taxes.

2 Summary of significant accounting policies

The financial statements of the centre have been prepared by management in accordance with Canadian generally accepted accounting principles. The significant accounting policies are as summarized below.

Revenue recognition

The centre follows the deferral method of accounting for contributions, which include grants and other funding. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Restricted contributions are deferred and recognized as revenue in the year in which the related expenses are incurred. Restricted contributions for amortizable capital assets are deferred and amortized over the life of the related capital asset. Deferred revenue consists of the centre's unredeemed gift certificates, sponsorship revenue and membership revenue that will be earned in future periods.

Performance, rental and ancillary revenues are recognized on the date of the attraction, event or point of sale.

Inventory

Inventory is recorded at the lower of cost, determined on a first-in, first-out basis, and net realizable value.

Capital assets

Capital assets are recorded at cost and are amortized on a straight-line basis over their estimated useful lives as follows:

Computer equipment	4 years
Stage equipment	10 years
Other equipment	5 years
Furniture	5 years

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(operating as The Sony Centre for the Performing Arts)

Notes to Financial Statements

December 31, 2010

Major capital facilities of the centre, including the land and building in which the centre operates, are recorded in the accounts of the city. Expenditures for leasehold improvements to the centre are charged to the city's capital works program and the corresponding funding is withdrawn from the Facility Fee Reserve Fund (note 6). These assets are recorded in the accounts of the city and are therefore not recorded as assets in these financial statements.

Chattel assets, assets which are considered to be removable, are the property of the centre and are recorded in the financial statements.

Contributed materials and services

Contributed materials and services are not recognized in the financial statements as fair value is not readily determinable.

Employee future benefits

The centre has adopted the following policies with respect to employee future benefit plans:

- the centre's contributions to a multi-employer, defined benefit pension plan and to deferred retirement savings plans are expensed when contributions are due;
- the costs of termination benefits and compensated absences are recognized when the event that obligates the centre occurs. Costs include projected future compensation payments, health-care continuation costs and fees paid to independent administrators of these plans, calculated on a present value basis;
- the costs of other employee benefits are actuarially determined using the projected benefits method prorated on service and management's best estimate of retirement ages of employees, salary escalation, and expected health-care costs;
- past service costs from plan amendments are amortized on a straight-line basis over the expected average remaining service period of employees active at the date of amendment;
- employee future benefit liabilities are discounted using current interest rates on long-term bonds; and
- net actuarial gains and losses are amortized over the expected average remaining service life of the related employee group.

Derivative financial instruments and cash flow hedging strategy

A substantial portion of the centre's purchases can be for attractions denominated in US dollars. The centre, on occasion, may utilize derivative financial instruments in the management of its foreign currency exposure. The centre's policy is not to utilize derivative financial instruments for trading or speculative purposes.

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(operating as The Sony Centre for the Performing Arts)

Notes to Financial Statements

December 31, 2010

The centre can enter into hedges of its foreign currency exposures on anticipated foreign currency denominated expenses and resulting cash flows within the following year by entering into offsetting forward foreign exchange contracts when it is deemed appropriate.

The centre documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking derivatives to forecasted transactions.

Hedges are recorded at fair value and included on the balance sheet. The effective portion of the gain or loss is recorded as a direct increase in unrestricted net assets and the ineffective portion, if any, is recognized in the statement of operations.

Financial instruments

The centre has chosen to continue to apply The Canadian Institute of Chartered Accountants (CICA) Handbook Section 3861, Financial Instruments - Disclosure and Presentation in place of Section 3862, Financial Instruments - Disclosures, and Section 3863, Financial Instruments - Presentation.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rate of exchange in effect at the balance sheet date. Non-monetary assets and liabilities are translated at the rates prevailing at the transaction dates. Revenue and expenses are translated at the exchange rates on the date of the transaction. Realized and unrealized exchange gains and losses are included in the statement of operations for the year.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

3 Related party transactions

- a) In August 2009, the centre updated its agreement with the city to re-purpose and rename the Capital Improvement and Rehabilitation Reserve Fund as the Facility Fee Reserve Fund - Sony Centre (the fund), which is recorded in the accounts of the city (note 6). A capital surcharge applied to all tickets sold for attractions at the centre, corporate contributions for a capital purpose and government grants for a capital purpose are recorded in the fund, which is not recorded in these financial statements. The fund has been re-purposed to fund capital maintenance costs for state of good repair work, heritage preservation, and major capital costs for the renovation of the theatre as well as repayment of advances and loans related to capital projects. Funding from the fund is used to finance the capital works expenditures (notes 5 and 6).

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(operating as The Sony Centre for the Performing Arts)

Notes to Financial Statements

December 31, 2010

In the normal course of operations, the centre incurs costs for various expenses payable to the city such as hydro, legal and other administration expenses. In addition, the city has agreed to cover certain salary costs related specifically to the centre's renovation plan, which are included in other recoveries in the statement of operations and changes in net assets. Transactions between the city and the centre are made at the agreed upon exchange amount.

As at December 31, 2010, a balance of \$6,744,830 (2009 - \$1,891,310) was recorded on the balance sheet as a receivable from the city (from the fund) in connection with expenditures made by the centre and recoverable from the city.

As part of the terms of the agreement between the centre and the city, any operating excess or deficiency is to be transferred to or recovered from the city. The amount of the transfer of operating income to the city is based on the excess of revenue after adjustments for non-cash items and internally funded capital items. It is calculated as follows:

	2010	2009
	\$	\$
Excess of revenue over expenses before transfer to the city	3,015	354,168
Add (deduct) non-cash items		
Amortization of deferred capital contributions	(441,198)	(98,967)
Amortization of capital assets	467,469	114,025
Employee future benefits	89,640	-
Loss on disposal of internally funded asset	7,432	14,500
Purchase of internally funded capital assets	-	(76,468)
	<hr/>	<hr/>
Payable to the city	126,358	307,258
	<hr/>	<hr/>

Long-term loan disclosure

During the year, the centre received a long-term loan of \$4,650,000 from the city. The loan is subject to a 5% fixed interest rate compounded semi-annually. The original terms of the loan were such that it was repayable in ten equal annual payments of principal and interest beginning on January 1, 2011 and ending on January 1, 2020. However, subsequent to year-end, the terms were amended such that repayments will commence on January 1, 2012 and ending on January 1, 2021 consequently, the loan has been classified as long term in nature.

- b) In the current year, hydro services were purchased from Toronto Hydro, which is related to the centre by virtue of its relationship with the city. During the year, purchases of hydro amounted to \$129,475 (2009 - \$2,668). The amount payable to Toronto Hydro at year-end was \$45,184 (2009 - \$nil).

**FOR DISCUSSION WITH MANAGEMENT ONLY – SUBJECT TO AMENDMENT
NOT TO BE FURTHER COMMUNICATED**

(4)

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

(operating as The Sony Centre for the Performing Arts)

Notes to Financial Statements

December 31, 2010

c) Related party additional disclosure

During the year, the centre sold services to a senior employee for \$15,153 (2009 - \$nil). The services were valued at current market rates. This amount was included in receivables at the year-end (2009 - \$nil).

In addition, the centre entered into a contract with a company owned by a senior employee for the provision of promotion services. The contract was valued at current market rates and an amount of \$7,910 was paid to this company in the year.

4 Stabilization Reserve - Sony Centre

The centre has an agreement with the city that established in the accounts of the city a Stabilization Reserve. Under the operating agreement with the centre, the city is entitled to the operating surpluses of the centre and responsible for the centre's deficits in any year. In certain years since 1996, the centre has been allowed by the city to transfer its operating surplus into the Stabilization Reserve for the purpose of putting surpluses aside in better years in order to offset deficits in other years. The last such transfer of operating income into the Stabilization Reserve allowed by the city was in 2004.

As at December 31, 2010, the balance in the Stabilization Reserve is \$181,185 (2009 - \$181,185).

5 Capital Works Program Fund - Sony Centre redevelopment project

The city approved the centre's redevelopment plan as part of its capital works program in 2008.

In October 2009, the redevelopment plan was updated and approved by city council within its capital budget with a planned expenditure of \$11.5 million on the east side mechanical and electrical upgrade, \$19.46 million for the renovation of the theatre, and \$1 million for the public plaza for a total estimated cost of \$31.96 million. Included in this recommendation was the availability of a capital completion loan of \$4.65 million.

Funding for the project expenditures is received from the fund.

The changes in the capital works program, which is not recorded in these financial statements but is recorded in the city's accounts, are as follows:

	2010	2009
	\$	\$
Capital works program deficit - Beginning of year	-	(1,749,618)
Transfer from the Facility Fee Reserve Fund (note 6)	20,453,214	6,698,295
East side mechanical and electrical project expenditures	(10,338,876)	(2,492,086)
Theatre renovation project expenditures (note 3)	(13,727,394)	(2,456,591)
Plaza expenditures	(248,327)	-
Funding of chattel asset purchases (note 10)	(2,834,013)	-
	<hr/>	<hr/>
Capital works program (deficit) - End of year	(6,695,396)	-

**FOR DISCUSSION WITH MANAGEMENT ONLY – SUBJECT TO AMENDMENT
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(5)

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

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December 31, 2010

6 Facility Fee Reserve Fund - Sony Centre

Funding for the centre's Capital Works Program as described in note 5 comes largely from the sale of density rights in the year ended December 31, 2009 on the southwest corner of the centre site to Ferncastle (Front Street) Inc. Proceeds received from the sale of density rights were recorded in the fund and are being transferred to the capital works program to cover renovation expenditures of the centre and to cover operating costs during the construction period.

The changes in the fund, which are not recorded in these financial statements but are recorded in the city's accounts as described in note 3, are as follows:

	2010 \$	2009 \$
Balance - Beginning of year	16,883,141	-
Revenue from ticket capital surcharge	311,300	-
Proceeds from the sale of density rights	3,459,000	25,063,540
Proceeds from the developer for special items	800,000	-
Investment income	57,251	16,323
Other sundry revenue	171,406	-
Funding of operations	(1,166,700)	(1,498,427)
Transfer to capital works program - Sony Centre Redevelopment Project (note 5)	(20,453,214)	(6,698,295)
Balance - End of year	<u>62,184</u>	<u>16,883,141</u>

7 Capital assets

	2010		
	Cost \$	Accumulated amortization \$	Net \$
Computer equipment	1,812,180	757,084	1,055,096
Stage equipment	2,340,576	490,240	1,850,336
Other equipment	441,443	153,750	287,693
Furniture	423,338	232,314	191,024
	<u>5,017,537</u>	<u>1,633,388</u>	<u>3,384,149</u>

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

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Notes to Financial Statements

December 31, 2010

	2009		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Computer equipment	315,180	183,588	131,592
Stage equipment	1,826,856	721,965	1,104,891
Other equipment	214,723	204,803	9,920
Furniture	281,297	201,268	80,029
	<u>2,638,056</u>	<u>1,311,624</u>	<u>1,326,432</u>

During 2010, the centre disposed of capital assets with an original cost of \$898,452 and accumulated amortization of \$37,276 for proceeds of \$449,999. After taking into account the unamortized deferred capital contributions of \$853,743 related to the assets, the disposal resulted in a net gain on sale of \$442,567.

8 Other asset

In 2007, the centre was the recipient of a gift of a condominium unit scheduled for completion in 2012. The intention of the centre is to resell the condominium unit at a time that maximizes value.

9 Employee future benefits

The centre makes contributions to the Ontario Municipal Employees' Retirement Fund (OMERS), which is a multi-employer pension plan, on behalf of many of its employees. The plan is a defined benefit plan, which specifies the amount of the retirement benefit to be received by the employees based on the length of service, pension formula and best 60 months of earnings. Employees and employers contribute jointly to the plan.

Because OMERS is a multi-employer pension plan, any pension plan surpluses or deficits are a joint responsibility of all Ontario municipalities and their employees. As a result, the centre does not recognize any share of the OMERS pension surplus or deficit. Employers' current service contributions to the OMERS pension plan in the amount of \$163,482 (2009 - \$115,505) were expensed and are included in salaries, wages and benefits.

In addition to other than continuous full-time offers to participate in the OMERS plan, the centre has arrangements with bargaining units to make contributions to registered retirement savings plans on behalf of its employees. Contributions in the amount of \$52,809 (2009 - \$5,686) were expensed and are included in salaries, wages and benefits.

The centre also contributes the employer portion of the Canada Pension Plan (CPP) and Employment Insurance (EI). For 2010, the total of these contributions were: CPP \$118,739 (2009 - \$54,405) and EI \$61,847 (2009 - \$27,431), which were expensed and are included in salaries, wages and benefits.

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

(operating as The Sony Centre for the Performing Arts)

Notes to Financial Statements

December 31, 2010

The city has a benefit plan for employees providing health, dental, life insurance and long-term disability benefits and which is extended to certain employee classes of the centre for the provision of long-term disability benefits. An amount of \$103 (2009 - \$27,426), as determined by the city's actuary, was expensed and is included in salaries, wages and benefits.

The employee future benefits payable related to these plans recorded in the financial statements consists of the following:

	2010 \$	2009 \$
Accrued benefit obligations	501,049	502,846
Less: Unamortized actuarial loss	(411,409)	(413,309)
Total employee future benefits payable	<u>89,640</u>	<u>89,537</u>

The post-retirement and other post-employment benefits plans as noted above are unfunded; however, the centre participates in reserve funds established by the city. No amounts were contributed to these reserve funds during 2009 and 2010.

Due to the complexities in valuing the liabilities of the plans, actuarial valuations are conducted on a periodic basis. The most recent actuarial valuation was completed as of December 31, 2010.

The significant actuarial assumptions adopted in measuring the centre's accrued benefit obligations and benefit costs are as follows:

	2010 %	2009 %
Discount rate for accrued benefit obligation		
Post-retirement	5.10	6.10
Other post-employment	4.50	5.30
Discount rate for accrued benefit costs		
Post-retirement	7.60	5.00
Other post-employment	7.60	4.65
Rate of compensation increase	3.00	3.00

For measurement purposes, an 8.0% annual rate of increase in the per capita cost of covered health-care benefits was assumed except for a 4.0% annual rate of increase for dental benefits. The rates are assumed to decrease gradually to 4.0% by 2020 for all benefits except for the dental benefit rate that is assumed to decrease gradually to 3.0% by 2015, and remain at those levels thereafter.

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(8)

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

(operating as The Sony Centre for the Performing Arts)

Notes to Financial Statements

December 31, 2010

10 Deferred capital contributions

The changes in deferred capital contributions during the year are as follows:

	2010	2009
	\$	\$
Balance - Beginning of year	1,191,150	1,290,117
Amortization of deferred capital contributions	(441,198)	(98,967)
Contributions restricted for the purchase of capital assets (note 5)	3,386,362	-
Unamortized deferred capital contributions (note 7)	(853,744)	-
	<hr/>	<hr/>
Balance - End of year	3,282,570	1,191,150

Of the contributions received in the year, \$2,834,013 (2009 - \$nil) has been provided to fund chattel asset purchases (note 5).

11 Statement of cash flows

The net change in non-cash working capital balances related to operations consists of the following:

	2010	2009
	\$	\$
Accounts receivable	(751,940)	(103,816)
Inventory	2,806	-
Prepaid expenses	(8,439)	814
Accounts payable and accrued liabilities	652,131	174,196
City of Toronto - employee future benefits receivable	(89,640)	-
Due to city		
Operating surplus	(180,900)	229,256
Refundable municipal grant	(16,761)	16,761
Trade payables	(9,190)	(8,017)
Surcharge payable	220,393	-
Deferred revenue	535,135	(8,588)
Advance ticket sales	1,283,617	-
	<hr/>	<hr/>
	1,637,212	300,606

Excluded from accounts payable and accrued liabilities is \$1,133,611 (2009 - \$1,381,500) of non-operating redevelopment charges. Excluded from accounts receivable is \$449,999 (2009 - \$nil) of non-operating proceeds on disposal of externally funded capital assets.

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(9)

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

(operating as The Sony Centre for the Performing Arts)

Notes to Financial Statements

December 31, 2010

12 Financial instruments

The carrying values of the centre's financial instruments approximate their fair values unless otherwise noted.

The centre is exposed to gains/losses that arise with respect to the degree of volatility of foreign exchange rates. The centre during the normal course of operations, may have contractual obligations in US dollars for artists and attractions, which are subject to foreign exchange gains/losses between the time of contracting and the time of payment. Depending on the quantum of the exposure, the centre may use foreign exchange contracts to fix the exchange rate for the value of the US dollar relative to the Canadian dollar at the time of booking.

As at December 31, 2010, the centre had no open forward foreign exchange contracts committing it to purchase US dollars (2009 - \$nil).

The centre is exposed to changes in electricity prices associated with a wholesale spot market for electricity in Ontario. The centre has addressed the commodity price risk exposure associated with changes in the wholesale price of electricity by entering into energy related purchase and sales contracts, through their participation in an agreement entered into by the city, that fixes a portion of the wholesale price over the term of the contract. All contracts entered into in 2010 expired by December 31, 2010.

Accounts that are receivable result in exposure to credit risk since there is a risk of counterparty default. The centre provides for an allowance for doubtful accounts to absorb potential credit losses. As at December 31, 2010, two accounts represent 59% of the total accounts receivable balance (2009 - two accounts represent 37%).

13 Capital management

In managing capital, the centre focuses on liquid resources available for operations. The centre's objective is to have sufficient liquid resources to continue operating despite adverse financial events and to provide it with the flexibility to take advantage of opportunities that will advance its purposes. The need for sufficient liquid resources is considered in the preparation of an annual budget and in the monitoring of cash flows and actual operating results compared to the budget and managing capital expenditures relating to the redevelopment project as described in note 5. As at December 31, 2010, the centre has met its objective of having sufficient liquid resources to meet its current obligations.

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(10)

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

(operating as The Sony Centre for the Performing Arts)

Notes to Financial Statements

December 31, 2010

14 Commitments and contingencies

Leases

The centre is committed under the terms of equipment operating leases approximately as follows:

	\$
2011	17,908
2012	15,420
2013	15,420
2014	15,420
2015	15,420
	<u>79,588</u>

Contingencies

The centre has been served notice from a bargaining unit union with a request for the centre to review its pay equity plan adopted and posted in 1990. The centre's management, in consultation with its lawyers and pay equity consultant, is evaluating the validity of the review. The amount of any liability that may result from this review is not determinable at this time.

**FOR DISCUSSION WITH MANAGEMENT ONLY – SUBJECT TO AMENDMENT
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Appendix B: Management representation letter

[Please insert Sony Centre letterhead]

PricewaterhouseCoopers LLP
North American Centre
5700 Yonge Street, Suite 1900
Toronto, Ontario
M2M 4K7

June 9, 2011

We are providing this letter in connection with your audit of the financial statements of Hummingbird Centre for the Performing Arts (operating as the Sony Centre for the Performing Arts) (the Centre) as of December 31, 2010 and for the years then ended for the purpose of expressing an opinion as to whether such financial statements present fairly, in all material respects, the financial position, the results of operations and the cash flows of the Centre in accordance with Canadian generally accepted accounting principles.

Management's responsibilities

We have fulfilled our responsibilities, as set out in the terms of the audit engagement with the City of Toronto and related entities, including the Centre, dated November 1, 2010. In particular, we confirm to you that:

- We are responsible for the preparation and fair presentation of the financial statements in accordance with Canadian generally accepted accounting principles;
- We are responsible for designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. In this regard, we are responsible for establishing policies and procedures that pertain to the maintenance of accounting systems and records, the authorization of receipts and disbursements, the safeguarding of assets and for reporting financial information in accordance with Canadian generally accepted accounting principles;
- We have provided you with all relevant information and access, as agreed in the terms of the audit engagement; and
- All transactions have been recorded in the accounting records and are reflected in the financial statements.

We confirm the following representations:

Preparation of financial statements

The financial statements include all disclosures necessary for fair presentation in accordance with Canadian generally accepted accounting principles and disclosures otherwise required to be included therein by the laws and regulations to which the Centre is subject.

We have appropriately reconciled our books and records (e.g. general ledger accounts) underlying the financial statements to their related supporting information (e.g. sub ledger or third party data). All related reconciling items considered to be material were identified and included on the reconciliations and were appropriately adjusted in the financial statements. There were no material unreconciled differences or material general ledger suspense account items that should have been adjusted or reclassified to another account balance. There were no material general ledger suspense account items written off to a balance sheet account, which should have been written off to a profit and loss account and vice versa. All intracompany accounts have been eliminated or appropriately measured and considered for disclosure in the financial statements.

Accounting policies

We confirm that we have reviewed the Centre's accounting policies and, having regard to the possible alternative policies, our selection and application of accounting policies and estimation techniques used

for the preparation and presentation of the financial statements is appropriate in the Centre's particular circumstances to present fairly in all material respects its financial position, results of operations and cash flows in accordance with Canadian generally accepted accounting principles.

Internal controls over financial reporting

We have designed disclosure controls and procedures to provide reasonable assurance that material information relating to the Centre, is made known to us by others.

We have designed internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles.

We have disclosed to you all deficiencies in the design or operation of disclosure controls and procedures and internal control over financial reporting that we are aware as of December 31, 2010.

Disclosure of information

We have provided you with:

- Access to all information of which we are aware that is relevant to the preparation of the financial statements, such as records, documentation and other matters including:
 - Contracts and related data;
 - Information regarding significant transactions and arrangements that are outside of the normal course of business;
 - Minutes of the meetings of shareholders, management, directors and committees of directors. The most recent meetings held were:
 - Board of Directors, February 18, 2011
 - Finance Committee, May 2, 2011
- Additional information that you have requested from us for the purpose of the audit; and
- Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

Completeness of transactions

All contractual arrangements entered into by the Centre with third parties have been properly reflected in the accounting records or/and, where material (or potentially material) to the financial statements, have been disclosed to you. We have complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance.

Fraud

We have disclosed to you:

- The results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- All information in relation to fraud or suspected fraud of which we are aware affecting the Centre involving management, employees who have significant roles in internal control or others where the fraud could have a material effect on the financial statements; and
- All information in relation to any allegations of fraud, or suspected fraud, affecting the Centre's financial statements, communicated by employees, former employees, analysts, regulators or others.

Compliance with laws and regulations

We have disclosed to you all aspects of laws, regulations and contractual agreements that may affect the financial statements, including actual or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

We are not aware of any illegal or possibly illegal acts committed by the Centre's directors, officers or employees acting on the Centre's behalf

Accounting estimates and fair value measurements

Significant assumptions used by the Centre in making accounting estimates, including fair value accounting estimates, are reasonable.

For recorded or disclosed amounts in the financial statements that incorporate fair value measurements, we confirm that:

- the measurement methods are appropriate and consistently applied;
- the significant assumptions used in determining fair value measurements represent our best estimates, are reasonable and have been consistently applied;
- no subsequent event requires adjustment to the accounting estimates and disclosures included in the financial statements; and
- the significant assumptions used in determining fair value measurements are consistent with the Centre's planned courses of action. We have no plans or intentions that have not been disclosed to you, which may materially affect the recorded or disclosed fair values of assets or liabilities.

Significant estimates and measurement uncertainties known to management that are required to be disclosed in accordance with Canadian Institute of Chartered Accountants (CICA) Handbook Section 1508, Measurement Uncertainty, have been appropriately disclosed.

Related parties

We confirm the completeness of information provided to you regarding the identification of related parties as defined by CICA Handbook Section 3840, Related Party Transactions, which include, but are not limited to directors, officers, senior members of management, or immediate family members of such individuals, or entities over which these individuals are able to exert significant influence. We also confirm the completeness of information provided to you regarding the nature of the Centre's relationships with and transactions involving those entities.

The identity and relationship of and balances and transactions with related parties have been properly recorded and adequately disclosed in the financial statements, as required by Canadian generally accepted accounting principles.

The list of related parties attached to this letter as Appendix A accurately and completely describes the Centre's related parties and the relationships with such parties.

All reported accounts and reserve fund balances confirmed with the City of Toronto have been accurately and completely reflected in the financial statements.

Going concern

We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements (e.g. to dispose of the business or to cease operations).

Assets and liabilities

We have satisfactory title or control over all assets. All liens or encumbrances on the Centre's assets and assets pledged as collateral, to the extent material, have been disclosed in notes to the financial statements.

Receivables recorded in the financial statements represent bona fide claims against debtors for sales or other charges arising on or before the statement of financial position date and are not subject to discount except for normal cash discounts. Receivables classified as current do not include any material amounts that are collectible after one year. All receivables have been appropriately reduced to their estimated net realizable value.

We have recorded or disclosed, as appropriate, all liabilities, in accordance with Canadian generally accepted accounting principles. All liabilities and contingencies, including employee benefit obligations, multi-employer pension plan obligations, pay equity obligations, severance obligations, compensation and payroll obligations, and those associated with guarantees, whether written or oral, under which the Centre is contingently liable in accordance with Accounting Guideline 14, *Disclosure of Guarantees*, or CICA Handbook Section 3290, *Contingencies*, have been disclosed to you and are appropriately reflected in the financial statements.

Litigation and claims

All known actual or possible litigation and claims, which existed at the statement of financial position date or exist now, have been disclosed to you and accounted for and disclosed in accordance with Canadian generally accepted accounting principles, whether or not they have been discussed with legal counsel.

Misstatements detected during the audit

Certain representations in this letter are described as being limited to those matters that are material. Items are also considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement.

We confirm that the financial statements are free of material misstatements, including omissions.

The effects of the uncorrected misstatements in the financial statements, as summarized in the accompanying schedule (Appendix B), are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We confirm that we are not aware of any uncorrected misstatements other than those included in Appendix B.

The adjusted misstatements identified during your audit and summarized in the attached table (Appendix C) have been approved by us and adjusted in the financial statements.

Events after balance sheet date

We have identified all events that occurred between the statement of financial position date and the date of this letter that may require adjustment of, or disclosure in, the financial statements, and have effected such adjustment or disclosure.

Cash and banks

The books and records properly reflect and record all transactions affecting cash funds, bank accounts and bank indebtedness of the Centre.

All cash balances are under the control of the Centre, free from assignment or other charges, and unrestricted as to use, except as disclosed to you.

The amount shown for cash on hand or in bank accounts excludes trust or other amounts which are not the property of the Centre.

Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, line of credit, or similar arrangements have been properly disclosed.

All cash and bank accounts and all other properties and assets of the Centre of which we are aware are included in the financial statements at December 31, 2010.

Accounts receivable

All amounts receivable by the Centre were recorded in the books and records.

Amounts receivable are considered to be fully collectible, except to the extent of the allowance for doubtful accounts, in respect of which full allowance has been made in the accounts.

Amounts receivable that are non-interest bearing and are expected to be received more than a year after initial recognition date have been initially recognized at fair value, using an appropriate discount rate, and subsequently measured at amortized cost.

Property, Plant and Equipment

All charges to property, plant and equipment asset accounts represented the actual cost of additions to property, plant and equipment.

No significant property, plant and equipment additions were charged to repairs and maintenance or other expense accounts.

Book values of property, plant and equipment sold, destroyed, abandoned or otherwise disposed of have been eliminated from the accounts.

Property, plant and equipment assets owned by the Centre are being depreciated on a systematic basis over their estimated useful lives and the provision for depreciation was calculated on a basis consistent with that of the previous date.

All lease agreements covering property leased by or from the Centre have been disclosed to you and classified as capital, operating, sales-type or direct financial leases as appropriate.

Assets held under capital leases are being amortized on a systematic basis over the period of expected use.

There have been no events or changes in circumstances that indicate the carrying value of a long-lived asset is not recoverable; accordingly management was not required to perform an impairment test in accordance with CICA 3063, Impairment of Long-lived Assets during the period. We believe that the carrying amount of the Centre's long-lived assets is fully recoverable.

The sale of the trailers that took place prior to fiscal year-end confirms that the legal title of the trailers transferred to Ferncastle at the date of the agreement, and that the buyer assumed responsibility for the insurance of the assets. All risks and rewards of ownership transferred to the buyer at the signed purchase agreement date.

Unearned revenue and deferred credits

All material amounts of unearned revenue and deferred credits including deferred income taxes were appropriately recorded in the books and records.

Commitments

Provisions have been made for losses to be sustained in the fulfillment of, or from inability to fulfill, any sales commitments.

Employee future benefits

All arrangements, whether formal or informal, explicit or implied, to provide retirement income and other post-retirement benefits to employees after they cease employment, have been identified to you and have been included in the actuarial valuation..

The details of all pension plan amendments since December 31, 2010, the date of the last actuarial valuation, have been identified to you for the defined benefit pension plan.

The actuarial valuation dated December 31, 2010 incorporates management's best estimates.

The actuarial assumptions and methods used to measure liabilities and costs for financial accounting purposes for pension and other postretirement benefits are appropriate in the circumstances.

The Centre does not plan to make frequent amendments to the pension or other postretirement benefit plans.

The Centre's actuaries have been provided with all information required to complete their valuation as at December 31, 2010, date of last valuation, and their extrapolation to December 31, 2012.

The employee future benefit costs, assets and obligations have been determined, accounted for and disclosed in accordance with CICA 3461, *Employee Future Benefits* (as amended). In particular:

- The significant accounting policies that the Centre has adopted in applying CICA 3461 are accurately and completely disclosed in the notes to the financial statements.
- Each of the best estimate assumptions used reflects management's judgment of the most likely outcomes of future events;
- The best estimate assumptions used are, as a whole, internally consistent, and consistent with the asset valuation method adopted;
- The discount rate used to determine the accrued benefit obligation was determined by reference to market interest rates at the measurement date on high-quality debt instruments with cash flows that match the timing and amount of expected benefit payments; or inherent in the amount at which the accrued benefit obligation could be settled.
- The assumptions included in the actuarial valuation are those that management instructed Buck Consulting to use in computing amounts to be used by management in determining pension costs and obligations and in making required disclosures in the above-named financial statements, in accordance with CICA 3461.
- In arriving at these assumptions, management has obtained the advice of Buck Consulting, but has retained the final responsibility for them.
- The source data and plan provisions provided to the actuary for preparation of the actuarial valuation are accurate and complete.
- The disclosure of the amounts and types of securities of the Centre and its related parties included in the plan assets, the approximate amount of future annual benefits covered by insurance contracts issued by [client] or its related parties, and the transactions between the Centre and the plan during the period are complete and accurate.
- The percentage of the fair value of total plan assets represented by each major category held at the measurement date is not disclosed because it is not expected to be useful in understanding the risks and expected long-term rate of return for the plan assets.
- All changes to plan provisions or events occurring subsequent to the date of the actuarial valuation and up to the date of this letter have been considered in the determination of pension costs and obligations and as such have been communicated to you as well as to the actuary.

Use of a specialist

We assume responsibility for the findings of specialists in evaluating the employee benefit obligation and have adequately considered the qualifications of the specialists in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.

Yours truly,

The Hummingbird Centre for the Performing Arts
(operating as The Sony Centre for the Performing Arts)

Dan Bambrilla, Chief Executive Officer

Roy Reeves, Director of Finance and Personnel

Michael Johnson, Controller

Appendix A – List of related parties

City of Toronto

Appendix B – Summary of Uncorrected Misstatements (SUM)

Description	Excess of revenue over expense	Statement of financial position		
	Over (under) stated	Assets (over) under stated	Liabilities over (under) stated	Net assets over (under) stated
To record capital addition that relates to F'10	-	175,722	(175,722)	-
To adjust for recognition of insurance claim receivable	44,609	(44,609)	-	-
To adjust for difference between the City of Toronto and the Centre's records between Facility Reserve Fund balance and Capital Works Program Fund	-	-	-	(62,184) 62,184
To reverse payable to City for difference in Facility Reserve Fund	-	-	62,184	(62,184)
Total unadjusted differences	44,609	131,113	(113,538)	62,184

Appendix C – Summary of Adjusted Misstatements (SAM)

Description	Excess of revenue over expense	Statement of financial position		
	Over (under) stated	Assets (over) under stated	Liabilities over (under) stated	Net assets over (under) stated
Reclassification of deferred amortization on sale of trailers	411,176 (411,176)	-	-	-
To record the employee future benefit receivable from the City of Toronto	(89,640)	89,640	-	-
Reclassification of loan from City from current to long-term	-	-	(4,650,000) 4,650,000	-
To adjust for the expense repayment to developer amount	(36,718)	-	36,718	-
Total adjusted differences	(126,358)	89,640	36,718	-

Appendix C: Independence letter

May 27, 2011

Members of the Finance Committee
The Board of Directors of the Hummingbird Centre for the Performing Arts
(operating as The Sony Centre for the Performing Arts)
1 Front Street East
Toronto, ON M5E 1B2

Dear Committee members:

We have been engaged to audit the financial statements of The Board of Directors of the Hummingbird Centre for the Performing Arts, operating as The Sony Centre for the Performing Arts (the "Centre") for the year ended December 31, 2010.

Canadian generally accepted auditing standards (GAAS) require that we communicate at least annually with you regarding all relationships between the Centre, its management and us that may reasonably be thought to bear on our independence.

In determining which relationships to report, these standards require us to consider relevant rules and related interpretations prescribed by the Institute of Chartered Accountants of Ontario and applicable legislation, covering such matters as:

- (a) holding a financial interest, either directly or indirectly, in a client;
- (b) serving as an officer or director of a client;
- (c) performance of management functions for an assurance client;
- (d) personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client or its management;
- (e) economic dependence on a client;
- (f) long association of senior personnel with a listed entity audit client;
- (g) audit committee approval of services to a listed entity audit client; and
- (h) provision of services in addition to the audit engagement.

We have prepared the following comments to facilitate our discussion with you regarding independence matters arising since November 1, 2010, the date of our engagement letter.

We are not aware of any relationships between the Centre or its management and PricewaterhouseCoopers LLP that may reasonably be thought to bear on our independence, that have occurred from November 1, 2010 to May 27, 2011.



We hereby confirm that we are independent with respect to the Centre within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario as of May 27, 2011.

This report is intended solely for the use of the Finance Committee, management, and others within the Centre and should not be used for any other purposes.

Yours very truly,

Pricewaterhouse Coopers LLP

Chartered Accountants, Licensed Public Accountants

Appendix D: Changes in financial reporting requirements for Canada's not-for-profit organizations

Keeping you informed

Changes in financial reporting requirements for Canada's not-for-profit organizations



Changes in financial reporting requirements for Canada's 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.

To determine which standards to follow under the new framework, it's

important to understand whether or not your organization is controlled by a government body. The Public Sector Accounting (PSA) Handbook section 1300 provides guidance on the interpretation and application of the concept of government control. In some instances it may not be readily apparent whether government control exists, especially when an organization receives government funding indirectly or from a number of government bodies. As a result, NPOs should have a careful understanding of their particular facts and circumstances.

Once you've determined whether your organization is a government or non-government NPO, you will be required to adopt the appropriate standards for fiscal years beginning on or after January 1, 2012. The standards may have a significant impact on the financial reporting for your organization. We encourage both NPOs and GNPOs to consider the potential impact of the new standard and the appropriate time frame for adoption, as early adoption is permitted.



Understanding the new framework

The following table summarizes the key distinction in the new framework:

Definition	Existing Canadian Generally Accepted Accounting Principles (GAAP)	New Canadian Generally Accepted Accounting Principles
Non-government not-for-profit organizations Organizations that are not controlled by the government and that are organized and operated exclusively for social, educational, professional, religious, charitable or any other NPO purposes. Its members, contributors and other resource providers do not, in such capacity, receive any financial return directly from the organization.	Former CICA Handbook, including CICA 4400 Series (standards that apply only to NPOs)	Choice between: a. Part I of the CICA Handbook – International Financial Reporting Standards (IFRS) b. Part III of the CICA Handbook – Accounting Standards for Not-For-Profit Organizations (based largely upon Part II of the CICA Handbook – Accounting Standards for Private Entities, plus CICA 4400 Series)
Government not-for-profit organizations Organizations controlled by the government that have counterparts outside the public sector and that are organized and operated exclusively for social, educational, professional, religious, charitable or any other NPO purposes. Its members, contributors and other resource providers do not, in such capacity, receive any financial return directly from the organization. Under the current definition, schools, hospitals, colleges and universities typically fall under this category.	Former CICA Handbook, including CICA 4400 Series	Choice between: a. PSA Handbook b. PSA Handbook supplemented by CICA 4400 series for NPOs which have been incorporated into the PSA Handbook as PS4200

Potential impacts of adopting Part III of the CICA Handbook – Accounting Standards for Not-For-Profit Organizations

It is expected that the majority of non-government NPOs in Canada will adopt Part III of the CICA Handbook. While for many organizations, this will not result in any significant accounting or disclosure changes, for others the implications may be more significant. The potential accounting and disclosure differences for NPOs that elect to adopt Part III of the Handbook include:

Accounting

- **Intangible assets** – A new intangible assets section reaffirms the applicability of section 3064 Goodwill and intangible assets, unless provided otherwise in the new section. Organizations are directed to consider the service potential of an intangible asset when assessing the existence of an impairment.
- **Financial instruments.**
 - The disappearance of the “available for sale” option means that organizations will no longer have the option to recognize unrealized gains and losses in the statement of changes in net assets/fund balances. Going forward, all changes in the fair value of the financial instruments will be recognized in the statement of operations.
 - All financial instruments can be carried at fair value if the option is selected on initial recognition. If not, the default treatment for quoted debt securities will be cost or amortized cost. For quoted equity securities, it will continue to be fair value. This creates a different default accounting treatment for investments depending on their nature.

- **Transaction costs** – Transaction costs incurred to acquire or issue financial instruments measured at amortized cost will be required to be netted against the carrying value rather than being expensed.
- **Defined benefit plans** – For organizations with a defined benefit plan, there will be an option to select between the “immediate recognition approach”, where actuarial gains or losses would be recognized immediately in the statement of operations each period, or the “deferral and amortization approach”.
- **Capital assets** – On transition to these standards, the organization may measure any individual capital asset at fair value and then use that fair value as its deemed cost at that date.
- **Government remittances** – Government remittances payable that are outstanding at the balance sheet date are required to be disclosed and include federal and provincial sales tax, payroll taxes, health taxes and workers’ safety insurance premiums among other items.
- **Measurement uncertainty** – A description of the circumstances giving rise to the uncertainty and relevant information about the anticipated resolution of the uncertainty is required. Previously only the nature of material uncertainties was required to be disclosed.
- **Presentation of investments** – Investments are classified as current only when reasonably prompt liquidation is possible.

Presentation and disclosure

- **Primary Generally Accepted Accounting Principles** – Various items have been eliminated from the primary principles including Emerging Issues Committee (EIC) abstracts, background information, basis of conclusion documents, illustrative material and implementation guides.
- **Cash flow statements** – All organizations must prepare and present a cash flow statement. There is no longer the option to omit the cash flow statement if the required cash flow information is readily apparent from other financial statements or note disclosures.
- **Non-classified balance sheet** – The balance sheet is segregated into current or non-current categories unless the entity operates in an industry where doing so is not appropriate.
- **Capital disclosures** – The requirement to disclose the organization’s policy and capital restrictions has been eliminated.
- **Inventory** – No significant changes other than a reduction in disclosures – for example, there is no longer the requirement to have specific disclosures around impairments or reversals.

Potential impacts of adopting Part I of the CICA Handbook – International Financial Reporting Standards

The option to adopt International Financial Reporting Standards (IFRS) is available to all non-government NPOs but will likely initially only be considered by those organizations that:

- Are part of a global organization whose affiliates have chosen to use IFRS;
- Participate in an industry with for-profit companies who report under IFRS; or
- Have international funders or other users of the financial statements who require the use of IFRS.

IFRS was originally developed for use in the for-profit world and does not contain specific guidance for NPOs. In addition, there is currently no intention to modify IFRS for NPOs; these organizations will be subject to the same standards and requirements as publicly accountable entities. Some of the most significant accounting and reporting implications of adopting IFRS include:

Accounting

- **Revenue recognition** – Under IFRS, there are no specific standards to address the unique nature of contribution revenue for NPOs. This specifically impacts the recognition of contributions restricted for specific purposes or time periods as well as endowment contributions that currently have specific recognition criteria under Canadian Generally Accepted Accounting Principles. Under IFRS, revenue is recognized under a general revenue recognition standard that may result in timing differences for recognition of contributions.
- **Property and equipment** – IFRS permits an entity to revalue property and equipment to fair value on the date of transition to the new accounting framework. If a NPO has investment property, it must be carried at fair value and revalued annually to determine any fair value adjustments. Annual assessments for impairment of property and equipment must be made and impairment losses recovering in future periods can be reversed and recorded in the financial records.
- **Consolidation** – Current Canadian accounting standards provide NPOs with various alternatives to report controlled and related entities. Under IFRS, no similar standard exists, so accounting for controlled and related entities would follow general consolidation standards. This would result in the consolidation of all controlled entities and equity accounting for all entities in which a NPO has significant influence. Cost accounting would be used for those investments that a NPO does not control or have significant influence.

- **Employee future benefits** – While the standards around employee future benefits are similar to current Canadian GAAP, there are some differences that could result in how employee future benefits are recognized under IFRS. These primarily relate to the immediate recognition of past service costs and the planned elimination of the ability to smooth the recognition of actuarial gains and losses over time periods.
- **Capital leases** – Under current IFRS standards, accounting for leases is similar to Canadian GAAP. However, the specific tests to determine if a lease is capital in nature are slightly different, which may result in a different conclusion under IFRS. Organizations should also be aware that there is a current IFRS exposure draft on leases that could significantly change how leases are accounted for, including the potential recognition of all leases, operating and capital, on the balance sheet.
- **Financial statement notes** – Under IFRS, note disclosure is generally more extensive, with detailed note requirements for specific accounts and balances. For example, disclosure of the compensation of key management personnel is required under IFRS in the notes to the financial statements. As well, because many NPOs have previously taken advantage of the exemptions available under Canadian GAAP to limit disclosures around financial instruments, additional disclosures will likely be required in this area.
- **Financial Instruments** – There are currently no standards dealing with financial instruments, although draft standards are currently under review. If adopted in their current form, there would be several changes, including the requirement to recognize unrealized gains and losses associated with derivatives and the translation of foreign denominated balances in a statement of remeasurement gains and losses.

Presentation and disclosure

- If an organization elects to adopt the PSA Handbook excluding sections 4200 to 4270, there will be 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. However, if an NPO elects to adopt the PSA Handbook including the 4200 series of standards, financial statement presentation will be largely unchanged.

Organizations converting to the PSA Handbook will need to identify the differences in the standards that impact them and quantify these differences. In addition, the PSA Handbook contains specific exemptions and exceptions applicable to the first time adoption of PSA Standards by government organizations.

Potential impacts of adopting the PSA Handbook

The status quo will no longer be an option for GNPOs as the PSA Handbook guidance differs from the CICA Handbook. Some of the more significant differences include:

Accounting

- **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 the PSA Handbook regardless of vesting provisions.
- **Intangibles** – Other than software, intangibles are not recognized as assets. Goodwill is rarely capitalized, but rather expensed in the period of acquisition.

Presentation and disclosure

- **General financial statement presentation and fund accounting** – IFRS does not have an equivalent standard to Handbook Series 4400. As a result, the concept of fund accounting and the presentation of separate funds in the financial statements does not exist under IFRS. Related statements, such as the statement of changes in net assets, are replaced with IFRS statements, and would include a statement of comprehensive income.

Next steps

Organizations are required to transition to the appropriate standards by the fiscal year beginning on or after January 1, 2012, although early adoption is permitted. Now is the time to consider the options available and start to think about the appropriate implementation date of the new standards for your organization. Our team understands the new framework and is ready to help you through the process.

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