Assurance and Advisory
Business Services

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Financial Statements

The North York Performing Arts Centre Corporation

[operating as "The Toronto Centre for the Arts"]
December 31, 2007

Ernst & Young

Ernst & Young LLP

AUDITORS' REPORT

To the Directors of
The North York Performing Arts Centre Corporation

We have audited the balance sheet of **The North York Performing Arts Centre Corporation** [operating as "The Toronto Centre for the Arts"] as at December 31, 2007 and the statements of operations and changes in fund deficit and cash flows for the year then ended. These financial statements are the responsibility of the Centre's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Centre as at December 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Canada,
February 19, 2008.

The North York Performing Arts Centre Corporation
[operating as "The Toronto Centre for the Arts"]

BALANCE SHEET

[000's]

As at December 31

	2007	2006
	$	$
ASSETS		
Current		
Cash	**649**	265
Accounts receivable		
Trade receivable *[note 10]*	**58**	49
City of Toronto *[note 3[b]]*	**12**	—
Prepaid expenses	**9**	8
Total current assets	**728**	322
Receivable from the City of Toronto *[note 3[a]]*	**3,380**	2,646
Art collection	**2,542**	2,542
Capital assets, net *[note 4[a]]*	**30,379**	31,318
	37,029	36,828
LIABILITIES AND FUND DEFICIT		
Current		
Accounts payable		
Trade payables	**287**	504
Payable to the City of Toronto *[note 3[b]]*	**81**	33
Deferred revenue	**376**	729
Total current liabilities	**744**	1,266
Long-term liability *[note 3[c]]*	**10,023**	10,023
Capital contributions *[note 5]*	**28,651**	27,603
Total liabilities	**39,418**	38,892
Fund deficit *[note 7]*	**(2,389)**	(2,064)
	37,029	36,828

See accompanying notes

On behalf of the Board:

Director

Director

The North York Performing Arts Centre Corporation
[operating as "The Toronto Centre for the Arts"]

STATEMENT OF OPERATIONS AND CHANGES IN FUND DEFICIT

[000's]

Year ended December 31

	2007 Budget $	2007 Actual $	2006 Actual $
	Unaudited		
REVENUE			
Revenue from operations	2,353	**2,353**	2,232
City of Toronto grant	1,341	**1,341**	1,283
Amortization of capital contributions	—	**927**	970
Other *[note 9]*	—	**50**	68
	3,694	**4,671**	4,553
EXPENSES			
Salaries and benefits *[note 8]*	2,417	**2,457**	2,387
Capital maintenance	108	**60**	71
Utilities	336	**274**	274
Other operating	810	**788**	685
Professional fees and services	23	**88**	28
Depreciation of capital assets	—	**1,252**	1,210
	3,694	**4,919**	4,655
Excess of expenses over revenue before the following		**(248)**	(102)
Transfer to the City of Toronto *[note 6]*		**(77)**	(138)
Excess of expenses over revenue for the year		**(325)**	(240)
Fund deficit, beginning of year		**(2,064)**	(1,824)
Fund deficit, end of year		**(2,389)**	(2,064)

See accompanying notes

The North York Performing Arts Centre Corporation
[operating as "The Toronto Centre for the Arts"]

STATEMENT OF CASH FLOWS

[000's]

Year ended December 31

	2007	2006
	$	$
OPERATING ACTIVITIES		
Excess of expenses over revenue for the year	**(325)**	(240)
Add (deduct) non-cash items		
Amortization of capital contributions	**(927)**	(970)
Depreciation of capital assets	**1,252**	1,210
	—	—
Net change in non-cash working capital balances related to operations	**(544)**	101
Cash (used in) provided by operating activities	**(544)**	101
FINANCING ACTIVITIES		
Capital maintenance reserve fund - interest earned	**296**	314
Capital maintenance reserve fund - ticket surcharges	**179**	161
Transfer from Stabilization Reserve Fund to Capital Maintenance Reserve Fund	**1,500**	—
Cash provided by financing activities	**1,975**	475
INVESTING ACTIVITIES		
Increase in receivable from the City of Toronto	**(734)**	(409)
Purchase of capital assets	**(313)**	(389)
Cash used in investing activities	**(1,047)**	(798)
Net increase (decrease) in cash during the year	**384**	(222)
Cash, beginning of year	**265**	487
Cash, end of year	**649**	265

See accompanying notes

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

1. PURPOSE

The North York Performing Arts Centre Corporation [the "Centre"] was incorporated on June 29, 1988 without share capital by Special Act [City of North York Act, 1988 (No. 2), Statutes of Ontario 1988, Pr45]. The Centre is a local board of the City of Toronto [the "City"] and is a non-profit organization incorporated to maintain, operate and manage The Toronto Centre for the Arts as an artistic, cultural, social, educational and recreational facility for the benefit of the City and its inhabitants and in the public interest. The Centre includes the Main Stage Theatre, the George Weston Recital Hall and the Studio Theatre.

The Centre is exempt from income taxes under Section 149(1) of the Income Tax Act (Canada).

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 follows:

Revenue recognition

The Centre follows the deferral method of accounting for contributions which includes grants. 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. Externally restricted contributions for depreciable capital assets are deferred and amortized over the life of the related capital asset. Externally restricted contributions for capital assets that have not been expended are recorded as part of capital contributions on the balance sheet.

Revenues from operations include rentals and ancillary revenues and are recognized on the date of the performance or point of sale.

Capital assets

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

Building	40 years
Furnishings and equipment	12 years
Computer equipment	3 years

Art collection and gallery

Works purchased for exhibition in the Museum of Canadian Contemporary Art are recorded on the balance sheet at cost. Works donated are independently appraised and are recorded on the balance sheet at their appraised value.

Contributed materials and services

Because of the difficulty of determining their fair value, contributed materials and services are not recognized in the financial statements.

Employee benefits

Defined contribution plan accounting is applied to a multi-employer defined benefit pension plan. Contributions are expensed when due.

Derivatives

Derivative contracts entered into by the City, of which the Centre is a party to, are not designated to be in a hedging relationship and are recorded at their fair value as an asset or a liability based on quoted market prices or dealer quotes with changes in fair value recorded in utilities on the statement of operations and changes in fund deficit.

New and future accounting policy changes

Effective January 1, 2007, the Centre adopted the recommendations of CICA 3855: *Financial Instruments – Recognition and Measurement* and CICA 3861: *Financial Instruments – Disclosure and Presentation.* CICA 3855 establishes standards for recognizing and measuring financial instruments including the accounting treatment for changes in fair value. As permitted by CICA 3855, the Centre's financial assets and liabilities continue to be presented at amortized cost, which approximates fair value. Derivative contracts are presented at fair value. The adoption of these recommendations did not have a significant impact on the financial statements in the prior or current year.

The CICA has issued two new standards, CICA 3862: *Financial Instruments – Disclosures* and CICA 3863: *Financial Instruments – Presentation*, which enhance the abilities of users of financial statements to evaluate the significance of financial instruments to an entity, related exposures and the management of these risks.

The CICA has issued a new accounting standard CICA 1535: *Capital Disclosures*, which requires the disclosure of qualitative and quantitative information that enables users of financial statements to evaluate the entity's objectives, policies and processes for managing capital.

The above two changes in accounting policies, which will be adopted effective January 1, 2008, will only require additional disclosures in the financial statements.

3. RELATED PARTY TRANSACTIONS, CITY OF TORONTO

[a] During 2007, the Centre began to manage its cash flows independent of the City, except for the investment of the Capital Maintenance Reserve Fund *[note 5[b]]*. Prior to the Centre assuming this responsibility, the City managed the cash flows for the Centre by depositing most funds and paying for most expenses. The receivable from the City represents the cumulative excess of cash received and disbursements made directly by the City on behalf of the Centre. The fair value of this receivable cannot be reasonably determined since there are no fixed terms of repayment.

[b] In the normal course of operations, the Centre rents its premises to the City and incurs costs for various expenses payable to the City such as hydro, legal and other administrative costs. Transactions between the City and the Centre are made on normal trade terms consistent with unrelated entities.

[c] Long-term liability consists of non-interest bearing capital financing provided by the City of $10,023,000 [2006 - $10,023,000]. The fair value of this long-term liability cannot be determined because there are no fixed terms of repayment. The City has indicated that it will not demand payment of this liability within the next year.

4. CAPITAL ASSETS

[a] Capital assets consist of the following:

[000's]	2007 $	2006 $
Building	**45,380**	45,375
Furnishings and equipment	**3,112**	2,902
Computer equipment	**208**	110
	48,700	48,387
Less accumulated depreciation	**18,321**	17,069
	30,379	31,318

[b] The change in net book value of capital assets is due to the following:

[000's]	2007 $	2006 $
Balance, beginning of year	**31,318**	32,139
Purchase of capital assets funded by capital contributions *[note 5[b]]*	**313**	389
	31,631	32,528
Less depreciation of capital assets	**1,252**	1,210
Balance, end of year	**30,379**	31,318

[c] Net assets invested in capital assets and art *[note 7]* consists of the following:

[000's]	2007 $	2006 $
Art collection	**2,542**	2,542
Capital assets, net	**30,379**	31,318
Less long-term liabilities	**8,790**	9,115
Less capital contributions, excluding unspent capital ticket surcharges *[note 5[a]]*	**21,589**	22,203
	2,542	2,542

5. CAPITAL CONTRIBUTIONS

[a] Capital contributions consist of the following:

[000's]	2007 $	2006 $
Capital contributions from the City	**30,660**	30,660
Other	**8,665**	8,352
	39,325	39,012
Less accumulated amortization of capital contributions	**17,736**	16,809
	21,589	22,203
Capital Maintenance Reserve Fund representing unspent capital ticket surcharges *[note 5[b]]*	**7,062**	5,400
	28,651	27,603

[b] The Capital Maintenance Reserve Fund, which consists of unspent capital ticket surcharges, are invested by the City. The capital surcharge on the sale of tickets for performances is considered to be externally restricted with the funds only to be used for capital improvements of the Centre.

The changes in the Capital Maintenance Reserve Fund during the year are due to the following:

[000's]	2007 $	2006 $
Balance, beginning of year	**5,400**	5,314
Interest earned	**296**	314
Ticket surcharges	**179**	161
Transfer from Stabilization Reserve Fund *[note 6]*	**1,500**	—
Purchase of capital assets funded by capital contributions *[note 4[b]]*	**(313)**	(389)
Balance, end of year	**7,062**	5,400

6. STABILIZATION RESERVE FUND

The changes in the Stabilization Reserve Fund balance, which is recorded in the City's accounts are as follows:

[000's]	2007 $	2006 $
Balance, beginning of year	**2,767**	2,620
Current year transfer from operations	**—**	138
Reversal of prior year transfer of operating income to the City	**(138)**	(76)
Transfer to Capital Maintenance Reserve Fund *[note 5[b]]*	**(1,500)**	—
Investment income	**146**	85
Balance, end of year	**1,275**	2,767

During 2003, the Centre entered into an agreement with the City which established, in the accounts of the City, the North York Performing Arts Centre Corporation Operating Stabilization Reserve Fund [the "Stabilization Reserve Fund"] for the purpose of putting aside income earned in profitable years in order to offset deficits in other years. This agreement provided that transfers were to be made to the Stabilization Reserve Fund based on the cash basis of accounting and therefore exclude amortization and depreciation. Beginning with the year ended December 31, 2006, the transfer of the current year operating income is no longer automatically added to the Stabilization Reserve Fund. The transfer is only added to this fund if approved by City Council. The transfer to the City in 2006 was reflected as an addition to the Stabilization Reserve Fund in the prior year financial statements consistent with the 2003 agreement. City Council did not approve adding this transfer to the fund so it has been deducted in the current year's financial statements note disclosure above.

The current year transfer of operating income to the City is calculated as follows:

[000's]	2007 $	2006 $
Excess of expenses over revenue before transfer to the City of Toronto	**(248)**	(102)
Add (deduct) non-cash items		
Depreciation of capital assets	**1,252**	1,210
Amortization of capital contributions	**(927)**	(970)
Transfer of current year operating income	**77**	138

7. FUND DEFICIT

The continuity of the components of the fund deficit is as follows:

[000's]	**2007** **Deficiency** $	**Invested in capital assets and art** $ *[note 4[c]]*	**Total** $
Balance, beginning of year	**(4,606)**	**2,542**	**(2,064)**
Excess of expenses over revenue for the year	**(325)**	**—**	**(325)**
Change in debt used for financing capital assets	**(325)**	**325**	**—**
Depreciation of capital assets	**1,252**	**(1,252)**	**—**
Amortization of capital contributions	**(927)**	**927**	**—**
Balance, end of year	**(4,931)**	**2,542**	**(2,389)**

[000's]	**2006** **Deficiency** $	**Invested in capital assets and art** $ *[note 4[c]]*	**Total** $
Balance, beginning of year	(4,379)	2,555	(1,824)
Excess of expenses over revenue for the year	(240)	—	(240)
Change in debt used for financing capital assets	(227)	227	—
Depreciation of capital assets	1,210	(1,210)	—
Amortization of capital contributions	(970)	970	—
Balance, end of year	(4,606)	2,542	(2,064)

8. EMPLOYEE BENEFITS

The Centre makes contributions to the Ontario Municipal Employees' Retirement Fund ["OMERS"], which is a multi-employer pension plan, on behalf of most 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 and rates of pay. 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 2007, which were expensed, are $61,060 [2006 - $54,433].

In addition to the OMERS plan, the Centre has arrangements with bargaining units to make contributions to registered retirement savings plans on behalf of its employees that are not participating in OMERS. Contributions expensed in connection with these plans for 2007 amounted to $38,396 [2006 - $42,827].

9. OTHER REVENUE

In 2007, the Centre recognized as other income an amount of $50,000 [2006 - nil] representing restricted funds received from Menkes Corporation that were previously recorded as deferred revenue/contributions. During 2006, the Centre received a $68,000 distribution on its claim against Livent Inc. The amount recovered was disclosed as other revenue in the statement of operations and changes in fund deficit.

10. FINANCIAL INSTRUMENTS

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

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 an agreement with the City, that fixes a portion the wholesale price over the term of the contract. All contracts entered into in 2007 expired on December 31, 2007.

The Centre is subject to credit risk with respect to accounts receivable. As at December 31, 2007, three accounts represent 75% of the total accounts receivable balance [2006 - two accounts represented 68%].

11. COMPARATIVE FINANCIAL STATEMENTS

The comparative financial statements have been reclassified from the statements previously presented to conform to the presentation of the 2007 financial statements.