ASSURANCE AND ADVISORY
BUSINESS SERVICES

Sony Centre for the Performing Arts
Audit Results – December 31, 2007

Report to the Finance Committee of the Board of Directors

ERNST & YOUNG

Quality In Everything We Do

E

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March 17, 2008

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

We are pleased to present the results of our audit of the financial statements of The Sony Centre for the Performing Arts (the "organization" or the "Centre") and the status of our final procedures.

This report to the Finance Committee summarizes the issues of audit significance discussed with management and provides the communications required by our professional standards.

Our audit was designed to express an opinion on the December 31, 2007 financial statements of the organization. In planning the audit, we held discussions with management, considered current and emerging business needs, along with an assessment of risks that could materially affect the financial statements, and aligned our audit procedures accordingly. We received the full support and assistance of the organization's personnel in conducting our audit.

This report is intended solely for the use of the Finance Committee, the Board of Directors, management and ultimately the City of Toronto Council, and is not intended to be and should not be used by anyone other than these specified parties. We disclaim any responsibility to any third party who may rely on it. Further, this report is a by-product of our audit of the December 31, 2007 financial statements and indicates matters identified during the course of our audit. Our audit did not necessarily identify all matters that may be of interest to the Finance Committee in fulfilling its responsibilities.

We appreciate this opportunity to meet with you to discuss the contents of this report and answer any questions you may have about these or any other audit-related matters.

Very truly yours,

Diana Brouwer / Eleonora Reznik
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Required Communications

Generally accepted auditing standards in Canada require the auditor to communicate certain matters to the Finance Committee that may assist them in overseeing management's financial reporting and disclosure process. Below we summarize these required communications as they apply to your organization.

Area	Comments
Auditors' Responsibilities Under Generally Accepted Auditing Standards (GAAS)	
As set out in the section on terms of engagement, we designed our audit to express an opinion on your organization's financial statements. The financial statements are the responsibility of management. Our audit was designed in accordance with GAAS which provides for reasonable, rather than absolute, assurance that the financial statements are free from material misstatement. As a part of our audit, we obtained a sufficient understanding of the internal control structure to plan our audit and to determine the nature, timing and extent of testing performed.	We anticipate issuing an unqualified audit opinion dated March 6, 2008 upon approval of the financial statements by the Board of Directors and completion of certain outstanding procedures. The following procedures are outstanding: - Confirmation from City on the accounting for the hydro contracts; - Management letter of representation; - Legal letters; and - Confirmation from the Audit Committee that there are no areas of concern that have not been addressed in this document.
Changes to Audit Approach Outlined in Planning Document	
In our planning document, we indicated that we would conduct our audit in accordance with Canadian generally accepted auditing standards in order to deliver to you our final report for your 2007 financial statements. Our plan to you indicated that our strategy would be to test controls around the disbursement process with the remainder of our work being mainly substantive in nature as the use of confirmations and specific testing of account balances is the more efficient approach for us to take.	There were no changes to the audit approach outlined in the planning document other than an adjustment to materiality. In our planning document, we presented materiality of $124,000 based on 0.9% of pro-rated revenues. We reviewed the preliminary materiality level based on actual results and determined materiality to be $180,000 based on approximately 0.9% of revenues for the year.
Adoption of, or Changes in, an Accounting Principle , Including Material Alternative Accounting Treatments Discussed with Management and Acceptability of a Particular Policy used by Management	
We determine that the Finance Committee is informed about the initial selection of, and any changes in, significant accounting principles or their application when the accounting principle or its application, including alternative methods of applying the accounting principle, has a material effect on the financial statements. In addition, we report to the Finance Committee all alternative accounting treatments within Canadian generally accepted accounting principles (GAAP) for policies and practices related to material items (including recognition, measurement, presentation and disclosure alternatives) that have been discussed with management during the current audit period including the acceptability of the policies or methods ultimately retained by management.	Refer to "Items of Audit Significance Discussed with Management" section.

Required Communications (continued)

Area	Comments
Sensitive Accounting Estimates and Disclosures	
The preparation of financial statements requires the use of accounting estimates. Certain estimates and disclosures are particularly sensitive due to their significance to the financial statements and the possibility that future events may differ significantly from management's current judgments.	There are no significant judgments or estimates required to prepare the financial statements where actual amounts are likely to be significantly different.
We determine that the Finance Committee is informed about management's process for formulating particularly sensitive accounting estimates and disclosures and about the basis for our conclusions regarding the reasonableness of those estimates.	
Major Issues Discussed with Management Including Accounting for Significant Unusual Transactions and for Controversial or Emerging Areas	
We determine that the Finance Committee is informed about the methods used to account for significant unusual transactions and the effects of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.	We are not aware of any significant unusual transactions recorded by the organization or of any significant accounting policies used by the organization related to controversial or emerging areas for which there is a lack of authoritative guidance.
Significant Audit Adjustments and Unrecorded Differences Considered by Management to be Immaterial	
We provide the Finance Committee with information about adjustments arising from the audit (whether recorded or not) that could in our judgment either individually or in the aggregate have a significant effect on the organization's financial statements.	There were no significant recorded audit adjustments related to the current year.
We inform the Finance Committee about unrecorded audit differences accumulated by us during the current audit period and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.	Refer to "Summary of Audit Differences" section for details on unrecorded amounts.

Required Communications (continued)

Area	Comments
Disagreements with Management	None.
Serious Difficulties Encountered in Dealing with Management when Performing the Audit	None.
Significant Weaknesses in Internal Controls We communicate all significant weaknesses in internal control over financial reporting that may have been identified during the course of our audit.	No significant weaknesses in internal control were identified.
Fraud and Illegal Acts We report to the Finance Committee fraud and illegal acts involving senior management and fraud and illegal acts (whether caused by senior management or other employees) that cause a material misstatement to the financial statements. We are also required to make inquiries of the Finance Committee related to fraud, including both (1) their views about the risks of fraud, and (2) their knowledge of any actual or suspected fraud.	We are not aware of any matters that require communication. We would request that the Finance Committee members raise with us any areas of risk not addressed in our communications and that they inform us of their knowledge of any actual or suspected fraud.
Consultation with Other Accountants	None of which we are aware.
Other Information in Documents Containing Audited Financial Statements Our financial statement audit opinion relates only to the financial statements and accompanying notes.	We are not aware of any other documents prepared by the Centre.
Related Party Transactions Related party transactions identified by the auditor that are not in the normal course of operations or that involve significant judgments made by management concerning measurement or disclosure must be disclosed to the Finance Committee.	Related party amounts are with respect to the City of Toronto. This is disclosed within the financial statements. The City's transactions are conducted in the normal course of operations.

Required Communications (continued)

Area	Comments
Major Issues Discussed with Management in Connection with Initial or Recurring Retention	None.
Matters Relating to Component Entities of the Organization When the financial statements of an organization (primary entity) include financial information from financial statements of a component entity (a subsidiary, investee (other than a portfolio investment), or joint venture; or an entity whose financial information from financial statements is included with those of the Finance Committeethose matters relating to the component entities that in the auditor's judgment are of significance in the context of the primary entity (for example, weaknesses in systems of internal control that have resulted, or could result, in material errors in the primary entity's consolidated financial statements).	None of which we are aware.
Auditors' Independence Canadian generally accepted auditing standards (GAAS) require that we communicate at least annually with you regarding all relationships between your organization and Ernst & Young that, in our professional judgment, may reasonably be thought to bear on our independence.	Refer to "Independence Letter" section.
Other Audit and Non-Audit Services Provided to Your Organization	None.
Fees	• A summary of our fees for the year ended December 31 is included below for your reference.

	2007 $	2006 $
Annual audit fees	$12,000	$12,000
Other audit related fees	$3,000 – 4,000 (TBD)	$3,000

Annual audit fees are inclusive of expenses and GST in accordance with our agreed proposal with the City of Toronto. Other audit related fees relate to additional assistance provided for accounting related issues.

Areas of Significance Discussed with Management

During the course of planning and executing our audit, the following items/matters of audit significance were discussed with management:

Item	Description	Audit Results and Comments
Redevelopment	• The Board has substantial redevelopment plans, including the construction of a high rise above the theatre. It is our understanding that the redevelopment was approved by City of Toronto Council in July 2006 and that the project is scheduled to commence July 2008.	• We were told by management that there were no commitments entered into related to the redevelopment which should be disclosed in the financial statements and, no commitments have come to our attention through performing our audit procedures.
	• Consulting/redevelopment costs related to the redevelopment are currently being funded by the City of Toronto through the Capital Improvement and Rehabilitation Reserve Fund.	
	• We understand that a portion of the CEO's salary is being funded by the City through the Capital Improvement and Rehabilitation Reserve Fund as he spends a significant amount of time on the redevelopment project.	• We reviewed the reasonableness of the amount of the CEO's salary being funded by the City through the Capital Improvement and Rehabilitation Reserve Fund.
	• Note 1 to the financial statements includes a discussion about the redevelopment.	• We concur with all the related disclosures in the financial statements.
Termination Allowance	• In July 2008, the Centre plans on closing down for 1 year and 2 months (re-open in September) for redevelopment (see discussion on redevelopment above); this will result in numerous terminations and severances.	• We concur with the disclosures in the statements in accordance with generally accepted accounting principles.
	• While the decision to close the Centre was known prior to December 31, 2007, the details of any terminations (which individuals and groups that would be impacted) was not developed until 2008. There are no accruals for any termination benefits in the 2007 statements.	

Item	Description	Audit Results and Comments
Name Change	• As part of the Board's redevelopment plan, the City of Toronto and Sony have entered into an agreement whereby the theatre has been renamed in exchange for funds to be held in either the Capital Improvement and Rehabilitation Reserve Fund or a newly created reserve fund with the City of Toronto. It is our understanding that these funds will be used to fulfill the capital requirements of the Board in its contract with the developer in order to create an arts centre at the base of the condominiums. • The agreement has the receipt of the funds under the naming agreement being transferred to the City to the Capital Improvement and Rehabilitation Reserve Fund. The amounts transferred are disclosed within note 4 to the financial statements as the corporate contribution. • We understand, that if at a point in time the arts centre at the base of the condominiums does not proceed, the agreement allows for the transfer of the naming rights money to another reserve fund held within the City to be used for future operations of the Board and not specific to future capital projects.	• We reviewed the agreement with Sony and noted that the legal name remains "The Board of Directors of the Hummingbird Centre for the Performing Arts" and that the trading name is now "The Sony Centre for the Performing Arts" or simply, "Sony Centre". • We vouched to payments received from Sony and the amounts are confirmed through the City confirmation on amounts held within the Capital Improvement and Rehabilitation Reserve Fund held within the City's accounts. • We concur with the reporting of this transaction within the 2007 financial statements.

Areas of Significance Discussed with Management (continued)

Item	Description	Audit Results and Comments
Condominum Unit	• During the year, the Board received the rights to a condominium unit in the high-rise above the theatre in the form of a donation. The value of the condominium as at the point of the transfer was $629,400. The completion date of the condominium is scheduled for November 2010. • The agreement states that there is no interest on the amounts paid in advance payable to the Board. • The fair market value of this donation has been included in Other Income on the statement of operations for 2007 and present valued at a rate of 4% over 3 years. • We understand from discussions with management that there are no implicit or explicit restrictions on the use of this donated asset or the proceeds earned therefrom. The asset has been recorded as revenue during the year recognizing that the Board may use the asset at its own discretion.	• We examined the agreement which assigns the right to the unit from the purchaser to the Board. • We examined the original purchase and sale agreement between the purchaser and the vendor in order to substantiate the value of the unit, together with procedures to verify the value based on sales to third parties through the sales office of the development. • Based on our procedures performed, we believe that the rate used to present value the condominium unit is too high. As such, we have taken an amount to the summary of audit differences of $25,000, as the difference between the amount recognized on the financial statements and present value at a rate of 2.5%.
Employee Future Benefit Obligation	• In the current year, the City of Toronto received a Non-Pension Benefit Valuation Report provided by Mercer which indicated that at December 31, 2007, Hummingbird had a liability of $31,740 related to its participation in the City's LTD plan.	• We reviewed the valuation report prepared by Mercer and ensured the liability is fully recognized. • The Board chose not to make additional disclosure related to the obligation in the notes to the financial statements. On materiality grounds, we concur with the accounting and disclosure of the obligation.

Areas of Significance Discussed with Management (continued)

Item	Description	Audit Results and Comments
Changes to Accounting Policies	• Note 2 sets out details of the changes in accounting policies related to the accounting for and disclosures related to financial instruments and the impact on the opening net assets. The Board is impacted by the new rules around hedges and recording the fair value of the hedges that existed as at December 31, 2006 as of January 1, 2007. The rules do not require restatement of the prior year and as such the impact has been shown as an adjustment to the opening net assets. • Note 2 also sets out new rules that are effective for fiscal 2008 and will be adopted by the Centre next year. These changes will require some additional disclosures in the notes to the financial statements next year.	• We concur with the accounting for and disclosures related to the new accounting standards related to financial instruments. • We concur with the disclosures related to the new rules not yet adopted.
Related Party Transactions	• The Board has amounts payable to and from the City of Toronto. The majority of the transactions relate to the Capital Improvement and Rehabilitation Fund. • Prior to 2005, any surplus earned in the year was transferred to the Stabilization Reserve Fund, subject to City Council approval. Subsequent to the 2004 year end, City Council has not approved the transfer of the surplus to the Stabilization Reserve Fund.	• Management provided a reconciliation of the City of Toronto balance to ensure that the year-end amounts were appropriately accounted for and in agreement with the City. • All amounts have been confirmed with the City. • We concur with the disclosures in the financial statements.
City of Toronto Grant	• We understand that City Council at its meeting of April 20 and 23, 2007 approved a facility for short term borrowing for the Board. In year advances are not to exceed $1.25 million and are to be repaid by December 31 of each year, at an interest rate that is set on a monthly basis by Corporate Finance and is fixed for the term of the loan. These advances are to address cash flow challenges arising from the seasonal nature of the activity of the Centre. • During the year, a grant was provided to the Centre in the amount of $1,174,900 and is included in revenue in the statement of operations. • The above two amounts are separate transactions.	• We have confirmed with the City amounts provided to and owing to/from the Board as at December 31, 2007. The City confirmed the grant to the Board for the year and there are no loans outstanding as of December 31, 2007. • We concur with the disclosures in the financial statements.

Areas of Significance Discussed with Management (continued)

<table>
<tr><th>Item</th><th>Description</th><th>Audit Results and Comments</th></tr>
<tr><td>Hydro Contract (Derivative)</td><td>Effective January 1 2007, the City of Toronto entered into a new contract with various utility providers, for the delivery of hydro and gas to the City. Many of the City’s ABC’s have opted to be part of the umbrella agreement with the City for the delivery of their required utilities. The Centre has been participating in this agreement although we understand the formal agreement has not been signed between the Centre and the City.</td><td>These contracts are being examined at the City for the appropriate treatment at the ABC level For purposes of the audit of the Centre, it was assumed that the agreement does not have embedded derivatives that will flow through to the accounting and disclosure within the ABC financial statements and as a result, there is no impact on the accounting and disclosure within the Centre’s 2007 financial statements. Final confirmation of this is pending from the City.</td></tr>
<tr><td>Changes to the 2007 Financial Statements</td><td>The following changes were made to the statements in 2007 (as compared to the 2006 presentation):
Note 1 was expanded to discuss the name change and corresponding sponsorship agreement as well as the upcoming closure of the centre and the renovations.
Note 2 was revised in connection with the change in accounting rules related to financial instruments.
Note 14 was included to discuss the donation of the Condo Unit
Note 15 was included on Theatre closure and upgrade
Other minor changes were made throughout the statements to reflect the difference between the use of the word “Centre” and “Board” and to make some of the wording in the notes clearer to the reader.</td><td>We concur with the changes to the statements.</td></tr>
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Areas of Significance Discussed with Management (continued)

Item	Description	Audit Results and Comments
Bonus Accruals	• In fiscal 2006, the Centre accrued an amount of $295,000 related to bonuses of which only $274,000 was actually paid out as bonuses for 2006. Per discussions with management, the accrual is overstated again in the current year. The current year bonus accrual is $135,000, which management believes to be reasonable.	• Bonuses related to fiscal 2007 should be approved by the Board as part of 2007 financial statement approval. No amounts have been taken to the summary of audit differences for 2007 since the amount, if any, is likely to be less than $5k. • The prior year amount taken to the summary of audit differences has been decreased to reflect the actual difference of $21k in the prior year instead of the previously reported amount of $25.5 which was the amount identified last year as an unsupported accrual. This decrease to the prior year amount did not have an impact on our opinion on the 2006 comparative financial statements.
Control Exception	• As indicated to you in our planning package, we performed tests of controls over the Centre's cash disbursements process. A test of 25 was performed and one control exception was noted where a cheque was not signed by two signing authorities as required by the Centre's finance policy. • Based on discussions with management, it was concluded that the exception was a result of oversight.	• We extended our testing to an additional 15 transactions and did not note any further exceptions. • We concluded that controls around the cash disbursement process are effective and therefore, we were able to continue with the control based approach related to this process as planned.
Accrued Liabilities	• Subsequent to completing the preparation of the financial statements, management became aware of an invoice for $13K related to 2007 services for which an accrual was not made in the 2007 financial statements.	• We included $13K on the Summary of Audit Differences as an understatement of accrued liabilities.

Summary of Audit Differences

During the course of our audit, we accumulate differences between amounts recorded by your organization and amounts that we believe are required to be recorded under generally accepted accounting principles. Following is a summary of those differences we have identified through the date of this report.

	Recording Differences Would Have Increased (Decreased) Net Assets/Excess of Revenue over Expenses	
	2007	**2006**
	$	$
Known Audit Differences:		
Understatement of other assets	25,000	Nil
Understatement of accrued liabilities	(13,000)	(23,365)
Overstatement of bonus accrual	Nil	21,000
Overstatement of depreciation expense	Nil	3,750
Total Unadjusted Audit Differences Before Turnaround Effect of Prior Year Differences	12,000	(1,385)
Turnaround Effect of Prior Year Differences in Net Assets	1,385	
Total Unadjusted Audit Differences in Income After Turnaround Effect of Prior Year Differences	13,385	

Independence Letter

March 17, 2008

The Finance Committee of the Board of Directors of
the Hummingbird (Sony) Centre for the Performing Arts

We have been engaged to audit the financial statements of the Sony Centre for the Performing Arts (the "Centre") for the year ending December 31, 2007.

Pursuant to Canadian generally accepted auditing standards, we communicate at least annually with you regarding all relationships between Ernst & Young and its related entities and the organization and its related entities, if any that, in our professional judgment, may reasonably be thought to bear on our independence.

We have prepared the following comments to facilitate our discussion with you regarding independence matters arising since April 5, 2007, the date of our last letter.

We are not aware of any relationships between Ernst & Young and the organization that, in our professional judgment, may reasonably be thought to bear on our independence, since April 5, 2007.

Canadian generally accepted auditing standards require that we confirm our independence to the Finance Committee of the Board of Directors in the context of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario. Accordingly, we hereby confirm that we are independent with respect to the organization within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario as of March 17, 2008.

The total fees charged to the Centre during the period January 1, 2007 to March 17, 2008 are set out in the Audit Results package.

This report is intended solely for the use of the Finance Committee of the Board of Directors, management, and others within the Centre (ultimately the City of Toronto) and should not be used for any other purposes.

Yours truly,

Diana Brouwer
416-943-7177

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