The Sony Centre for the Performing Arts

Audit Results – Year Ended 31 December 2009

Report to the Finance Committee of the Board of Directors

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

21 April 2010

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 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, 2009 financial statements of the Organization. In planning the audit, we held discussions with management, considered current and emerging business risk, 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, 2009 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 are looking forward to meeting 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 during the year relate to regular grant funding for operations, a bridge loan repaid in October 2009, the Facility Fee Reserve Fund – Sony Centre (the "Reserve Fund") and the Capital Works Program – Sony Centre Redevelopment Project ("CWP").	• 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 2009.
Accounting Software System Conversion	• The Board transitioned its existing accounting system to EBMS in 2009.	• We have performed tests to validate that the system conversion was completed appropriately.
Redevelopment	• The Board closed 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. • Funding for the construction costs for the redevelopment were provided to the CWP by the Reserve Fund. • Details of the CWP are presented in the 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 Facility Fee Reserve Fund – Sony Centre 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 project.	• We concur with the accounting for and disclosures related to the redevelopment project.
City of Toronto Loan	• Certain construction costs incurred for the redevelopment paid for by the Board were being funded through an interest bearing loan from the City of Toronto. Utilized loans totaling $4,000,000 were repaid in October 2009 by reducing the due from the City of Toronto. 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. • We concur with the accounting for and disclosures related to the loan.

Items of Audit Significance Discussed with Management (continued)

Item	Description	Audit Results and Comments
Bonus Accruals	• The financial statements were prepared on the assumption that bonus accruals of $181,500 [2008 - $181,372] will be approved.	• The Board of Directors will need to approve the 2009 bonus accrual as part of the financial statement approval process.
Employee Future Benefits	• In fiscal 2009 the City of Toronto engaged an actuarial firm to perform a valuation of the non-pension benefit obligation for the Board. • This valuation indicates that the Board has a liability of $89,537 and a long-term disability benefit obligation of approximately $503,000 as at December 31, 2009 related to its participation in the City's long-term disability plan. The Board has recorded an expense of $27,426 in the statement of operations for 2009 to increase the liability to $89,537. • Details of the employee future benefits are disclosed in note 9 and have been revised to include additional disclosure due to the large dollar amounts in the current year.	• We reviewed the valuation report prepared by the actuarial firm. • We concur with the accounting treatment and disclosure of the obligation in the financial statements.
Capital Asset Amortization	• The Board developed a new website during 2009 which was launched in January 2010. The website is included in computer equipment in note 7 to the financial statements and management has recorded amortization of $9,559 in 2009. • Management recorded amortization expense on stage equipment and amortization of the related deferred capital contributions amounting to $165,723 and $149,105 respectively in 2009. Since the Centre was not in operations, amortization should not have been recorded on these assets. Management has recorded this adjustment. • In the comparative 2008 statements, amortization expense on stage equipment and amortization of the related deferred capital contributions of $78,643 have been reduced in the statement of operations and capital assets and deferred capital contributions have been increased by the same amount since operations ceased	• Amortization on the new website should not have been recorded in 2009 as the asset was not in use. We have included this amount on the Summary of Audit Differences. • We concur with the accounting treatment and adjustment recorded by management.

	in June 2008. This reclassification has been disclosed in note 15 to the financial statements.	
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, in consultation with its lawyers and pay equity consultants, has calculated the liability to be approximately $52,000 and has accrued this amount in the financial statements.	• We concur with the adjustment recorded by management 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 $31,000 and has not been recorded as an expense in the financial statements. • The exposure to this potential liability has been disclosed in note 14 [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 not to record the liability. • We concur with the accounting treatment and disclosure in the financial statements.
Future Accounting Policy Changes	• Note 2 to the financial statements sets out new rules that will apply for future periods.	• We concur with the disclosures related to the new rules not yet adopted.

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) Excess of Revenue over Expenses	
	2009	2008
	$	$
Known Audit Differences:		
Overstatement of amortization on capital asset not in use	9,559	–
Overstatement of vacation accrual	–	5,633
Understatement of membership revenue	–	13,035
Total Unadjusted Audit Differences Before Turnaround Effect of Prior Year Differences	9,559	18,668
Turnaround Effect of Prior Year Differences	(18,668)	
Total Unadjusted Audit Differences in Excess of Revenue over Expenses	(9,109)	

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 3, 2010 upon approval of the financial statements by the Board of Directors and completion of certain outstanding procedures. The following procedure is outstanding: ▪ letter of management representation
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/payables/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.	There were no changes to significant accounting policies
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.	We had no discussions with management regarding material alternative accounting treatments

Required Communications (continued)

Area	Comments
Our Judgments About the Quality of the Organization's Accounting Principles	
We discuss our judgments about the quality, not just acceptability, of the accounting principles as applied in the organization's financial reporting, including the consistency of the accounting policies and their application and the clarity and completeness of the financial statements and related disclosures.	We believe the quality of accounting policies disclosed in the financial statements as applied in the financial reporting, the consistency of their application, and the understandability and completeness of the financial statements are reasonable in relation to industry practice.
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.

Required Communications (continued)

Area	Comments
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 eight recorded audit adjustments in the current year and they were not indicative of any systemic problems. Refer to "Items of Audit Significance Discussed with Management" for discussion of significant adjustment.
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.
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.

Required Communications (continued)

Area	Comments
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. However, we also review other information in the Annual Report, such as Management's Discussion and Analysis, for consistency with the audited financial statements.	We are not aware of any other documents prepared by the organization 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
Auditors' Independence	
Canadian generally accepted auditing standards 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.

	2009 $	2008 $
Annual audit fees	31,270	31,270
Other audit related fees:		
System Conversion	3,300	-
Employee future benefit review,		
research and disclosure	1,200	-

- Annual fees for 2009 are inclusive of expenses and plus GST. This is the second 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. The other audit related fees was discussed and agreed with Roy Reeves

Independence Letter

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

21 April 2010

We have been engaged to audit the financial statements of The Sony Centre for the Performing Arts (the "Organization") for the year ended December 31, 2009.

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 23, 2009, 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 23, 2009, the date of our last letter.

Canadian generally accepted auditing standards require that we confirm our independence to the Finance 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 29, 2010.

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
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ERNST & YOUNG LLP

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