Financial Statements

The North York Performing Arts Centre Corporation

[operating as "The Toronto Centre for the Arts"]

December 31, 2008

Ernst & Young

Quality In Everything We Do

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, 2008 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, 2008 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

Toronto, Canada,
February 20, 2009.

Chartered Accountants
Licensed Public Accountants

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

BALANCE SHEET

[In thousands of dollars]

As at December 31

	2008	2007
	$	$
ASSETS		
Current		
Cash	**988**	649
Cash held in trust *[note 4]*	**239**	—
Accounts receivable		
Trade receivable *[note 11]*	**111**	58
City of Toronto	**—**	12
Prepaid expenses	**28**	9
Total current assets	**1,366**	728
Receivable from the City of Toronto *[note 3[a]]*	**3,482**	3,380
Art collection	**2,542**	2,542
Capital assets, net *[note 5]*	**29,340**	30,379
	36,730	37,029
LIABILITIES AND FUND DEFICIT		
Current		
Accounts payable		
Trade payables	**344**	287
City of Toronto *[note 3[b]]*	**—**	81
Deferred revenue	**237**	191
Advance ticket sales	**389**	185
Total current liabilities	**970**	744
Long-term liability *[note 3[c]]*	**10,023**	10,023
Capital contributions *[note 6]*	**28,455**	28,651
Total liabilities	**39,448**	39,418
Fund deficit	**(2,718)**	(2,389)
	36,730	37,029

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

[In thousands of dollars]

Year ended December 31

	2008		2007
	Budget	**Actual**	**Actual**
	$	$	$
	[unaudited]		
REVENUE			
Revenue from operations *[notes 4 and 11]*	2,994	**4,519**	2,353
City of Toronto grant	1,128	**1,128**	1,341
Amortization of capital contributions	—	**958**	927
Other *[note 9]*	—	**—**	50
	4,122	**6,605**	4,671
EXPENSES			
Salaries and benefits *[note 8]*	2,876	**3,753**	2,457
Capital maintenance	80	**133**	60
Utilities	455	**333**	274
Other operating	640	**1,165**	788
Professional fees and services	71	**119**	88
Amortization of capital assets	—	**1,287**	1,252
	4,122	**6,790**	4,919
Excess of expenses over revenue before the following	—	**(185)**	(248)
Transfer to the City of Toronto *[note 3[d]]*		**(144)**	(77)
Excess of expenses over revenue for the year	—	**(329)**	(325)
Fund deficit, beginning of year	—	**(2,389)**	(2,064)
Fund deficit, end of year	—	**(2,718)**	(2,389)

See accompanying notes

The North York Performing Arts Centre Corporation

[operating as "The Toronto Centre for the Arts"]

STATEMENT OF CASH FLOWS

[In thousands of dollars]

Year ended December 31

	2008 $	2007 $
OPERATING ACTIVITIES		
Excess of expenses over revenue for the year	**(329)**	(325)
Add (deduct) non-cash items		
Amortization of capital contributions	**(958)**	(927)
Amortization of capital assets	**1,287**	1,252
	—	—
Net change in non-cash working capital balances related to operations *[note 10]*	**(73)**	(544)
Cash used in operating activities	**(73)**	(544)
INVESTING ACTIVITIES		
Decrease (increase) in receivable from the City of Toronto	**155**	(438)
Purchase of capital assets	**(248)**	(313)
Cash used in investing activities	**(93)**	(751)
FINANCING ACTIVITIES		
Capital Maintenance Reserve Fund - ticket surcharges	**505**	179
Transfer from Stabilization Reserve Fund to Capital Maintenance Reserve Fund	**—**	1,500
Cash provided by financing activities	**505**	1,679
Net increase in cash during the year	**339**	384
Cash, beginning of year	**649**	265
Cash, end of year	**988**	649

See accompanying notes

NOTES TO FINANCIAL STATEMENTS

[All amounts are in thousands of dollars unless otherwise indicated]

December 31, 2008

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 include 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 capital contributions on the balance sheet.

Deferred revenue consists of deposits for rental revenue and deposits for costs to be incurred and recovered by the Centre for future performances. Once the performances occur, the deposits are recorded as revenue from operations.

Ancillary revenues are recognized on the date of the performance or point of sale.

Advance ticket sales

Advance ticket sales represent funds received from tickets sold prior to December 31 for performances presented by rental clients in the following year. Once the performance has occurred the advance ticket sales are payable to the rental clients and are included in trade accounts payable.

Capital assets

Capital assets are recorded at cost and are amortized 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.

Employee future 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 for electricity, to which the Centre is a party, are not designated to be in a hedging relationship and are recorded on the balance sheet 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.

Financial instruments

The Centre has chosen to continue to apply CICA 3861: *Financial Instruments - Disclosure and Presentation* in place of CICA 3862: *Financial Instruments - Disclosures* and CICA 3863: *Financial Instruments - Presentation*.

Use of estimates

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

Changes in accounting policies

Effective January 1, 2008, the Centre adopted the recommendations of CICA 1535: *Capital Disclosures*, which require the disclosure of qualitative and quantitative information that enables users of the financial statements to evaluate the Centre's objectives, policies and processes for managing capital. The adoption of these recommendations only required additional disclosures which are provided in note 12.

Effective January 1, 2008, the Centre adopted retroactively the changes to the recommendations in CICA 4400: *Financial Statement Presentation for Not-For-Profit Organizations* that eliminate the requirement to separately disclose the amount of net assets invested in capital assets. The Centre has therefore eliminated from the financial statements details about the amount of net assets invested in capital assets and the calculation of this amount.

Future accounting policy changes

The CICA has issued revisions to the 4400 series and certain other sections to amend or improve certain parts of the CICA Handbook that relate to not-for-profit organizations. With respect to presentation, these changes require the reporting of revenues and expenses on a gross basis in the statement of operations unless not required by other guidance. A new section, CICA 4470: *Disclosure of Allocated Expenses by Not-for-Profit Organizations*, was included in the revisions which requires certain disclosures when fundraising and general support expenses are allocated to other functions. These changes in accounting policies must be adopted by years beginning on or after January 1, 2009 with earlier adoption permitted. Management is assessing the impact of these revisions and the timing of their adoption. However, the impact will be limited to reclassification of numbers in the financial statements and additional disclosures.

In February 2008, the Accounting Standards Board amended CICA 1000: *Financial Statement Concepts* to clarify that assets not meeting the definition of an asset or the recognition criteria are not permitted to be recognized on the balance sheet. The amendments are effective for financial statements for fiscal years beginning on or after October 1, 2008. These amendments are not expected to have an impact on the financial statements.

[All amounts are in thousands of dollars unless otherwise indicated]

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 6[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 as there are no fixed terms of repayment.

[b] In the normal course of operations, the Centre 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 at the agreed upon exchange amount.

[c] Long-term liability consists of non-interest bearing capital financing provided by the City in the amount of $10,023 [2007 - $10,023]. The fair value of this long-term liability cannot be reasonably determined as there are no fixed terms of repayment. The City has indicated that it will not demand payment of this liability within the next year.

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

	2008 $	2007 $
Excess of expenses over revenue before transfer to the City of Toronto	**(185)**	(248)
Add (deduct) non-cash items		
Amortization of capital assets	**1,287**	1,252
Amortization of capital contributions	**(958)**	(927)
Transfer of current year operating income	**144**	77

4. LICENSE AGREEMENT

On December 21, 2007, the Centre entered into a license agreement with a licensee for the use of the Centre's main stage for certain performances from August 4, 2008 to January 11, 2009. The agreement provides a minimum guaranteed and non-refundable space rental fee for the exclusive use of the premises in the aggregate amount of $403. This amount is initially collateralized by a letter of credit in the amount of $444 issued in favour of the Centre. The letter of credit outstanding at December 31, 2008 was $115. In addition to the rental fee, the licensee is required to pay for certain costs specific to their use of the main stage. In 2008, the space rental fee paid by the licensee was $464.

All proceeds from the sale of tickets at the Centre are to be held in trust until the completion of the applicable performance, at which time, the ticket proceeds for that performance are paid to the licensee. As at December 31, 2008, $239 of advance ticket sales was held in trust.

On March 7, 2008, the Centre and the licensee entered into a Master License Agreement from the date of the agreement until December 31, 2010 providing the licensee first right to use the main stage. The licensee guarantees the Centre a minimum rental fee of $500 for each of 2009 and 2010, collateralized by a letter of credit in the amount of $250 to be replaced on January 31, 2009 by a letter of credit in the amount of $750, which is to be replaced by a letter of credit on January 31, 2010 in the amount of $500. In addition to the rental fee, the licensee is required to pay for certain costs specific to their use of the main stage. On January 9, 2009, this agreement was extended to December 31, 2011 with the licensee guaranteeing the Centre a minimum rental fee of $500, which is collateralized by a letter of credit in the amount of $500.

[All amounts are in thousands of dollars unless otherwise indicated]

5. CAPITAL ASSETS

Capital assets consist of the following:

	2008		
	Cost $	**Accumulated amortization** $	**Net book value** $
Building	**45,443**	**17,173**	**28,270**
Furnishings and equipment	**3,284**	**2,268**	**1,016**
Computer equipment	**221**	**167**	**54**
	48,948	**19,608**	**29,340**

	2007		
	Cost $	**Accumulated amortization** $	**Net book value** $
Building	45,380	16,036	29,344
Furnishings and equipment	3,112	2,153	959
Computer equipment	208	132	76
	48,700	18,321	30,379

[All amounts are in thousands of dollars unless otherwise indicated]

6. CAPITAL CONTRIBUTIONS

[a] Capital contributions consist of the following:

	2008 $	2007 $
Capital contributions from the City	**30,660**	30,660
Other	**8,913**	8,665
	39,573	39,325
Less accumulated amortization of capital contributions	**18,694**	17,736
	20,879	21,589
Capital Maintenance Reserve Fund representing unspent capital ticket surcharges *[note 6[b]]*	**7,576**	7,062
	28,455	28,651

[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 and interest earned on the fund 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:

	2008 $	2007 $
Balance, beginning of year	**7,062**	5,400
Interest earned	**257**	296
Ticket surcharges	**505**	179
Transfer from Stabilization Reserve Fund *[note 7]*	**—**	1,500
Purchase of capital assets funded by capital contributions	**(248)**	(313)
Balance, end of year	**7,576**	7,062

[All amounts are in thousands of dollars unless otherwise indicated]

7. STABILIZATION RESERVE

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. 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. Effective January 1, 2008, the fund was converted to a reserve and no longer earns investment income.

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

	2008 $	**2007** $
Balance, beginning of year	**1,275**	2,767
Reversal of prior year transfer of operating income to the City	—	(138)
Transfer to Capital Maintenance Reserve Fund *[note 6[b]]*	—	(1,500)
Investment income	—	146
Balance, end of year	**1,275**	1,275

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 2008, which were expensed, are $59 [2007 - $61] and are included in salaries and benefits.

[All amounts are in thousands of dollars unless otherwise indicated]

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 2008 amounted to $96 [2007 - $38] and are included in salaries and benefits.

9. OTHER REVENUE

In 2007, the Centre recognized as other income an amount of $50 representing restricted funds received from Menkes Corporation that were previously recorded as deferred revenue.

10. STATEMENT OF CASH FLOWS

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

	2008 $	2007 $
Cash held in trust	**(239)**	—
Accounts receivable		
Trade receivable	**(53)**	(9)
City of Toronto	**12**	(12)
Prepaid expenses	**(19)**	(1)
Accounts payable		
Trade payables	**57**	(217)
City of Toronto	**(81)**	48
Deferred revenue	**46**	(74)
Advance ticket sales	**204**	(279)
	(73)	(544)

Non-cash investing and financing activities excluded from the statement of cash flows include interest earned on the Capital Maintenance Reserve Fund which are included in receivable from the City.

NOTES TO FINANCIAL STATEMENTS

[All amounts are in thousands of dollars unless otherwise indicated]

December 31, 2008

11. 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 the wholesale spot market for electricity in Ontario. The Centre has addressed the commodity price risk exposure associated with changes in the wholesale price of electricity by entering into energy related purchase and sales contracts, through their participation in an agreement entered into by the City that fixes a portion of the wholesale price over the term of the contract. One contract is outstanding at December 31, 2008 and expires on December 31, 2009. The contract is in a loss position at December 31, 2008; however, the Centre's portion of this loss is nominal.

The Centre is subject to credit risk with respect to accounts receivable. As at December 31, 2008, three accounts represent 93% of the total accounts receivable balance [2007 - three accounts represented 75%]. Revenue derived from one customer totaled 51% of revenue from operations. No such concentration of revenues existed in 2007.

12. CAPITAL MANAGEMENT

In managing capital, the Centre focuses on liquid resources available for operations. The Centre's objective is to have sufficient liquid resources to continue operating despite adverse financial events and to provide it with the flexibility to take advantage of opportunities that will advance its purposes. The need for sufficient liquid resources is considered in the preparation of an annual budget and in the monitoring of cash flows and actual operating results compared to the budget. As at December 31, 2008, the Centre has met its objective of having sufficient liquid resources to meet its current obligations.

13. COMPARATIVE FINANCIAL STATEMENTS

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2008 financial statements.

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