www.pwc.com/ca

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

Operating as "The Sony Centre for the Performing Arts"

2012 Year-end report to the Finance Committee

Prepared as of April 25, 2013

April 25, 2013

Members of the Finance Committee of the Board of Management
The Sony Centre for the Performing Arts

Dear Members of the Finance Committee:

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 for not-for- profit organizations (PSAS) for the year ended December 31, 2012. We propose to issue an unqualified report on those financial statements, pending resolution of outstanding items outlined on page 1. Our draft auditor's report is included in Appendix B.

We have issued the accompanying report to assist you in your review of the financial statements. It includes an update on the status of our work, as well as a discussion on the significant accounting and financial reporting issues dealt with during the audit process.

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

We would like to express our sincere thanks to the management and the staff of the organization who have assisted us in carrying out our work and we look forward to our meeting on May 1, 2013. Should you have any questions or concerns prior to the Finance Committee meeting, please do not hesitate to contact me in advance.

Yours very truly,

PricewaterhouseCoopers LLP

Michael Nicoló
Partner
Audit and Assurance Group

cc: Dan Brambilla, Chief Executive Officer
Roy Reeves, Director of Finance and Personnel

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

Contents Page

Appendices

1. Executive summary

a. Status of the audit

We have substantially completed our audit of the 2012 financial statements. Our auditor's report will be issued once we receive and have completed our audit work on the outstanding items noted below.

This document includes the required communications between an auditor and the Finance Committee, as required by Canadian generally accepted auditing standards (Canadian GAAS).

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

Outstanding item	**Status as at May 1, 2013**
i. City of Toronto Confirmation	
ii. Legal letters from: • Barbara G. Humphrey • Fasken Martineau • GSI Real Estate & Planning Advisors • Morneau Shepell	
iii. Update of legal letter responses from lawyers	
iv. Subsequent events update with management	
v. Receipt of signed management representation letter	
vi. Approval of the financial statements by the Finance Committee / Board of Directors	

b. Key issues for discussion

Discussion item	Summary	For further reference
Client service team	• Michael Nicoló is your engagement leader; Natalia Glavina is your engagement manager.	Page 3
Independence	• We are independent of the Centre as at April 25, 2013. • Our independence letter can be found in Appendix E.	Page 3
2012 audit fees	• Our estimated audit fees for 2012 are $19,540.	Page 3
Service deliverables	• The scope of our services remains consistent with the prior year: an audit of financial statements of the Centre and the expression of an opinion on the Centre's financial statements.	Page 4
Audit approach	• Our audit approach will consist of a mixture of key controls reliance and substantive detail testing. • Consistent with Canadian Auditing Standards, we also implement a level of unpredictability into our procedures each year.	Page 5
Materiality	• We have calculated materiality to be $249,400. • Unadjusted and adjusted items over $12,400 will be reported to the Finance Committee.	Page 7
Items discussed with management	• During the course of our work we discussed the following items with management: - Treatment of related party transactions - Significant management estimates - Accounting for restructuring of loan - Internal control recommendations	Page 9 Page 11
Summary of unadjusted items	• As a result of our audit, we identified unadjusted items with a NIL effect on the deficiency for the year. • Unadjusted and adjusted items, including disclosure exceptions or items not impacting deficiency of revenue over expense are listed in Appendix C. • In our opinion, the financial statements, taken as a whole, are free of material misstatement.	Page 10
Fraud	• No instances of fraud were noted as part of our audit procedures.	Page 8
Management representations	• Under Canadian GAAS, we are required to inform you of the representations we are requesting from management. A copy of the management representation letter is included in Appendix D.	Page 10

2. *Audit administration*

a. Your team

Your client service team comprises the following individuals:

Name	Role	Number of years on engagement	Phone number	Email address
Michael Nicoló	Engagement leader	1	416 218 1395	michael.nicolo@ca.pwc.com
Natalia Glavina	Engagement manager	2	416 218 1456	natalia.glavina@ca.pwc.com

b. Independence

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

c. Our fees

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

Service description	Estimated fees 2013 $	Estimated fees 2012 $	Actual fees 2011 $
Audit of the financial statements	$20,880	$19,540	$18,210
Additional work related to conversion to PSAS	-	-	$13,800
Assistance with accounting matters	-	$6,500	$4,900
Total	**$20,880**	**$26,040**	**$36,910**

3. *Scope of our services*

a. Our audit objectives

As the Centre's auditor, our primary responsibility is to form and express an opinion on the Centre's financial statements as at December 31, 2012 and for the year then ended in accordance with Canadian Public Sector Accounting Standards for not-for-profit organizations (PSAS). The financial statements are prepared by management with the oversight of those charged with governance (the Finance Committee). An audit of the financial statements does not relieve management or the Finance Committee of its responsibilities.

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

In addition, we are committed to being a trusted advisor to management and to the Finance Committee. Where appropriate, we will discuss standards, provide management our views and insights and also advise management of other services we feel could be helpful - at all times staying within the realms of our independence rules.

b. Engagement terms

Our engagement letter (included in Appendix A) sets out the terms and conditions for our engagement as the independent auditor of the Centre for the above mentioned year.

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

c. Our service deliverables

Our audit and audit related service deliverables with respect to 2012 are:

	Audit and audit related services	**Timing/status**
Audit opinions	• Financial statement audit for the Centre.	• March 2013
Control recommendations	• Report significant weaknesses in control and our recommendations to the Finance Committee.	• May 1, 2013
Other services	• Final report on the results of the audit to the Finance Committee.	• May 1, 2013

4. *How we performed the audit*

a. Our audit approach

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

i. gaining an understanding of the business by focusing on new developments and key business issues affecting the Centre as well as management's monitoring of controls and business processes;
ii. identifying significant audit risks, sharing our perspectives, obtaining your feedback and ensuring our audit is tailored to these risks;
iii. using well-reasoned professional judgment, especially, in areas that are subjective or require estimates; and
iv. leveraging reliance where possible on the Centre's internal controls and information technology and data systems.

In the current year, our work included testing of key controls in the following areas:

- Purchases, payables and disbursements
- Payroll
- Advance ticket sales

All other areas were subject to tests of detail and substantive analytical testing.

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

b. Risk analysis

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

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

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

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

c. Materiality

Misstatements, including omissions, are considered to be material if they (individually or in aggregate with other misstatements) could reasonably be expected to influence the economic decisions of users, taken on the basis of the financial statements.

Judgments about materiality are made in light of surrounding circumstances and are affected by the size or nature of a misstatement, or a combination of both. A common measure for setting materiality for a not-for-profit organization is to use 1/2% to 2% of revenue or expenditures.

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

	Basis	**Amount**	**Prior year's amount**
Overall materiality	2% of expenditures	$249,400	$204,000
Unadjusted and adjusted items in excess of this amount are reported to the Finance Committee	5% of overall materiality	$12,400	$10,000

d. Discussion on fraud risk

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

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

An auditor's responsibilities for detecting fraud

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

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

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

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

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

5. *Significant audit, accounting and financial reporting matters*

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

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

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

Issue	**Discussion**
Related party transactions – City of Toronto	As a significant amount of activity occurs between the City and the Centre, we 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. The City confirmation is still outstanding. As a result we were not able to reconcile the confirmation to the financial statements. We will review the confirmation and reconcile it to the financial statements upon its availability. There may be amounts which the City would not acknowledge, consistent with prior years. These will be taken to the summary of unadjusted items. We will update the Finance Committee if significant differences will be noted.
Subjective estimates/ areas of judgment by management	During the course of our work, we noted the following area of management judgment or estimate: *Performance based bonus accrual:* The financial statements have been prepared on the assumption that the performance based compensation accrual of $281,357 (2011 - $184,000) will be approved. We understand that the Board of Directors will approve the 2012 performance based compensation accrual as part of the financial statement approval process.
Loan Payable – City of Toronto	In February 2011, City Council approved a completion loan for the capital renovation project in the total of $6,650,000. The terms of the agreement specify that the loan will be repaid in bi-annual instalments over 15 years beginning on January 1, 2012, with interest accrued at 5%. In 2012, the Centre requested that the outstanding loan payments for 2012 and 2013 be deferred and resume on December 31, 2014. This request was approved by City Council. This amendment has been accounted for as a loan restructuring resulting in increase in the principal amount to $6,986,656 as of December 31, 2012 to account for accrued interest on the outstanding balance. The Centre recognizes interest expense on the loan using the effective interest method. We have audited the Centre's accounting for the loan and noted no exceptions. We also concur with management's assessment of accounting for the amendment as loan restructuring and not loan extinguishment.

6. Summary of unadjusted and adjusted items

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

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

Under Canadian GAAS, we are required to communicate to you the unadjusted items and the effect that they may have on our opinion and to request that unadjusted items be corrected.

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

Unadjusted and adjusted items for the current year are listed in Appendix C.

Certain comparative figures have been reclassified from those previously presented to conform to the presentation of the 2012 financial statements.

7. Other required communications

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

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

Matter to be communicated	**PwC's response**
Management's representations	• Under Canadian GAAS, we are required to inform you of the representations we are requesting from management. A copy of the management representation letter is included in Appendix D.
Significant deficiencies in internal control	• Recent changes to Canadian GAAS require us to communicate to the Finance Committee internal control weaknesses identified as part of our audit that are considered to be significant deficiencies. • A significant deficiency is defined as an internal control deficiency that we consider merits the attention of the Finance Committee. • These are summarized in Section 8.
Significant difficulties or disagreements that occurred during the audit	• No difficulties or disagreements occurred while performing our audit that requires the attention of the Finance Committee.
Fraud and illegal acts	• No fraud or illegal acts came to our attention as a result of our audit procedures.

8. *Internal control recommendations*

The purpose of our audit was to enable us to express an opinion on the financial statements. The audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.

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

Internal control observation	**Recommendation**	**Management's response**
Review and approval of manual journal entries During our testing of manual journal entries we noted that Controller prepared and posted all the entries without any independent review. This increases the risk of error and possibility for management override of controls.	Although we did not note any exceptions, we recommend that all manual journal entries are reviewed and approved by independent person, i.e. Director of Finance, prior to being posted into the system.	Management agrees that there is no review of manual journal entries prepared by the Controller; however the Director of Finance does a detailed review of monthly financial statements on a line by line basis comparing the actual amounts to the budget before the statements are finalized for publication and distribution to the management, the Board and the City. As a part of this review, the Director of Finance questions the entries to determine if they are valid and appropriate. Management believes such high level review is more relevant to the effective internal control than a routine signature on all journal entries.

Items requiring further action:

Internal control observation	Recommendation	Management's response
Tracking of capital assets Capital assets are compiled, tracked and amortized by category using an excel spreadsheet. The Centre does not maintain a fixed asset register. 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.	2011 Recommendation: 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. 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). 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. 2012 Update: No changes from prior year. Control weakness still noted.	2011 Response: 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. 2012 Update: We are in the process of performing a physical count and verification of all assets owned.

Internal control observation	Recommendation	Management's response
Entries being prepared outside of accounting system 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. 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.	2011 Recommendation: 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 Centre's accounting records are in accordance with PSAS requirements. This will mean lower chance of error. 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. 2012 Update: 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.	2011 Response: 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.

9. Our commitment to audit quality

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

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

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

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

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

10. Changes for not-for-profit organizations

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

Tax Alert for Registered Charities

The Charities Directorate of the Canada Revenue Agency has published the latest version of the T3010 Registered Charity Information Return. T3010-13 will be required to be used for registered charities with fiscal years ending on or after January 1, 2013. Charities with fiscal years ending on March 4, 2010 and before January 1, 2013 will continue to use version T3010-1.

This version of the T3010 (referred to as T3010-13) has enhanced reporting on the political activities of a registered charity which takes into account the federal government's pronouncements made during last March's budget. To assist you in understanding the implications of these changes, we have provided you with a PwC document "Tax Alert for Registered Charities" in Appendix G.

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

Appendix A: Engagement letter

Appendix B: Draft auditor's report

Appendix C: Summary of unadjusted and adjusted items

a. Unadjusted items

	Deficiency of revenue over expense	Statement of financial position		
Description	**(Overstated) understated $**	**Assets (overstated) understated $**	**Liabilities overstated (understated) $**	**Net assets overstated (understated) $**
DR Accounts payable and accrued liabilities			51,905	
CR Accumulated net surplus				(51,905)
To adjust for overstated accrued liabilities				
DR Accounts payable and accrued liabilities			56,500	
CR Prepaid expenses		(50,000)		
CR Accounts receivable		(6,500)		
To reverse prepaid expenses not paid until F2013				
Total unadjusted differences	**NIL**	**(56,500)**	**108,405**	**(51,905)**

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

b. Adjusted items

	Deficiency of revenue over expense	Statement of financial position		
Description	**(Overstated) understated $**	**Assets (overstated) understated $**	**Liabilities overstated (understated) $**	**Net assets overstated (understated) $**
DR Performance revenues CR Rental revenues CR Presentation and production expenses *To reclassify revenues and expenses*	422,298 (387,947) (34,351)			
Total adjusted differences	**NIL**	**NIL**	**NIL**	**NIL**

Appendix D: Management representation letter

Appendix E: Independence letter

Appendix F: Financial Reporting Release

Appendix G: PwC publications: “Tax Alert for Registered Charities”; “Helping You to Make a Difference”; “Audit Committee Connect App”