The Sony Centre for the Performing Arts

Audit Results – 31 December 2008

Report to the Finance Committee of the Board of Directors

Ernst & Young
Quality In Everything We Do

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March 23, 2009

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

Dear Members of the Finance Committee,

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

This report to the Finance 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 December 31, 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 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, 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 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,

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 Board has amounts due to and due from the City of Toronto. The majority of the transactions relate to regular grant funding for operations, the Capital Improvement and Rehabilitation Reserve Fund (the "Fund") and the Capital Works Program.	• 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 Board for 2008.
Redevelopment	• The Board closed for operations commencing July 1st, 2008 with substantial redevelopment plans for the renovation of the theater interior and an upgrade of its mechanical and electrical systems. • Construction costs for the redevelopment were funded through the Capital Improvement and Rehabilitation Reserve Fund and the Capital Works Program. The balance of the Fund was transferred to the Capital Works Program at December 31, 2008. • Details of the Capital Works Program were added to note 5 to the financial statements.	• The Board closure has been appropriately disclosed in the notes to the financial statements. • We confirmed the balance of the Capital Improvement and Rehabilitation Reserve Fund with the City of Toronto.
	• A portion of certain salaries for individuals related to the redevelopment project are being recovered from the City.	• We reviewed invoices sent to the City of Toronto indicating time spent by each employee and their hourly rate. We did not note any irregularities.
	• Note 3 to the financial statements includes a discussion about the redevelopment.	• We concur with the accounting and disclosure of transactions related to the redevelopment plan.

Items of Audit Significance Discussed with Management (continued)

Item	Description	Audit Results and Comments
City of Toronto Loan	• Construction costs incurred for redevelopment paid for by the Board and set up as receivable from the City are being funded through a loan from the City of Toronto with an annual interest rate of 3.5% and repayment date of March 31, 2009. Details of the loan are disclosed in note 3 to the financial statements.	• We confirmed the details of the loan with the City of Toronto. This loan has been presented on the balance sheet as a current liability and interest has been accrued in the financial statements. • We concur with the accounting treatment and disclosure related to the loan.
Operations Funded by Capital Improvement and Rehabilitation Fund	• During 2008, the Board received $760,900 from the Capital Improvement and Rehabilitation Reserve Fund for use towards operations. • We understand from management that the fund has two pools of funds, one restricted for the purpose of capital improvements and an unrestricted portion that may be used at the Board's discretion.	• Funds received by the Board in the amount of $760,900 exceeded the amount calculated by management as being available funds for operations by $67,163. • We were informed by management that the City does not differentiate the funds as capital or unrestricted, and views the fund on a total basis. • We recommend that management consults legal counsel with respect to the definition of the fund and its appropriate use.
Membership Revenue	• We understand that the Board has historically recognized revenue from the sale of "Circle of Friends" memberships at the date of sale. • As part of the Board's closure, management communicated to the members of the "Circle of Friends" club that once the Board reopens, their membership will be automatically renewed and complimentary for one year. • Management deferred the revenue relating to all memberships that were outstanding as at July 1st, 2008, the date of the Board's closure.	• Management determined that an amount of $13,035 included in deferred revenue was receipted and therefore, should have been recognized as revenue. • An amount of $13,035 was recorded as an understatement of 2008 revenue in the Summary of Audit Differences.
Bonus Accruals	• The financial statements were prepared on the assumption that bonus accruals of $191,000 [2007 - $135,000] will be approved.	• The Board of Directors will need to approve the 2008 bonus accrual as part of the financial statement approval process.

Items of Audit Significance Discussed with Management (continued)

Item	Description	Audit Results and Comments
Vacation Accrual	• The Board accrued vacation for certain employees based on their entitlement to 5 weeks of vacation. • The contracts for these employees run from July 1st 2008 to June 30th, 2009. As a result, only ½ or 2.5 weeks of vacation was earned as at December 31, 2008.	• We have included on the Summary of Audit Differences, $5,633 as an overstatement of vacation accrual.
Employee future Benefits	• In fiscal 2007, the City of Toronto received a Non-Pension Benefit Valuation Report provided by Mercer with extrapolations for 2008 which indicated that Sony has a liability of $62,111 at December 31, 2008 related to its participation in the City's long-term disability plan. The Board has recorded an expense of $31,328 in the statement of operations for 2008 to increase the liability to $62,111. • In the prior year, the amount of the liability was included in accounts payable and accrued liabilities. The 2007 amount was reclassified to conform to the current year presentation of separate disclosure of employee future benefits due to the City of Toronto.	• We reviewed the valuation report prepared by Mercer. • We concur with the accounting treatment and disclosure of the obligation in the financial statements. • The Board chose not to provide additional disclosures related to the obligation in the notes to the financial statements. Based on materiality, we concur with the exclusion of the additional note disclosure.
Pay Equity Plan	• During 2008, the Board was served with a claim from a bargaining unit of the union for pay equity adjustments. The Board's management is in consultation with its lawyers and pay equity consultant in evaluating the validity of the review. Management has indicated that the potential liability, if any, is not currently determinable. This claim is disclosed in note 15[b] to the financial statements.	• As the potential liability is not currently determinable, we concur that no accrual should be recorded in the financial statements. Furthermore, we concur with the disclosure of the claim in note 15[b] in the financial statements.

Items of Audit Significance Discussed with Management (continued)

Item	Description	Audit Results and Comments
Un-accrued Severance Costs	• We understand that under the collective agreements, the option exists for certain employees to hold on to their recall rights and choose not to be terminated. • The potential severance obligation for these employees amounts to approximately $40,000 and has not been recorded as an expense in the financial statements. • The exposure to this potential liability has been disclosed in note 15 [b] to the financial statements.	• As management is not able to determine if any employees will give up their recall rights which will result in termination of employment, it is reasonable to not record the liability. • We concur with the accounting treatment and disclosure in the financial statements.
Prior year reclassifications	• Management reclassified certain amounts presented on a net basis in 2007 to gross presentation of revenues and expenses in the statement of operations, which has resulted in the inclusion of note 16, Comparative Financial Statements. These amounts primarily relate to co-venture share of losses for White Christmas and labour recoveries from the City. There were other immaterial reclassifications between various expenses lines on the statement of operations.	• We agreed all reclassified amounts to our prior year working papers and determined that the reclassifications are appropriate.
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 14 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 Board next year. These changes will require some additional disclosures in the notes to next year's financial statements.	• We concur with the disclosures related to the new rules not yet adopted.

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: • An accounting policy note for advance ticket sales and deferred revenue were included in note 2 “Summary of Significant Accounting Polices”. Separate notes included in the 2007 financial statements were removed. • Separate disclosure of invested in capital assets is no longer required to be disclosed in net assets and have been included in unrestricted net assets. Details of the changes in the net book value of assets was eliminated from note 7. Furthermore, the statement of changes in net assets, which was presented separately in the prior year, has been combined with the statement of operations. • Note 2, Financial Instruments, makes reference to the fact that the Board has chosen to continue to apply the financial instruments section related to disclosures and presentation adopted last year, rather than adopting CICA 3862: Financial Instruments – Disclosures and CICA 3863: Financial Instruments – Presentation. • As a result of a City of Toronto Council decision, 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 4 to the financial statements. • Details of the change in non-cash working capital balances and non-cash operating activities excluded from the statement of cash flows are disclosed in note 12 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 vacation accrual	5,633	—
Understatement of membership revenue	13,035	—
Understatement of accrued liabilities	—	(13,000)
Total Unadjusted Audit Differences in Excess of Revenue Over Expenses Before Turnaround Effect of Prior Year Differences	18,668	(13,000)
Turnaround Effect of Prior Year Differences in Excess of revenue of expenses	13,000	
Total Unadjusted Audit Differences in Excess of Revenue over Expenses	31,668	

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 planning document presented to the Finance 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 March 4, 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 Finance Committee that there are no areas of concern that have not been addressed in this document; ▪ letter of management representation; ▪ updated confirmation from the City of Toronto; 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 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 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 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.	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 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 Audit 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 recorded audit adjustments related to the current year.
We inform the Finance 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.	Refer to "Summary of Audit Differences" section for details of unrecorded differences.
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 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 not aware of any matters that require communication.
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 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 Board 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 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.
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 Finance 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.
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	31,270	12,000
Other audit related fees	TBD	4,725

- We are in the process of discussing with management additional fees related to assistance with financial statement disclosures and reclassification of prior year amounts.
- 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

March 23, 2009

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

We have been engaged to audit the financial statements of The Sony Centre for the Performing Arts for the year ended December 31, 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 March 12, 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 March 12, 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 March 23, 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 Finance 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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