

## **Audit Results for Exhibition Place – December 31, 2009**

<b>Date:</b>	May 31, 2010
<b>To:</b>	Audit Committee
<b>From:</b>	Dianne Young, Chief Executive Officer-Exhibition Place
<b>Wards:</b>	Not Applicable
<b>Reference Number:</b>	

### **SUMMARY**

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This report presents for the information of the Audit Committee and City Council the audit results for the year ended December 31, 2009 for Exhibition Place. The auditor of record for the Board, Ernst & Young LLP, audits these statements in accordance with generally accepted auditing standards and summarizes issues of audit significance and provides the communications required by their professional standards. This is the section of the audit results where the auditors make their suggestions and recommendations, based on audit findings, to improve the accounting and internal control procedures. As noted in the full Audit Results attached, during the 2009 audit, the auditors did not discover any significant opportunities for improvements in the current control environment. This report summarizes the auditor's comments which can be found in full in Attachment 1.

### **Financial Impact**

There are no financial implications to this report.

### **DECISION HISTORY**

Audit Results for the Board of Governors of Exhibition Place are required to be submitted on an annual basis to the Finance and Audit Committee, and to the Board of Governors and ultimately to the City of Toronto.

At its meeting of May 27, 2010, the Board of Governors of Exhibition Place received this report and referred it to City Council for its information.

## ISSUE BACKGROUND

As part of their audit engagement for the Board, Ernst and Young LLP, the external auditors, provide a comprehensive reporting document to the Finance and Audit Committee. This document is a direct communication from the auditors to the Board of Governors of Exhibition Place and ultimately to the governing body of the organization. It summarizes the scope of the audit work, describes the audit objectives, identifies issues of audit significance discussed with management and provides the communications required by Canadian generally accepted auditing standards and is designed to express an opinion on the consolidated financial statements of the Board.

## COMMENTS

The Audit Results report from Ernst & Young LLP is divided into various sections and these are described in the balance of this report.

### Items of Audit Significance Discussed with Management

The following audit, accounting and reporting issues were discussed with management:

#### (1) Employee Future Benefits

In the new actuarial projections developed by Buck Consultants to estimate the future costs of employee benefits, there is no distinction made between employees of the CNEA and the Board of Governors. The auditors agree with the work of the outside specialists and noted that the accounting and recording approach used by management in presenting this information on the Exhibition Place financial statements as an expenditure and confirmed that the assumptions used by Buck in its evaluation is reasonable and all disclosures are appropriate for financial statement purposes.

#### (2) Energy Retrofitting Projects

Commencing in August 2006 and continuing during 2007, 2008 and 2009, the Board completed retrofitting work within various buildings, including the Direct Energy Centre. The projects are part of a City wide program entitled the “Energy Retrofit Program” where the City initially funded the costs through their own capital program. The arrangement with the City provides that any energy savings realized from the retrofitting program will be used to repay the loans associated with it.

The Board has previously disclosed the repayment commitments in its financial statements by way of note disclosure and by previous agreement with Ernst & Young in 2006 and 2007. For 2008 and 2009, the City has asked and the auditor has concurred, that the Board, in addition to the note disclosures that the liabilities for the energy retrofit loans and any related energy savings be included in the body of the financial statements, with an offset with an asset entitled “Energy Retrofit Asset for the Capital Improvements” undertaken. Staff has complied with the City request notwithstanding that the Board does not own the assets, that is, all Board capital assets are City-owned and are usually carried on the City books.

Continuing in 2009, the Board completed the boilers replacement and lightings project. The auditor concurs with the Board's accounting and reporting treatment for these assets and liabilities for loan repayments within the 2009 financial statements. The auditor recommended that the Board and the City enter into written agreements for all of the financing arrangements under the retrofit programs, but staff (City and Board) are of the view that this is not required as the City has already obtained financing and contractual agreements with the appropriate third party lender on the Board's behalf, and City Council has also directed for each of the projects how the accounting, reporting, savings and debt payments should be accounted for between the City and the Board.

(3) National Soccer Stadium (BMO Field)

The BMO Field operation is accounted for on a separate accounting system under the management agreement through Maple Leaf Sports & Entertainment Limited and is consolidated into the Board's records for budget and financial statement reporting purposes.

(4) Related Party Transactions with the City

The Board has many ongoing transactions with various City Departments such as trade receivables, trade payables and loans payables. As is consistent in prior year's audit, staff has provided a listing of all payables due to the City at year end. The auditors are of the opinion that if the corresponding receivables are not in the City listing and/or books, that Exhibition Place should not carry the payables. Exhibition Place staff are of the view that this opinion is not the right approach as the legal liability to pay still exists, as these payables were accrued on the basis of direct invoicing from the City (for landscaping); and payments to the City sick bank reserve for one of the four Exhibition Place programs.

(5) New Accounting Software System Transition

The auditors noted that the new Great Plains Accounting Software was implemented in 2009 and all system conversion tests were performed and validated to their satisfaction.

(6) Allstream Centre

In October 2009, the Allstream Centre was completed with a loan financing from the City of Toronto, a loan from Federation of Canadian Municipalities (FCM), financing from capital contributions and the Board own working capital. The auditors are bringing to the Board's attention that the cost of the capital building improvements and all related interest expense on the loans including interest accruing during the period of construction has been disclosed, accounted and reported on properly in the consolidated financial statements.

(7) Marquee Tourism Event Program (MTEP)

The auditors are noting that a significant financial contribution was received by the CNE from the Federal Government to stimulate the growth of visitor and tourism and that they are in agreement with the accounting and reporting of this special item in the Statement of Operations.

### Required Communications

This section covers a wide variety of topics such as the auditors' responsibilities under Generally Accepted Auditing Standards, internal control structure, accounting estimates, discussions with management, auditors' independence and fees charged on this engagement. Some of the key communications in this section are that:

- There were no significant changes in 2009 overall audit approach compared to the one outlined in the audit planning document sent to Finance and Audit Committee members in January 2010.
- There were no significant unusual transactions related to the current year.
- The quality of the organization's accounting principles as applied in its financial reporting are consistent, complete and reasonable in relation to industry practice.
- There were no significant audit adjustments for the Board except for classification adjustments and the purchase of the carpets for Allstream Centre.
- There were 27 recorded audit differences; these adjustments had a net impact of increasing the Board's revenue by approximately \$414,082. Most of the recordings are for reclassification entries for the CNEA, Exhibition Place and Allstream Centre programs. These are mostly balance sheet to balance sheet entries reclassified to be consistent for presentation purposes with no financial impact. For example - reclassifying naming rights accounts receivable at year end with deferred revenue; netting of GST input tax credit receivables with GST payables. Two (2) of the recordings were to address the Buck Consultants actuarial adjustments for employee long term benefits that came in after the financial statements were prepared. Three (3) entries were for adjustment of the year end consolidated surplus to record the second purchase installment of the two CNEA artifacts (Haines and Satok) as per the MOU between the Board and the CNEA. The most significant entries were related to the Board's purchase of the carpet for the Allstream Centre which was expensed in full upon acquisition. Management are of the view that tile carpet has very limited useful life given the nature of the trade and consumer show industry and its high usage and the fact that it has no resale value once installed; in other words, it is probably no different than installing filters in the HVAC system which are treated as supplies and expensed in full. However, the auditors are of the view that carpet is a real asset much like AV systems and has a longer useful life and that it should be capitalized and amortized over its useful life calculated to be 2 years.
- There were no disagreements with management on financial accounting and reporting matters.
- No significant or material weaknesses in internal control were identified in the current environment.

### Summary of Audit Differences

There were \$239,000 of unrecorded audit differences for 2009. The unrecorded audit differences for the Exhibition Place Program is recorded in the books as a potential liability for legal issues, which if adjusted in the financial statements would increase income.

### Independence Letter from Ernst & Young

Ernst & Young confirm their independence as required by Canadian generally accepted auditing standards with respect to this audit engagement and state that there are no personal or business relationships that could impair this independence.

### Memorandum/Letter of Recommendations

This is the section of the audit results where the auditors make their suggestions and recommendations, based on audit findings, to improve the accounting and internal control procedures. During the 2009 audit, the auditors did not discover any significant opportunities for improvements in the current control environment.

### **CONTACT**

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### **SIGNATURE**

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Dianne Young  
Chief Executive Officer

### **ATTACHMENTS**

Report from Ernst & Young – Audit Results – December 31, 2009 for Exhibition Place