The North York Performing Arts Centre Corporation

(Operating as "The Toronto Centre for the Arts")

Audit Results – 31 December 2008

Report to the Audit Committee of the Board of Directors

Ernst & Young
Quality In Everything We Do

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16 March 2009

Members of the Audit Committee
of the Board of Directors of
The North York Performing Arts Centre Corporation

Dear Members of the Audit Committee,

We are pleased to present the results of our audit of the financial statements of The North York Performing Arts Centre Corporation (the “Centre” or the “organization”).

This report to the Audit Committee summarizes the terms of our engagement, 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 31 December 2008 financial statements of the organization. In planning the audit, we held discussions with management, considered current and emerging business risks, performed 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 Audit 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 31 December 2008 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 Audit 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,

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

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Items of Audit 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
Related Party Transactions	• The Centre has amounts payable to and from the City of Toronto. The majority of the transactions have to do with regular grant funding for operations, Capital Maintenance Reserve Fund charges or the Stabilization Reserve.	• We have confirmed all year-end balances with the City and, as such, have concluded that all balances with the City have been appropriately reflected in the accounts of the Centre for 2008.
Dancap Productions Inc Agreement	• During 2008, the Centre entered into an agreement with Dancap Productions Inc ("Dancap"), a producer of Broadway style theatre. • The original contract granted Dancap exclusive rights to the Centre's Main stage to host performances of the "Jersey Boys" from August 4th 2008 to January 11, 2009. • The Centre also entered into a Hold agreement with Dancap, which grants Dancap exclusive use of the Main stage to December 31, 2011. • The agreement provides a guaranteed and non-refundable space rental fee for the exclusive use of the premises and a fee for certain costs specific to their use of the main stage, collateralized by a letter of credit. • All proceeds from the sale of tickets at the Centre are to be held in a trust account. • Legal fees in the amount of $65K relating to the original agreement, extension of the contract and the Hold agreement were recorded as expenses in 2008. • Revenue from Dancap represents 51% of total revenue from operations.	• We concur with management's accounting treatment and disclosures relating to these transactions.
Recorded Audit Differences	• The Centre recorded $29K of ticket sales collected for 2008 shows as advance ticket sales.	• As the shows took place prior to December 31, 2008, the amount should be reclassified to accounts payable as it is owing to the licensees.
	• The Centre recorded $33K as a receivable for shows that took place by December 31, 2008 for which they had previously received a deposit.	• As the Centre had deposits received for these shows, the amounts recorded as accounts receivable should have been recorded as a charge to deferred revenue.

Items of Audit Significance Discussed with Management (continued)

Item	Description	Audit Results and Comments
Recorded Audit Differences (continued)	• The Centre recorded amounts receivable from Ticketmaster of $54K related to 2008 events as cash in transit. These amounts were received in January 2009 via a wire transfer.	• The amount should be reclassified from cash to accounts receivable as the cash was collected subsequent to year end. • We recorded these amounts on the Summary of Audit Differences. Management has agreed to and recorded the adjustments.
Art Collection	• During 2004, the City of Toronto approved a new location for the Museum of Canadian Contemporary Art ["MOCCA"]. At this time, the artwork was removed from the Centre's premises with the exception of the artwork owned directly by the Centre – which is to be maintained by MOCCA.	• We recommend that management consider the future use of the collection and how it will be maintained. Consideration should be given to discussing the transfer of ownership of the collection to the City to offset City balances outstanding.
City of Toronto Financing	• The City indicated that the long-term loan to the Centre of $10,023K will be forgiven in 2008. • The City is still in process of obtaining Council approval and therefore, the financial statements continue to present the long-term loan as a liability at December 31, 2008.	• We concur with the accounting treatment and disclosure in the financial statements.
Livent Lawsuit	• An amount of $32K is included in deferred revenue representing the remaining funds provided to the Centre by the City for legal costs related to the Livent lawsuit.	• Discussion with the City should be considered concerning the elimination of this balance.
Changes to Accounting Policies	• Note 2 sets out details of the changes in accounting policies related to CICA 1535: Capital Disclosures and CICA 4400 related to the elimination of the requirement to separately disclose the amount of net assets invested in capital assets. • Notes 12 sets out the required disclosures resulting from the adoption of recommendations related to Capital Disclosures.	• We concur with the accounting for and disclosures related to the new accounting standards.
	• Note 2 also sets out new rules that are effective for fiscal 2009 and will be adopted by the Centre next year. These changes will require some additional disclosures in the notes to the financial statements.	• We concur with the disclosures related to the new rules not yet adopted.

Items of Audit Significance Discussed with Management (continued)

Item	Description	Audit Results and Comments
Changes to the 2008 Financial Statements	The significant changes to the financial statements not addressed elsewhere are as follows: • Cash held in trust as a result of the Dancap agreement and advance ticket sales are disclosed separately on the balance sheet. The advance ticket sales for 2007 were reclassified from deferred revenue to conform to current year presentation. Furthermore, an accounting policy note for advance ticket sales was included in note 2 to the financial statements. • Details of the Dancap agreement have been disclosed in note 4 to the financial statements. • Details of net assets invested in capital assets were eliminated from note 5 and note disclosure on the components of fund deficit have been eliminated as separate disclosure of net assets invested in capital assets is no longer required. • Note 2, Financial Instruments, makes reference to the fact that the Centre has chosen to continue to apply the financial instruments section related to disclosures and presentations adopted last year, rather than adopting CICA 3862: Financial Instruments – Disclosures and CICA 3863: Financial Instruments – Presentation. • As a result of City of Toronto Council recommendation, the Stabilization Reserve Fund was converted from a fund to a reserve on January 1, 2008 and no longer earns investment income, as disclosed in note 7 to the financial statements. • Details of the change in non-cash working capital balances in the statement of cash flows are disclosed in note 10 to the financial statements.	• We concur with the changes to the financial statements.

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	
	2008	**2007**
	$	$
Unrecorded Audit Differences		
Overstatement of Professional Fees Expense	—	(7,500)
Transfer to the City of Toronto	—	7,500
Total Unadjusted Audit Differences in Fund Deficit Before Turnaround Effect of Prior Year Differences	—	—
Turnaround Effect of Prior Year Differences in Fund Deficit	—	
Total Unadjusted Audit Differences in Excess of Revenue over Expenses	—	

Required Communications

Generally accepted auditing standards in Canada require the auditor to communicate certain matters to the Audit 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 planning document presented to the Audit Committee, 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 February 20, 2009, upon approval of the financial statements by the Board of Directors and completion of certain outstanding procedures. The following procedures are outstanding: ▪ confirmation from the Audit Committee that there are no areas of concern that have not been addressed in this document; and ▪ final procedures relating to the draft of the financial statements and footnotes.
Changes to Audit Approach Outlined in Planning Document	
In our planning document, we indicated that we would follow a substantive audit approach with most aspects of the audit except for purchases/cash disbursements where controls will be relied upon.	There were no changes to the audit approach outlined in the planning document.
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 Audit 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 Audit 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 acceptability of the policies or methods ultimately selected 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. We determine that the Audit 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.	There are no significant judgments or estimates required to prepare the financial statements where actual amounts are likely to be significantly different from the estimates.
Major Issues Discussed with Management Including Accounting for Significant Unusual Transactions and for Controversial or Emerging Areas	
We determine that the Audit 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 Audit Differences Considered by Management to be Immaterial	
We provide the Audit 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 three recorded audit adjustments related to the current year as discussed in "Items of Audit Significance Discussed with Management" section.
We inform the Audit Committee about unrecorded audit differences accumulated by us (i.e. adjustments either identified by us or brought to our attention by management) 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.	There were no unrecorded audit differences as disclosed in the "Summary of Audit Differences" section.
Disagreements with Management	None.
Serious Difficulties Encountered in Dealing with Management when Performing the Audit	None.

Required Communications (continued)

Area	Comments
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 Audit 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 not aware of any matters that require communication.
We are also required to make inquiries of the Audit 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 would request that the Audit 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 containing audited financial statements.
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 Audit 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.
Major Issues Discussed with Management in Connection with Initial or Recurring Retention	None.

Required Communications (continued)

Area	Comments
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 primary entity), the auditor communicates with the Audit Committee those 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.

Area	Comments
Other Audit and Non-Audit Services Provided to Your Organization	None.
Fees	• A summary of our fees is included below for your reference.

	2008 $	2007 $
Annual audit fees	19,050	10,000
Other audit related fees:		
Accounting treatment of legal fees for Dancap	1,850	—
Accounting for Dancap agreement and related disclosures	6,500	—
Conversion testing and updated note disclosures	—	3,500

- Annual fees for 2008 are inclusive of expenses and plus GST. This is the first year of a two-year contract extension ending with the audit of the December 31, 2009 financial statements in accordance with our agreement with the City of Toronto.

Independence Letter

16 March 2009

Members of the Audit Committee
of the Board of Directors
of The North York Performing Arts Centre Corporation

We have been engaged to audit the financial statements of The North York Performing Arts Centre Corporation for the year ended 31 December 2008.

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 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 12 March 2008, 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 12 March 2008, the date of our last letter.

Canadian generally accepted auditing standards require that we confirm our independence to the Audit Committee 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 15 March 2009.

The total fees charged to the organization during this period are set out in the Audit Results package.

We are looking forward to discussing with you the matters addressed in this package at our upcoming meeting.

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

Yours truly,

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

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