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

*2015 year-end report
to the Board of
Directors*

*Prepared as of
May 11, 2016*

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



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May 11, 2016

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

Dear Members of the Board:

We have substantially completed our audit of the financial statements of The Sony Centre for the Performing Arts (the organization or the Centre) prepared in accordance with Public Sector Accounting Standards including standards that apply only to government not-for profit organizations (PSAS +4200) for the year ended December 31, 2015. 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 as Appendix A.

We prepared the accompanying report to assist you in your review of the financial statements. It includes an update on the status of our work, as well as a discussion on the significant accounting and financial reporting matters dealt with during the audit process. We will review the key elements of this report at the upcoming meeting and discuss our findings with you.

We would like to express our sincere thanks to the management and staff of the organization who have assisted us in carrying out our work, and we look forward to your meeting on May 26, 2016. If you have any questions or concerns prior to the Board of Directors meeting, please do not hesitate to contact me in advance.

Yours very truly,

PricewaterhouseCoopers LLP

Chartered Professional Accountants

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

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

Communications to the Board of Directors

Key matters for discussion	Comments
Status of the audit	<p>PricewaterhouseCoopers LLP (PwC or we) have substantially completed our audit of the financial statements (the financial statements).</p> <p>Significant outstanding items at time of mailing include the following:</p> <ul style="list-style-type: none"> • Resolution of matter regarding ownership of condo ('other asset' on statement of financial position) and associated balances receivable from Castlepoint; • Legal updates and subsequent events procedures; • Final tie-out of the financial statements; • Signed management representation letter; • Review and approval of the financial statements by the Board of Directors.
Service deliverables	<p>We performed audit of the organization's financial statements as of December 31, 2015 and for the year then ended prepared in accordance with PSAS + 4200.</p> <p>Our engagement letter, which has been signed by the City of Toronto (the City), sets out the terms and conditions for the audit as the independent auditor of the Centre for the above-mentioned year.</p>
Audit timeline	<p>We worked with management to develop this project timeline:</p> <ul style="list-style-type: none"> • Interim visit: December 7 – 11, 2015 • Year-end visit: March 21 – 25, 2016 • Clearance meeting with management: April 2016 • Year-end Board of Directors meeting: May 26, 2016 • Delivery of financial statements: upon resolution of above items and Board of Directors' approval.
Audit approach	<p>Our audit approach is a mixture of tests of internal controls and substantive testing. In the current year, our work included testing of key controls in the following areas:</p> <ul style="list-style-type: none"> • Purchases, payables and disbursements • Payroll • Revenue <p>All material areas were subject to tests of detail and substantive analytical testing.</p>
Materiality	<p>Misstatements are considered to be material if they could reasonably be expected to influence the economic decisions of users of the financial statements.</p> <p>We set our materiality at \$445,500 and are reporting unadjusted and adjusted items over \$22,275 to the Board of Directors as a result of the audit. See details in Appendix B.</p>

<i>Key matters for discussion</i>	<i>Comments</i>
Significant accounting, auditing and reporting matters discussed with management	
Risk of management override of controls	<p>Canadian auditing standards require that the risk of material misstatement due to management override of controls be considered a significant risk on every audit engagement.</p> <p>We have assessed significant and non-standard manual journal entries recorded in the year and selected a sample of items for testing to ensure that the entries represent valid and appropriately authorized transactions. No exceptions were noted from our testing.</p> <p>We also incorporated unpredictable procedures into our audit and noted no exceptions.</p>
Revenue recognition	<p>Management recognizes revenue based on separate criteria per revenue stream and ensures processes are in place to record revenue accurately and in the proper period.</p> <p>We selected a sample of revenue transactions for the year and traced to supporting documentation, including Ticketmaster statements, dates of shows held during the year or other available evidence, to ensure proper cut-off and accuracy of the amounts recorded.</p> <p>Amounts deferred on the statement of financial position were also tested using the same testing methodology. We noted no issues as a result of our testing.</p>
Related party transactions – City of Toronto	<p>As a significant amount of activity occurs between the Centre and the City, we requested a confirmation from the City of all amounts received during the year and balances outstanding at the year-end. This includes funding received, trade receivable or payable balances, the Facility Fee Reserve fund balance, Capital Works Program funding and the Stabilization Reserve fund balance.</p> <p>We received an independent confirmation from the City of Toronto confirming the transactions and balances between City of Toronto and the Centre at year-end and were able to fully reconcile the amounts per confirmation to the financial statements.</p> <p>We also reviewed documentation regarding write-off of the loan payable to the City of Toronto and the receivable under the Capital Works Program and noted no exceptions.</p> <p>We have reviewed the financial statements note disclosure with respect to the relationship, transactions and balances with the City and it appears to be complete and accurate, including appropriate disclosure of amounts written off during the year.</p>

Key matters for discussion	Comments
Other asset	<p>The Centre was subject to a Canada Revenue Agency (CRA) audit during 2015 and, as a result of the audit, management became aware that there is a dispute relating to ownership of the condo classified as an 'other asset' on the statement of financial position with a value of \$560k. The condo was donated to the Centre by a developer in a prior year.</p> <p>This developer has also halted payments on other balances owing to the Centre totalling \$176k at year-end.</p> <p>We understand management are working with the City legal team and the Board of Directors to resolve this dispute. We will discuss this matter in further detail at the upcoming board of directors meeting.</p>
Accounting for purchase of sound equipment and related financing	<p>The Centre purchased sound equipment with a fair market value of approximately \$900k during the year. The purchase was financed partly by an interest-free loan provided by the seller in the amount of \$505k with the rest being paid for by the Centre in-kind through the provision of various services over a 5 year period.</p> <p>We reviewed the relevant accounting guidance and held discussions with management resulting in the following accounting treatment for this transaction:</p> <ul style="list-style-type: none"> • Equipment is recognized at market value and amortized over its estimated useful life of 10 years; • Cash to be paid by the Centre to the seller over the financing period is recognized on the statement of financial position as a loan payable. We note that since the loan is interest free it should be discounted using a market interest rate however management has reflected the loan at its face value as the discounting component is not significant. The difference has been reported as an unadjusted item(refer Appendix B); • The difference between the fair value of the equipment and the value assigned to the loan is recognized as deferred revenue and will be recognized in income when the services are provided by the Centre; • As loan repayments are reimbursed by the City, this also results in a deferred capital contribution which will be recognized into income over the repayment period of 5 years.
Prior year findings of the Auditor General	<p>Per discussion with management and review of available documentation, there are no new developments in the current year relating to the findings of the Auditor General from the 2013 fiscal year.</p> <p>Accordingly, there are certain unadjusted items that continue to be reflected in our summary of unadjusted misstatements as outlined in Appendix B.</p>

<i>Key matters for discussion</i>	<i>Comments</i>
Budgeted figures	Currently, under PSAS for government not-for-profit organizations, presentation of the budgeted figures is not a requirement. This budgeted information has been presented and audited to comply with the City audit team's reporting requirements. We agreed the budgeted figures per the statement of operations to the City of Toronto's approved budget for the Centre. No issues were noted.
<i>Other required communications</i>	
Summary of unadjusted and adjusted items	As a result of our audit, we identified certain unadjusted misstatements. See details in Appendix B. There were no adjusted misstatements
Internal control recommendations	During the audit, we did not note any significant deficiencies. Our internal control recommendations are summarized in Appendix C.
Fraud and illegal acts	<p>We discuss fraud risk annually with management and the Board of Directors. Through our planning process (and prior years' audits), we developed an understanding of your oversight processes and have designed our audit procedures to address these risks.</p> <p>No fraud involving senior management, or employees with a significant role in internal control or that would cause a material misstatement of the financial statements and no illegal acts came to our attention as a result of our audit procedures.</p> <p>We wish to reconfirm that the Board of Directors is not aware of any known, suspected or alleged incidents of fraud or illegal acts not previously discussed with us.</p>
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 has been circulated separately to the Board of Directors.
Subsequent events	<p>No subsequent events which would impact the financial statements other than those disclosed have come to our attention.</p> <p>We would like to reconfirm that the Board of Directors is not aware of any other subsequent events that might affect the financial statements.</p>

The matters raised in this and other reports that will flow from the audit are only those that have come to our attention arising from or relevant to our audit that we believe need to be brought to your attention. They are not a comprehensive record of all the matters arising and, in particular, we cannot be held responsible for reporting all risks in your business or all internal control weaknesses. Comments and conclusions should only be taken in context of the financial statements as a whole, as we do not mean to express an opinion on any individual item or accounting estimate. This report has been prepared solely for your use. It was not prepared for, and is not intended for, any other purpose. No other person or entity shall place any reliance upon the accuracy or completeness of statements made herein. PwC does not assume responsibility to any third party, and, in no event, shall PwC have any liability for damages, costs or losses suffered by reason of any reliance upon the contents of this report by any person or entity other than you.

Appendix A: Draft auditor's report

Independent Auditor's Report

**To the Members of
The Board of Directors of the Hummingbird Centre for the Performing Arts**
(operating as the Sony 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), which comprise the statement of financial position as at December 31, 2015 and the statements of operations and changes in net assets (liabilities) and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, 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.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of The Board of Directors of the Hummingbird Centre for the Performing Arts (operating as the Sony Centre for the Performing Arts) as at December 31, 2015 and the results of its operations, change in its net financial assets (liabilities) and its cash flow for the year then ended in accordance with Canadian public sector accounting standards.

Chartered Professional Accountants, Licensed Public Accountants

Appendix B: Summary of unadjusted items

<i>Description</i>	<i>Assets</i>	<i>Liabilities</i>	<i>Net assets</i>	<i>Excess of revenue over expense</i>
	<u><i>DR/(CR)</i></u>	<u><i>DR/(CR)</i></u>	<u><i>DR/(CR)</i></u>	<u><i>DR/(CR)</i></u>
	\$	\$	\$	\$
Current year misstatements:				
Dr. Loan payable		27,576		
Dr. Interest expense				4,792
Cr. Deferred capital contributions		(25,905)		
Cr. Deferred revenue		(4,590)		
Cr. Amortization of deferred capital contributions				(1,363)
Cr. Operating revenue				(510)
<i>To adjust closing balances for equipment purchase loan and related deferred capital contribution / deferred revenue</i>				
Misstatements rolled forward from prior years:				
Dr. Net Assets			140,706	
Dr. Transfer to City				15,634
Dr. Amortization Expense				15,634
Cr. Amortization of revenue				(15,634)
Cr. Due from/to City		(156,340)		
<i>To record in-kind deferred sponsorship revenue and related capital assets omitted in 2010 as well as relating amortization and revenue to date</i>				
Dr. Due from / to City of Toronto	103,500			
Cr. Loan Payable		(103,500)		
<i>To record loan from Sodexo which was accounted for incorrectly in a prior year</i>				
Total	\$103,500	\$(262,759)	\$140,706	\$18,553

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

Appendix C: Internal control recommendations

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

