Canadian National Exhibition Association
Canadian National Exhibition Foundation

Year-end Report to the Finance Committee
December 31, 2010

PricewaterhouseCoopers

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April 20, 2011

Members of the Finance Committee of the Board of Directors of
Canadian National Exhibition Association, and
Canadian National Exhibition Foundation

Dear Members of the Finance Committee

We have substantially completed our audit of the financial statements of the Canadian National Exhibition Association (the Association) and the Canadian National Exhibition Foundation (the Foundation) for the year ended December 31, 2010 and propose to issue unqualified reports on those financial statements, pending resolution of outstanding items outlined on page 1. Our draft auditors' reports are included in Appendices A and B.

We have issued the accompanying report to assist you in your review of the financial statements. It includes an update on the status of our work as well as a discussion on the significant accounting and financial reporting issues dealt with during the audit process.

We propose to review the key elements of this report at the upcoming meeting and discuss with your Finance Committee our key findings.

We would like to express our sincere thanks to the management and the staff of the Association and the Foundation who have assisted us in carrying out our work and we look forward to our meeting on April 26, 2011. Should you have any questions or concerns prior to the Finance Committee meeting, please do not hesitate to contact me in advance.

Yours very truly,

PricewaterhouseCoopers LLP

Terri McKinnon
Partner
Audit and Assurance Group

cc: Dianne Young, Chief Executive Officer
Hardat Persaud, Chief Financial Officer

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Appendices

1. Executive summary

a. Status of the audit

We have substantially completed our audit of the 2010 financial statements. Our audit report will be issued once we receive and have completed our audit work on the outstanding items noted below.

Our audit has been performed substantially in accordance with the plan and timeline previously communicated to you.

The following items will need to be completed / received prior to the issuance of our opinion. We will provide an update on the status of these items at our upcoming meeting.

Outstanding item	Status as at April 20, 2011
i. Finalization of employee future benefits testing (applicable to Association only)	Final assessment on actuarial assumptions to be provided by our internal expert
ii. Finalization of manual journal entry testing	Follow up on certain queries
iii. Completion of subsequent events procedures	Discussion to be held with management when audit report is finalized
iv. Legal letters	Confirmations are outstanding from: • Legal Services, City of Toronto • Hicks Morley, Barristers and Solicitors
v. Receipt of signed management representation letter	To be provided to management
vi. Approval of the financial statements by the finance committee / board of directors	To be approved at the meeting

b. Key issues for discussion

The following is a summary of the key audit and financial reporting issues we discussed with management during the audit. Further details on each issue can be found within this document. (All amounts are in thousands of dollars)

	Issue	Summary discussion	For further reference
i.	Significant audit, accounting, and financial reporting matters	• We discussed the following significant audit, accounting, and financial reporting matters with management: o Revenue recognition (Association only); o Employee future benefits payable (Association only); o Sale of the Garden of Greek Gods statues; o Completeness and accuracy of amounts transactions with related parties; and o Management override of controls	Section 2

	Issue	Summary discussion	For further reference
ii.	Summary of unadjusted items	• For the Association, we identified one difference during the audit which was adjusted for by management and did not impact the statement of operations. Similarly, one unadjusted item was also noted for the Foundation, which also had no impact on the statement of operations. • A summary of these differences is included in Appendix C. • In our opinion, the financial statements, taken as a whole, are free of material misstatement.	Section 3
iii.	Independence	• We are independent of the Canadian National Exhibition Association and the Canadian National Exhibition Foundation as at December 31, 2010, and our independence letter can be found in Appendix E.	Appendix E
iv.	Significant deficiencies	• We noted some deficiencies in internal controls that we have discussed with management.	Section 5

2. Significant audit, accounting and financial reporting matters

The preparation of the financial statements under Canadian generally accepted accounting principles (GAAP) requires management to select accounting policies as well as make critical accounting estimates and disclosures that involve significant judgment and measurement uncertainty, which can significantly impact the organization's reported results.

We are responsible for discussing with the Finance Committee our views about the significant qualitative aspects of the organization's accounting practices, including the appropriateness of accounting policies, the reasonability of key accounting estimates and judgments, as well as the adequacy of financial statement disclosures.

Our comments and conclusions included in this report should only be taken in the context of the financial statements as a whole and are not meant to express an opinion on any individual item or accounting estimate.

During the audit, we dealt with the following complex issues, areas of judgment and significant audit risks:

<u>The Association</u>

Issue	Discussion
Revenue recognition The Association has several significant revenue streams including (but not limited to): o Midway, concessions and casino o Ground Admissions o Marquee Tourism Event Program o Entry fees and exhibit rentals o Sponsorships o Parking	We have obtained an understanding of and performed, where possible, tests of controls and analytical procedures in addition to detailed testing over each of the various revenue streams. Such testing included the following: o Review of report issued by City of Toronto Internal Audit department over control observations during the CNE. o Testing of controls over the reconciliation of concessionaire payments received by third party manager to bank deposits. o Reconciliation of amounts recognized as midway and concession revenues managed by North American Midway Entertainment (NAME) to final settlement report. o Recalculation of concession revenue for a sample of concessionaires based on established agreements. o Testing of controls over contract review to ensure such sponsorship agreements were approved by the appropriate level of management and in accordance with established policy. o Reconciliation of amounts recognized as casino revenue to casino report and bank deposits. o Testing of controls over the reconciliation of cash collected to amounts deposited for attendant parking lots. o Detailed testing over parking pass and pay and display lot revenues through reconciliations to third party service reports o There were no significant matters to bring to your attention.

Issue	Discussion
Employee Future Benefits Payable The Association sponsors a defined benefit pension plan, providing retirement and post-employment benefits to its employees, for which the City funds this obligation.	 We have obtained the actuarial report as of December 31, 2010 from the Association's external actuary, Buck Consultants. Using this report, we tested the accuracy of information provided by management to the actuary to use in their report as well as assessed the reasonability of the allocation of the total liability to the Association. We also utilized our internal expert to assess the appropriateness of the assumptions and estimates used by the actuary in developing their conclusions. As noted on page 1 of our report, we are awaiting the final conclusions from our internal expert.
Sale of the Garden of Greek Gods statues In 2008, a memorandum of understanding (MOU) was signed between the Board of Governors of Exhibition Place (the Board) and Association relating to the sale of 3 artifacts, one of which is a series of statues known as the Garden of Greek Gods that was sold in the current year. The statues were sold to the Board for $500,000 however payment will be received in annual installments of $125,000 for the next 4 years (2010-2013) on the condition that the payment will not create a consolidated operating loss for the Board. The Association will, in turn, donate any payments received to the Foundation.	 We have obtained and reviewed the documents supporting this transaction, including the 2008 MOU, the letter provided to the Board of Governors from Dianne Young on March 1, 2010 seeking approval for the transaction, and the external valuation of the statues to support the purchase price. In our assessment of management's accounting for this transaction, it was noted that the first installment of $125,000 was received by the Board; however, the Association did not record a gain of $500,000 on the sale or a corresponding receivable for the remaining $375,000. Management noted that the remaining consideration is contingent on the ability of the Board to exceed their budget and make an operating profit at the consolidated level. Based on the CICA Handbook guidance, the remaining consideration can be recognized if it can be estimated and if there is reasonable assurance on collectability. Although the first installment was received, management does not view the remaining $375,000 as reasonably recoverable and therefore have not recorded a receivable for the remaining balance. Management has included full disclosure of the transaction in Note 5 of the financial statements. We concur with management's treatment.
Completeness and accuracy of transactions recorded with related parties The Association engages in various transactions with the City of Toronto, its various Agencies, Boards, and Commissions (the City), and the Foundation.	 We have obtained comfort over related party balances through confirmation with the City, the Board of Governors of Exhibition Place, and internally between the Association and Foundation. In addition, we have obtained and tested management's reconciliation of amounts due to/from the City.

Issue	Discussion
Management override of controls There is an inherent risk of misstatement due to management override of controls.	Using computer assisted auditing techniques, we have assessed significant and non-standard manual journal entries made in the year and selected a sample of items for testing to ensure that the entries represent valid and appropriately authorized transactions. As noted on page 1 of our report, we are in the process of finalizing this testing, but have not noted any exceptions at this stage.

<u>The Foundation</u>

Issue	Discussion
Completeness and accuracy of transactions recorded with related parties The Association engages in various transactions with the City of Toronto, its various Agencies, Boards, and Commissions (the City), and the Association.	We have obtained comfort over related party balances through internally confirmation and reconciliation between the Association and Foundation. No exceptions noted.
Management override of controls There is an inherent risk of misstatement due to management override of controls.	We have assessed significant and non-standard manual journal entries made in the year and selected a sample of items for testing to ensure that the entries represent valid and appropriately authorized transactions. As noted on page 1 of our report, we are in the process of finalizing this testing, but have not noted any exceptions at this stage.

3. Summary of unadjusted and adjusted items

Our responsibility is to issue an opinion as to whether the financial statements are free of material misstatement.

As a result of our audit, we identified certain items and have discussed these with management. Management has adjusted the financial statements to reflect certain of these items. The items that remain unadjusted are summarized below and described further in Appendix B. Under Canadian Auditing Standards we are required to ask the Finance Committee to consider adjusting the financial statements for these items. We are also required to communicate the effects of any unadjusted items that relate to prior periods.

a. Unadjusted items

Canadian National Exhibition Association

All differences noted for the Association have been adjusted for by management. There are no unadjusted differences.

Canadian National Exhibition Foundation

There were no unadjusted items noted for the Foundation which would have a net effect on the Foundation's statement of operations.

We have concluded that the financial statements taken as a whole are free of material misstatement and (pending the completion to our satisfaction of the outstanding matters identified in section 1), we are prepared to issue unqualified reports on the financial statements.

b. Adjusted items

A summary of adjustments made by the company as part of the audit process is also included in Appendix C.

4. Other required communications

Canadian Auditing Standards require that the external auditor communicate certain matters to the Finance Committee that may assist you in overseeing management's financial reporting and disclosure process.

Below, we summarize these required communications as they apply to the Canadian National Exhibition Association and the Canadian National Exhibition Foundation:

Matter to be communicated	**PwC's response**
Management's representations	• Under Canadian Auditing Standards, we are required to inform you of the representations we are requesting from management. Copies of the management representation letters are included in Appendix D.
Significant deficiencies in internal control	• Changes to Canadian Auditing Standards require us to communicate to the audit committee internal control weaknesses identified as part of our audit that are considered to be significant deficiencies. • A significant deficiency is defined as an internal control deficiency that we consider merits the attention of the Finance Committee. • Refer to Section 5 for a summary of our findings and recommendations.
Significant difficulties or disagreements that occurred during the audit	• No difficulties or disagreements occurred while performing our audits that require the attention of the Finance Committee.
Fraud and illegal acts	• No fraud involving senior management, employees with a significant role in internal control, or that would cause a material misstatement of the financial statements, came to our attention as a result of our audit procedures. • We wish to confirm whether the audit committee is aware of any known, suspected or alleged incidents of fraud.
Inclusion of "Emphasis of matter" or "Other matter" paragraph in audit opinion	• See Appendices A and B for our draft auditor's report including the "Other matter" paragraph, with respect to the unmodified opinion issued for the December 31, 2009 comparative balances, which were audited by another auditor.

5. Internal control recommendations

The purpose of our audit was to enable us to express an opinion on the financial statements.

The audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.

During our audit, we identified the following significant deficiencies and certain other control recommendations that we have discussed with management and wish to bring to your attention.

a. Significant deficiencies

There were no significant deficiencies noted as a result of our audits of the Association and the Foundation.

b. Other items to report

The Association

Item	Recommendation	Management's response
Daily casino cash reconciliation During our testing over the daily cash reconciliation for the CNE's annual casino, it was noted that there was one deposit where there was a difference between the expected cash deposit per the casino report and the actual amount deposited into the bank which was not detected or investigated by management. Given that much of the revenue is cash-based, there is a higher risk of misappropriation if timely review and follow up of reconciling items does not occur.	We recommend that management enforce the review of the daily reconciliation reports and provide evidence of such review and, where necessary, the appropriate follow up of differences by way of a signature on the reconciliation.	We discussed this item with management who agree that it is important to ensure that the bank deposit and casino report are reconciled and investigated for differences to detect any potential misappropriation.
IT Data Backup During our testing of the Board's IT general controls, it was noted that while data is backed up regularly, the restoration of such data is not tested regularly. Hence, if a disaster were to occur, there is a risk that data could not be appropriately restored and lost as a result.	We recommend that the Board implement a policy to ensure that there is a schedule in place to periodically test the restoration of backup data.	Management agrees with this recommendation and has noted that this has already been put in place and tested for the current year.

Item	Recommendation	Management's response
Review of census data submitted to actuary As part of our testing over the census data provided to Buck Consultants, it was noted that there were discrepancies in the data provided to Buck and the data returned to management. Differences in data can result in incorrect assumptions used by the actuary and hence a misstated employee future benefits payable.	Given that the employee future benefits are managed by the Board and an allocation is made to the Association, we recommended that the Board check, on a sample basis, the data sent back to them from Buck to ensure that the data used is accurate and matches that which was provided to them. It was noted through discussions with management that a check is performed to ensure the headcount matches to what was submitted (completeness); however, the accuracy of certain data (such as hire dates, salaries, or birth dates) should also be performed to ensure accuracy.	Management will consider this recommendation for future periods.

The Foundation

There are no items to report for the Foundation.

Appendix A: Draft financial statements – Canadian National Exhibition Association

Canadian National Exhibition Association

Financial Statements
December 31, 2010

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Independent Auditor's Report

To the Members of
Canadian National Exhibition Association

We have audited the accompanying financial statements of Canadian National Exhibition Association, which comprise the balance sheet as at December 31, 2010 and the statements of operations and cash flows for the year then ended, and the related notes including a summary of significant accounting policies.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Canadian National Exhibition Association as at December 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Other matter
The financial statements of Canadian National Exhibition Association for the year ended December 31, 2009 were audited by another auditor, who expressed an unmodified opinion on those statements on March 26, 2010.

Chartered Accountants, Licensed Public Accountants

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Canadian National Exhibition Association

Balance Sheet

As at December 31, 2010

	2010 $	2009 $
Assets		
Current assets		
Cash	402,130	303,617
Accounts receivable - trade	593,790	1,561,542
Prepaid expenses and other	4,983	5,129
	1,000,903	1,870,288
Equipment (note 3)	272,301	15,502
Receivable from Board of Governors of Exhibition Place (note 5)	4,546,058	4,143,192
	5,819,262	6,028,982
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities		
Trade	736,515	885,630
City of Toronto (note 5)	29,480	55,469
Canadian National Exhibition Foundation (note 5)	146,100	215,600
Deferred revenue	27,209	44,467
	939,304	1,201,166
Payable to the Board of Governors of Exhibition Place (note 5)	4,744,623	4,706,575
Employee future benefits payable (note 4)	135,335	121,241
	5,819,262	6,028,982

Approved by the Board of Directors

______________________________ Director ______________________________ Director

FOR DISCUSSION WITH MANAGEMENT ONLY – SUBJECT TO AMENDMENT
NOT TO BE FURTHER COMMUNICATED

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Canadian National Exhibition Association

Statement of Operations

For the year ended December 31, 2010

	2010 **$**	**2009** **$**
Revenue		
Midway, concessions and casino	10,326,114	10,500,584
Ground admissions	7,050,396	7,553,167
Entry fees and exhibit rentals	3,949,671	3,769,705
Parking	1,281,453	1,327,923
Sponsorships (note 7)	1,046,957	1,393,385
Marqee Tourism Event Program (note 7)	759,613	4,052,014
	24,414,204	28,596,778
Expenses		
Operations	11,938,533	11,882,260
Attractions and casino	9,029,059	9,077,213
Marketing	2,348,412	2,554,460
Marquee Tourism Event Program (note 7)	768,681	3,900,590
Parking attendants' wages and sundry costs	282,270	300,455
Amortization of equipment	9,636	11,142
	24,376,591	27,726,120
Income before the following	37,613	870,658
Transfer to the Board of Governors of Exhibition Place (note 5)	(38,048)	(878,003)
Vacation and sick benefits recovery (note 4)	435	7,345
Net income for the year	-	-

Canadian National Exhibition Association

Statement of Cash Flows

For the year ended December 31, 2010

	2010 $	2009 $
Cash provided by (used in)		
Operating activities		
Net income for the year	-	-
Adjustment for non-cash item2		
Amortization of equipment	9,636	11,142
Employee future benefits	14,094	(16,881)
Changes in non-cash working capital balances		
Accounts receivable - trade	967,752	(1,290,399)
Prepaid expenses and other	146	(4,933)
Accounts payable and accrued liabilities		
Trade	(149,115)	222,556
City of Toronto	(25,989)	20,547
Canadian National Exhibition Foundation	(69,500)	125,600
Deferred revenue	(17,258)	31,050
	729,766	(901,318)
Investing activities		
Purchase of equipment	(266,435)	-
Financing activities		
Increase in long-term payable to the Board of Governors of Exhibition Place	38,048	878,003
(Increase) decrease in receivable from Board of Governors of Exhibition Place	(402,866)	223,273
	(364,818)	1,101,276
Increase in cash during the year	98,513	199,958
Cash - Beginning of year	303,617	103,659
Cash - End of year	402,130	303,617

1 Operations and relationship with the Board of Governors of Exhibition Place

The Canadian National Exhibition Association (the CNEA) is a corporation without share capital incorporated by a Special Act of the Legislature of Ontario. The CNEA is not subject to income taxes.

Pursuant to the City of Toronto Act, 1997, the Board of Governors of Exhibition Place (the Board) has the authority to enter into an agreement with the CNEA for the use of Exhibition Place for an annual fair. At its meeting on June 20, 2008, the Board and the CNEA approved entering into a Memorandum of Understanding (MOU) on the terms and conditions set out in the MOU for the period from January 1, 2008 to December 31, 2010. Under the MOU, the CNEA manages and operates an annual exhibition (the Canadian National Exhibition).

2 Summary of significant accounting policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles for profit oriented organizations. The significant accounting policies are summarized as follows.

Revenue recognition

Revenue is recorded on the accrual basis of accounting, which recognizes revenue as the service is performed, is measurable and collection is reasonably assured.

Deferred revenue consists of sponsorships and rental revenue paid in advance and that is to be earned in a future period. These amounts are recognized over the term of the agreements.

Sponsorships

Agreements are entered into with a number of corporate sponsors whereby those sponsors provide cash, products, advertising or entertainment support to the Canadian National Exhibition activities. In return, consideration is provided in a number of diverse ways including specific rights to selected attractions or advertising recognition. Sponsorships received in cash and/or other consideration are recorded in the accounts at the amount of consideration received or given at either the fair value of the amount received or the fair value of the benefit given up, less any cash consideration, whichever is more reliably measurable.

Equipment

Purchased equipment is recorded at cost less accumulated amortization. Amortization is calculated on a straight-line basis over the estimated useful lives of the assets. Equipment has an estimated useful life of between three and twenty years.

Employee future benefit plans

The CNEA has adopted the following policies with respect to employee future benefit plans:

- the CNEA's contributions to a multi-employer defined benefit pension plan are expenses when contributions are due;

- the costs of termination benefits and compensated absences are recognized when the event that obligates the CNEA occurs;

- the costs of other employee future benefits are actuarially determined using the projected benefits method pro-rated on service and management's best estimates regarding assumptions about a number of future conditions including investment returns, retirement ages of employees and salary escalation costs;

- employee future benefit liabilities are discounted using current interest rates on long-term bonds; and

- net actuarial gains and losses are recorded in the statement of operations in the year of revaluation.

Foreign currency translation

Monetary assets and liabilities in foreign currencies are translated into Canadian dollars at the rate of exchange in effect at the balance sheet date. Revenue and expense transactions denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing on the transaction date. Gains or losses resulting from currency transactions are included in the statement of operations for the year.

Financial instruments

The CNEA classifies its financial instruments into one of the following categories based on the purpose for which the instruments were acquired. The CNEA's accounting policy for each category is as follows:

Financial instrument	Category	Measurement
Cash	held-for-trading	fair value
Accounts receivable	loans and receivables	amortized cost
Accounts payable and accrued liabilities	other financial liabilities	amortized cost

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. The employee future benefits payable and related costs charged to the statement of operations depend on certain actuarial and economic assumptions and on current information available to the CNEA, the City of Toronto (the City) and the consultants retained to develop the actuarial projections. Actual results could differ from those estimates.

Recent accounting pronouncements

In September 2009, the Public Accounting Standards Board (PSAB) approved an amendment to the Introduction to Public Sector Accounting Standards. Under the amendment, government business enterprises will adhere to standards for publicly accountable profit oriented enterprises, meaning the adoption of International Financial Reporting Standards (IFRS) for fiscal periods beginning on or after January 1, 2011. The government business type organizations (GBTOs) classification in the Public Sector Accounting Handbook would be eliminated and government organizations currently classified as GBTOs may be categorized as other government organizations (OGOs) or government not-for-profit organizations (GNFPOs). The CNEA has been identified as a GBTO, which under these new rules is an OGO and as such will adopt Public Sector Accounting Standards or IFRS. Management is currently evaluating the effects of adopting these new standards.

3 Equipment

			2010
	Cost $	Accumulated amortization $	Net $
Equipment	524,456	252,155	272,301

			2009
	Cost $	Accumulated amortization $	Net $
Equipment	258,021	242,519	15,502

The Association received $750,000 in funding from the Marquee Tourism Event Program and $250,000 from the Board's Fleet Reserve Fund to assist in the purchase of trams in fiscal 2010.

4 Employee future benefits payable

The employee future benefits for the CNEA, as reported in these financial statements, have the following characteristics:

Sick leave

The CNEA's short-term disability plan for non-unionized employees provides salary protection at 100% or 75%, based on an employee's benefit eligibility date, for up to 26 weeks per illness or per calendar year. Absences greater than 26 weeks' duration are covered under the CNEA's long-term disability plan.

Effective February 28, 2008, employees are unable to accumulate unused sick leave credits. Prior to that date, under the sick leave benefit plan for unionized employees, employees were credited with a maximum of 18 days sick time per year. Unused sick leave could accumulate and employees could have been entitled to a cash payment, capped at one-half of unused sick time to a maximum of 130 days when they leave the CNEA's employment. The liability for the accumulated sick leave represents the extent to which sick leave benefits have vested and could be taken in cash by employees on termination of employment.

The continuity of the change in the CNEA's accrued benefit obligation, in aggregate, is as follows:

	2010 **$**	**2009** **$**
Balance - Beginning of year	121,241	138,122
Interest cost	6,721	6,967
Expected benefits paid	(837)	(9,407)
Actuarial loss (gain)	8,210	(14,441)
Balance - End of year	135,335	121,241

The costs (benefits) recognized during the year are as follows:

	2010 **$**	**2009** **$**
Interest cost	6,721	6,967
Actuarial loss (gain)	8,210	(14,441)
	14,931	(7,474)

There were no cash payments made in 2010 or 2009 with respect to sick leave benefits. Sick leave benefits were taken as paid absence from work.

The sick leave benefit plan is unfunded, however, the CNEA participates in reserve funds established by the City. Contributions to reserve funds for sick leave benefits for the year were $109,032 (2009 - $115,380) and are included in operations expense on the statement of operations.

Actuarial valuations are conducted on a periodic basis. The accrued benefit obligation as at December 31, 2010 is based on the 2009 actuarial valuation performed by an actuarial consultant. The next actuarial valuation is expected to be completed in 2012.

The significant actuarial assumptions used in measuring the CNEA's accrued benefit obligation and benefit costs for sick leave are as follows:

	2010 **%**	**2009** **%**
Discount rate for benefit obligation	5.0	5.3
Discount rate for benefit costs	5.3	7.0
Rate of compensation increase	3.0	3.0

In addition to the above noted plans, the Board makes contributions to the Ontario Municipal Employees Retirement Fund (OMERS), which is a multi-employer plan, on behalf of qualifying 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. Total employer contributions for the year ended December 31, 2010 amounted to $99,221 (2009 - $92,662) and are included in operations expense on the statement of operations.

5 Related party balances and transactions

As part of the CNEA's ongoing operations, it conducts many of its transactions through the Board. These transactions are done under normal operating terms and conditions and consist of transactions for payroll related costs, various work orders and other types of trade accounts receivable (payable). The balance due from the Board for such transactions at the end of the year is reflected within the CNEA's balance sheet as a receivable of $4,546,058 (2009 - $4,143,192). This receivable balance has no fixed terms of repayment and is non-interest bearing and is not payable to the Board in 2010.

The continuity of accounts payable to the Board for the year is as follows:

	2010 $	2009 $
Payable - Beginning of year	(4,706,575)	(3,828,572)
Transfer to the Board of Governors of Exhibition Place related to income for the year	(38,048)	(878,003)
Payable - End of year	(4,744,623)	(4,706,575)

Insurance coverage for the CNEA is provided through the City. During the year, the CNEA contributes to the City's insurance reserve and expenses these contributions as they are made. Contributions for the year amounted to $201,616 (2009 - $201,616) and are included in operations expense on the statement of operations.

In addition, the CNEA makes contributions to the City's Parkland Acquisition Reserve Fund and expenses these contributions as they are made. Contributions for the year amounted to $11,903 (2009 - $28,220) and are included in operations expense on the statement of operations.

The 2008 - 2010 MOU between the Board and the CNEA provided that the Board may purchase at fair value three artifacts that are owned by the CNEA: the Haines Murals, the statues of the Garden of the Greek Gods, and the Satok Mural. As of December 2009, full payment has been provided to the CNE Foundation for the purchase of the Haines Murals ($150,000) and Satok Mural ($130,000). With respect to the purchase of the Garden of the Greek Gods ($500,000), the Board approved an agreement of purchase and sale with the following terms:

a) subject to paragraph (b) below, the Board will pay up to $125,000 to the CNEA for each of the years 2010, 2011, 2012, 2013 and, if necessary, 2014, as a budgeted expense for the purchase at fair value of the statuary of the Garden of Greek Gods; and

b) if in any one year the consolidated financial results for the Board is less than the budgeted results as approved by City Council, then there will be no payment to the CNEA in that year.

Since the Board achieved a consolidated surplus for the year ended December 31, 2010, the Board paid $125,000 to the CNEA for 2010 as a budgeted expense for the first instalment relating to the purchase at fair value of the statuary of the Garden of the Greek Gods.

In addition, the CNEA made a donation of $21,100 (2009 - $25,600) to the CNE Foundation, recorded in attractions and casino expenses in the statement of operations.

6 Financial instruments

Fair value

The carrying values of the CNEA’s financial instruments approximate their fair values unless otherwise indicated.

The fair value of the long-term payable to the Board is not determinable since there are no fixed terms of repayment.

Risk management

The CNEA is exposed to a range of financial risks. These risks include credit risk and liquidity risk, which are described as follows:

Credit risk

Credit risk on financial instruments is the risk of financial loss occurring as a result of default or insolvency of a counterparty on its obligations to the CNEA. The carrying value of the assets as presented in the balance sheet represents the maximum credit risk exposure at the date of the financial statements.

The CNEA, in the normal course of business, is exposed to credit risk from its customers. This risk is mitigated by the fact that management believes the CNEA has thorough and rigorous credit approval procedures. As at December 31, 2010, five customers represented 93% (2009 - three customers, 95%) of the CNEA’s trade accounts receivable balance.

The remaining balance of $4,546,058 (2009 - $4,143,192) is receivable from the Board. Any deficits of the Board are the responsibility of the City.

Management therefore believes that the CNEA’s credit risk is low.

Liquidity risk

Liquidity risk is the risk of being unable to settle or meet commitments as they come due. The CNEA has $736,515 (2009 - $885,630) of trade accounts payable and accrued liabilities that are due within one year. The CNEA has cash and accounts receivable from the Board that are sufficient to satisfy these liabilities.

7 Government assistance

As part of a Government of Canada initiative, the Marquee Tourism Event Program was created to stimulate the growth of visitors and tourism to the Canadian National Exhibition. The program came to completion in 2010 and the remainder of the funding was recognized.

8 Capital management

In managing capital, the CNEA focuses on liquid resources available for operations. The CNEA'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 monitoring cash flows and actual operating results compared to the budget. As at December 31, 2010, the CNEA has met its objective of having sufficient liquid resources to meet its current obligations.

Appendix B: Draft financial statements – Canadian National Exhibition Foundation

Canadian National Exhibition Foundation

Financial Statements
December 31, 2010

@@@, 2011

Independent Auditor's Report

To the Members of the
Canadian National Exhibition Foundation

We have audited the accompanying financial statements of the Canadian National Exhibition Foundation, which comprise the balance sheet as at December 31, 2010 and the statement of operations and changes in net assets for the year then ended, and the related notes including a summary of significant accounting policies.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Canadian National Exhibition Foundation as at December 31, 2010 and the results of its operations and its changes in net assets for the year then ended in accordance with Canadian generally accepted accounting principles.

Other matter

The financial statements of the Canadian National Exhibition Foundation for the year ended December 31, 2009 were audited by another auditor, who expressed an unmodified opinion on those statements on March 26, 2010.

Chartered Accountants, Licensed Public Accountants

DRAFT

Canadian National Exhibition Foundation

Balance Sheet

As at December 31, 2010

	2010 $	2009 $
Assets		
Current assets		
Cash	74,951	97,865
Term deposits (note 4)	379,289	178,495
Amount receivable	300	534
Donations receivable from Canadian National Exhibition Association (note 3)	146,100	215,600
	600,640	492,494
Liabilities		
Current liabilities		
Accrued liabilities	4,912	7,545
Unrestricted Net Assets	595,728	484,949
	600,640	492,494

Approved on Behalf of the Board

_________________________________ Director _________________________________ Director

FOR DISCUSSION WITH MANAGEMENT ONLY – SUBJECT TO AMENDMENT
NOT TO BE FURTHER COMMUNICATED

Canadian National Exhibition Foundation

Statement of Operations and Changes in Net Assets

For the year ended December 31, 2010

	2010 $	2009 $
Revenue		
Donations		
Canadian National Exhibition Association (note 3)	146,100	215,600
Other	2,297	660
Book and poster	2,122	4,089
Interest	793	1,890
	151,312	222,239
Expenses		
Grants and donations	28,800	8,000
Professional fees	4,799	7,686
Promotion	5,041	3,813
Oral history project	1,893	2,023
	40,533	21,522
Excess of revenue over expenses for the year	110,779	200,717
Net assets - Beginning of year	484,949	284,232
Net assets - End of year	595,728	484,949

1 Nature of operations

The Canadian National Exhibition Foundation (the Foundation) was incorporated on February 12, 1975 under Section 131 of the Corporations Act (Ontario). The Foundation promotes interest in the study of agriculture, horticulture, music, art, education, and sports.

The Foundation is registered as a public foundation under Section 149(1) (f) of the Income Tax Act (Canada) and, as such, is exempt from income taxes and is able to issue donation receipts for income tax purposes.

2 Summary of significant accounting policies

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles, applied within the framework of the significant accounting policies summarized below:

Revenue recognition

The Foundation follows the deferral method of accounting for contributions. Restricted contributions are deferred and recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Donated goods and services

In addition to cash, the Foundation receives donations of materials and services. Donations of materials and services, where fair value is readily identifiable and which would otherwise have been acquired by the Foundation, are recorded in the financial statements as donation revenue and as project expense.

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.

Financial instruments

Term deposits are recorded as cost plus accrued interest which approximates fair value.

Future accounting changes

In December 2010, the Canadian Standards Board issued a comprehensive set of accounting standards applicable to not-for-profit organizations. The standards are effective for fiscal years beginning on or after January 1, 2012 and require retrospective application, except for certain exemptions and exceptions contained within the standards. Early adoption of the standards is permitted. The Foundation is currently considering the impact of the adoption of these standards.

3 Related party transactions

The Canadian National Exhibition Association (the CNEA) and the Board of Governors of Exhibition Place (the Board) have an economic interest in the Foundation and are therefore considered to be related parties.

Through the course of operations, the CNEA provides money from the casino operations to the Foundation. The Board provides administrative services to the Foundation at no cost.

The Foundation has recorded donation receivable and related donation revenue from the CNEA.

4 Term deposits

As at December 31, 2010, three term deposits were outstanding (2009 - two) with maturities in May and June 2011 (2009 - May and June 2010) and earning interest rates of 0.1500% and 0.3000% (2009 - 0.2000% and 0.2000%).

5 Statement of cash flows

A separate statement of cash flows has not been presented since cash flows from operating, investing and financing activities are readily apparent from the financial statements.

6 Capital management

In managing capital, the Foundation focuses on liquid resources available for operations. The Foundation'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, 2010, the Foundation has met its objective of having sufficient liquid resources to meet its current obligations.

Appendix C: Summary of unadjusted and adjusted items

APPENDIX C - SUMMARY OF ADJUSTED ITEMS

PRICEWATERHOUSECOOPERS

Client: Canadian National Exhibition Association

Period: December 31, 2010

Tax Rate: 0.00%

Overall Materiality: 245,000

SUM posting level 12,250

Recorded Adjustments - Impact on dr(cr)			BALANCE SHEET					INCOME
			Assets		Liabilities			
	SUM #	Description	Current	Non-Current	Current	Non-Current	Deficit	Income
	1	DR: Employee future benefits payable			97,563			-
		CR: Accounts payable and accrued liabilties			(97,563)			-
		To reclassify vacation pay to accrued liabilities						-
								-
								-
								-
Total Corrected Misstatements			-	-	-	-	-	-

APPENDIX C - SUMMARY OF UNADJUSTED ITEMS

PRICEWATERHOUSECOOPERS

Client: Canadian National Exhibition Foundation

Period: December 31, 2010

Tax Rate: 0.00%

Overall Materiality: 3,000

SUM posting level 150

Proposed Adjustments - Impact on dr(cr)			BALANCE SHEET					INCOME
			Assets		Liabilities			
	SUM #	Description	Current	Non-Current	Current	Non-Current	Deficit	Income
	1	DR: Accounts receivable	639					-
		CR: Term deposits	(639)					-
		To reclassify accrued interest into a receivable account.						-
								-
								-
								-
Total Uncorrected Misstatements			-	-	-	-	-	-

Appendix D: Management representation letters

[Client Letterhead]

April 26, 2011

PricewaterhouseCoopers LLP
North American Centre
5700 Yonge Street, Suite 1900
Toronto, ON M2M 4K7

We are providing this letter in connection with your audit of the financial statements of the Canadian National Exhibition Association (the Association) as of December 31, 2010 and for the years then ended for the purpose of expressing an opinion as to whether such financial statements present fairly, in all material respects, the financial position, the results of operations and the cash flows of the Association in accordance with Canadian generally accepted accounting principles.

Management's responsibilities
We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated November 1, 2010. In particular, we confirm to you that:

- We are responsible for the preparation and fair presentation of the financial statements in accordance with Canadian generally accepted accounting principles;
- We are responsible for designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. In this regard, we are responsible for establishing policies and procedures that pertain to the maintenance of accounting systems and records, the authorization of receipts and disbursements, the safeguarding of assets and for reporting financial information in accordance with Canadian generally accepted accounting principles;
- We have provided you with all relevant information and access, as agreed in the terms of the audit engagement; and
- All transactions have been recorded in the accounting records and are reflected in the financial statements.

We confirm the following representations:

Preparation of financial statements
The financial statements include all disclosures necessary for fair presentation in accordance with Canadian generally accepted accounting principles and disclosures otherwise required to be included therein by the laws and regulations to which the Association is subject.

We have appropriately reconciled our books and records (e.g. general ledger accounts) underlying the financial statements to their related supporting information (e.g. sub ledger or third party data). All related reconciling items considered to be material were identified and included on the reconciliations and were appropriately adjusted in the financial statements. There were no material unreconciled differences or material general ledger suspense account items that should have been adjusted or reclassified to another account balance. There were no material general ledger suspense account items written off to a balance sheet account, which should have been written off to a profit and loss account and vice versa. All consolidating entries have been properly recorded. All intracompany and intercompany accounts have been eliminated or appropriately measured and considered for disclosure in the financial statements.

Accounting policies
We confirm that we have reviewed the Association's accounting policies and, having regard to the possible alternative policies, our selection and application of accounting policies and estimation

techniques used for the preparation and presentation of the financial statements is appropriate in the Association's particular circumstances to present fairly in all material respects its financial position, results of operations and cash flows in accordance with Canadian generally accepted accounting principles.

Internal controls over financial reporting
We have designed disclosure controls and procedures to provide reasonable assurance that material information relating to the Association, including its subsidiaries, is made known to us by others within those entities.

We have designed internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles.

We have disclosed to you all deficiencies in the design or operation of disclosure controls and procedures and internal control over financial reporting that we are aware as of December 31, 2010.

Disclosure of information
We have provided you with:

- Access to all information of which we are aware that is relevant to the preparation of the financial statements, such as records, documentation and other matters including:
    - Contracts and related data;
    - Information regarding significant transactions and arrangements that are outside of the normal course of business;
    - Minutes of the meetings of shareholders, management, directors and committees of directors. The most recent meetings held were November 25, 2010:
- Additional information that you have requested from us for the purpose of the audit; and
- Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

Completeness of transactions
All contractual arrangements entered into by the Association with third parties have been properly reflected in the accounting records or/and, where material (or potentially material) to the financial statements, have been disclosed to you. We have complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance.

Fraud
We have disclosed to you:

- The results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- All information in relation to fraud or suspected fraud of which we are aware affecting the Association involving management, employees who have significant roles in internal control or others where the fraud could have a material effect on the financial statements; and
- All information in relation to any allegations of fraud, or suspected fraud, affecting the Association's financial statements, communicated by employees, former employees, analysts, regulators or others.

Compliance with laws and regulations
We have disclosed to you all aspects of laws, regulations and contractual agreements that may affect the financial statements, including actual or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

We are not aware of any illegal or possibly illegal acts committed by the Association's directors, officers or employees acting on the Association's behalf.

Accounting estimates and fair value measurements
Significant assumptions used by the Association in making accounting estimates, including fair value accounting estimates, are reasonable.

For recorded or disclosed amounts in the financial statements that incorporate fair value measurements, we confirm that:

- the measurement methods are appropriate and consistently applied;
- the significant assumptions used in determining fair value measurements represent our best estimates, are reasonable and have been consistently applied;
- no subsequent event requires adjustment to the accounting estimates and disclosures included in the financial statements; and
- the significant assumptions used in determining fair value measurements are consistent with the Association's planned courses of action. We have no plans or intentions that have not been disclosed to you, which may materially affect the recorded or disclosed fair values of assets or liabilities.

Significant estimates and measurement uncertainties known to management that are required to be disclosed in accordance with Canadian Institute of Chartered Accountants (CICA) Handbook Section 1508, Measurement Uncertainty, have been appropriately disclosed.

Related parties
We confirm the completeness of information provided to you regarding the identification of related parties as defined by CICA Handbook Section 3840, Related Party Transactions, which include, but are not limited to directors, officers, senior members of management, or immediate family members of such individuals, or entities over which these individuals are able to exert significant influence. We also confirm the completeness of information provided to you regarding the nature of the Association's relationships with and transactions involving those entities.

The identity and relationship of and balances and transactions with related parties have been properly recorded and adequately disclosed in the financial statements, as required by Canadian generally accepted accounting principles.

The list of related parties attached to this letter as Appendix B accurately and completely describes the Association's related parties and the relationships with such parties.

Going concern
We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements (e.g. to dispose of the business or to cease operations).

Assets and liabilities
We have satisfactory title or control over all assets. All liens or encumbrances on the Association's assets and assets pledged as collateral, to the extent material, have been disclosed in the notes to the financial statements.

Receivables recorded in the financial statements represent bona fide claims against debtors for sales or other charges arising on or before the statement of financial position date and are not subject to discount except for normal cash discounts. Receivables classified as current do not include any material amounts that are collectible after one year. All receivables have been appropriately reduced to their estimated net realizable value.

We have recorded or disclosed, as appropriate, all liabilities, in accordance with Canadian generally accepted accounting principles. All liabilities and contingencies, including those associated with guarantees, whether written or oral, under which the Association is contingently liable in accordance with Accounting Guideline 14, Disclosure of Guarantees, or CICA Handbook Section 3290, Contingencies, have been disclosed to you and are appropriately reflected in the financial statements.

Litigation and claims
All known actual or possible litigation and claims, which existed at the statement of financial position date or exist now, have been disclosed to you and accounted for and disclosed in accordance with Canadian generally accepted accounting principles, whether or not they have been discussed with legal counsel.

Misstatements detected during the audit
Certain representations in this letter are described as being limited to those matters that are material. Items are also considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement.

We confirm that the financial statements are free of material misstatements, including omissions.

The effects of the uncorrected misstatements in the financial statements, as summarized in the accompanying schedule (Appendix C), are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We confirm that we are not aware of any uncorrected misstatements other than those included in Appendix C.

The adjusted misstatements identified during your audit and summarized in the attached table (Appendix C) have been approved by us and adjusted in the financial statements.

Restatement of prior year's balance(s)
The restatement made to correct a material misstatement in the prior year's financial statements that affect the comparative information has been appropriately accounted for and disclosed in accordance with the requirements of Canadian generally accepted accounting principles.

Events after balance sheet date
We have identified all events that occurred between the statement of financial position date and the date of this letter that may require adjustment of, or disclosure in, the financial statements, and have effected such adjustment or disclosure.

Cash and banks
The books and records properly reflect and record all transactions affecting cash funds, bank accounts and bank indebtedness of the Association.

All cash balances are under the control of the Association, free from assignment or other charges, and unrestricted as to use, except as disclosed to you.

The amount shown for cash on hand or in bank accounts excludes trust or other amounts which are not the property of the Association.

Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, line of credit, or similar arrangements have been properly disclosed.

All cash and bank accounts and all other properties and assets of the Association of which we are aware are included in the financial statements at December 31, 2010.

Accounts receivable
All amounts receivable by the Association were recorded in the books and records.

Amounts receivable amounted to $5,139,848 and is considered to be fully collectible, except to the extent of amounts for which full allowance has been made in the accounts.

Amounts receivable that are non-interest bearing and are expected to be received more than a year after initial recognition date have been initially recognized at fair value, using an appropriate discount rate, and subsequently measured at amortized cost.

All receivables were free from hypothecation or assignment as security for advances to the Association, except as hereunder stated.

The Association has accounted for and disclosed transfers of receivables (including securitizations) in accordance with the provisions of AcG-12, Transfers of Receivables.

In the year, a sale was made to the Board of Governors of Exhibition Place (the Board) for a series of statues known as the Garden of Greek Gods for $500,000. Payment is to be received in annual installments of $125,000 for the next 4 years on the condition that the Board has a consolidated surplus. The first installment was received in 2010; however, we believe that the remaining $375,000 owing from the Board is not reasonably assured and has therefore not been recorded in the financial statements.

Leases
The Association has recorded contingent rent expense under leases for which the achievement of the specified target that triggers the contingent rent is considered probable.

Property, plant and equipment
All charges to property, plant and equipment asset accounts represented the actual cost of additions to property, plant and equipment.

No significant property, plant and equipment additions were charged to repairs and maintenance or other expense accounts.

Book values of property, plant and equipment sold, destroyed, abandoned or otherwise disposed of have been eliminated from the accounts.

Property, plant and equipment assets owned by the Association are being depreciated on a systematic basis over their estimated useful lives and the provision for depreciation was calculated on a basis consistent with that of the previous date.

All lease agreements covering property leased by or from the Association have been disclosed to you and classified as capital, operating, sales-type or direct financial leases as appropriate.

Assets held under capital leases are being amortized on a systematic basis over the period of expected use.

There have been no events or changes in circumstances that indicate the carrying value of a long-lived asset is not recoverable; accordingly management was not required to perform an impairment test in accordance with CICA Handbook Section 3063, Impairment of Long-lived Assets during the period. We believe that the carrying amount of the Association's long-lived assets is fully recoverable.

Accounts Payable
Amounts payable that are non-interest bearing and are expected to be paid more than a year after initial recognition date have been initially recognized at fair value, using an appropriate discount rate, and subsequently measured at amortized cost.

Long-term debt
All borrowings and financial obligations of the Association of which we are aware are included in the financial statements at December 31, 2010, as appropriate. We have fully disclosed to you all borrowing arrangements of which we are aware.

The Association has appropriately classified as current and non-current its long-term debt in the Association's classified balance sheet as of December 31, 2010 in accordance with the appropriate authoritative guidance. In evaluating the appropriate classification of its borrowings, the Association considered all relevant facts and circumstances, for example: contractual terms, the existence of call options, subjective acceleration clauses, material adverse changes clauses, lock-box arrangements, covenant violations, renewal features, conversion features, redemption features, and ability and intent to refinance.

The Association has not violated any covenants on their long-term debt during any of the periods reported. We have fully disclosed to you all covenants and information related to how we determined our compliance with the terms of the covenants.

Unearned revenue and deferred credits
All material amounts of unearned revenue and deferred credits including deferred income taxes were appropriately recorded in the books and records.

Commitments
Provisions have been made for losses to be sustained in the fulfillment of, or from inability to fulfill, any sales commitments.

Provisions have been made for losses to be sustained as a result of purchase commitments for inventory quantities in excess of normal requirements or at prices in excess of prevailing market prices.

Employee future benefits
All arrangements, whether formal or informal, explicit or implied, to provide retirement income and other post-retirement benefits to employees after they cease employment, have been identified to you and have been included in the actuarial valuation..

The details of all pension plan amendments since December 31, 2010, the date of the last actuarial valuation, have been identified to you.

The actuarial valuation issued in February 2011 incorporates management's best estimates, detailed as follows:

- post-retirement health benefits have are covered to age 65; post age 65 coverage for non-union grandfathered employees only are 100% employer paid
- post-retirement drugs are covered to age 65 which is 100% employer paid
- post-retirement dental is covered to age 65; post age 65 for non-union grandfathered employees only are 100% employer paid
- post-retirement life is 2 times the final earnings pre-age 65 and $5,000 post age 65
- cumulative sick leave benefits are paid out 50% at termination, death or retirement to a maximum of 3 months for 10-14 years of service, 4 months for 15-19 months of service, 5 months for 20-24 months of service, and 6 months for 25 or more years service.
- the Association continues to pay life, health, and dental premiums for disabled employees on long-term disability to age 65

- the City is liable for future WSIB claims
- 190 employees under the plan, of which 167 are active, 20 are retired, and 3 are on long-term disability

The actuarial assumptions and methods used to measure liabilities and costs for financial accounting purposes for pension and other postretirement benefits are appropriate in the circumstances.

The Association does not plan to make frequent amendments to the pension or other postretirement benefit plans.

The Association has recorded on the obligation directly relating to its employees and the basis of determining this allocation remains unchanged from previous years.

All changes to the plan and the employee group and the fund's performance since the last actuarial valuation have been reviewed and considered in determining the pension plan expense and the estimated actuarial present value of accrued pension benefits and value of pension fund assets.

The Association's actuaries have been provided with all information required to complete their valuation as at December 31, 2010.

The employee future benefit costs, assets and obligations have been determined, accounted for and disclosed in accordance with CICA Handbook Section 3461, Employee Future Benefits (as amended). In particular:

- The significant accounting policies that the Association has adopted in applying CICA Handbook Section 3461 are accurately and completely disclosed in the notes to the financial statements.
- Each of the best estimate assumptions used reflects management's judgment of the most likely outcomes of future events;
- The best estimate assumptions used are, as a whole, internally consistent, and consistent with the asset valuation method adopted;
- The discount rate used to determine the accrued benefit obligation was determined by reference to market interest rates at the measurement date on high-quality debt instruments with cash flows that match the timing and amount of expected benefit payments; or inherent in the amount at which the accrued benefit obligation could be settled.
- The assumptions included in the actuarial valuation are those that management instructed Buck Consultants to use in computing amounts to be used by management in determining pension costs and obligations and in making required disclosures in the above-named financial statements, in accordance with CICA Handbook Section 3461.
- In arriving at these assumptions, management has obtained the advice of Buck Consultants, but has retained the final responsibility for them.
- The source data and plan provisions provided to the actuary for preparation of the actuarial valuation are accurate and complete.
- The disclosure of the amounts and types of securities of the Association and its related parties included in the plan assets, the approximate amount of future annual benefits covered by insurance contracts issued by the Association or its related parties, and the transactions between the Association and the plan during the period are complete and accurate.
- The percentage of the fair value of total plan assets represented by each major category held at the measurement date is not disclosed because it is not expected to be useful in understanding the risks and expected long-term rate of return for the plan assets.
- All changes to plan provisions or events occurring subsequent to the date of the actuarial valuation and up to the date of this letter have been considered in the determination of pension costs and obligations and as such have been communicated to you as well as to the actuary.

Revenue recognition
We have reviewed the criteria for revenue recognition included in CICA Handbook Section 3400, Revenue, and EIC 141, Revenue Recognition, and EIC 123, Reporting Revenue Gross as a Principal vs. Net as an Agent, namely, evidence of arrangement, delivery, fixed price and collectability and are recognizing revenue in accordance with these standards.

We have fully disclosed to you all sales terms (whether written or oral), including all customer-acceptance provisions, rights of return or price adjustments, and all warranty provisions.

We did not issue any side letters in regards to our sales agreements.

The Association has fully disclosed to you separate arrangements with the same entity or related parties that are entered into at or near the same time.

For revenue arrangements involving multiple deliverables that are within the scope of EIC 142, Revenue Arrangements with Multiple Deliverables, the Association has properly:

- Considered whether a deliverable(s) in an arrangement is within the scope of other existing higher-level authoritative literature and applied such literature to the extent that it provides guidance regarding whether and/or how to separate multiple-deliverable arrangements and how to allocate value among those separate units of accounting.

- Determined whether revenue arrangements with multiple deliverables consist of more than one unit of accounting at inception of the arrangement and as each item in the arrangement is delivered.

Yours truly,

Canadian National Exhibition Association

____
Dianne Young, Chief Executive Officer

____
Hardat Persaud, Chief Financial Officer

[Client Letterhead]

April 26, 2011

PricewaterhouseCoopers LLP
North American Centre
5700 Yonge Street, Suite 1900
Toronto, ON M2M 4K7

We are providing this letter in connection with your audit of the financial statements of the Canadian National Exhibition Foundation (the Foundation) as of December 31, 2010 and for the years then ended for the purpose of expressing an opinion as to whether such financial statements present fairly, in all material respects, the financial position, the results of operations and the cash flows of the Foundation in accordance with Canadian generally accepted accounting principles.

Management's responsibilities
We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated November 1, 2010. In particular, we confirm to you that:

- We are responsible for the preparation and fair presentation of the financial statements in accordance with Canadian generally accepted accounting principles;
- We are responsible for designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. In this regard, we are responsible for establishing policies and procedures that pertain to the maintenance of accounting systems and records, the authorization of receipts and disbursements, the safeguarding of assets and for reporting financial information in accordance with Canadian generally accepted accounting principles;
- We have provided you with all relevant information and access, as agreed in the terms of the audit engagement; and
- All transactions have been recorded in the accounting records and are reflected in the financial statements.

We confirm the following representations:

Preparation of financial statements
The financial statements include all disclosures necessary for fair presentation in accordance with Canadian generally accepted accounting principles and disclosures otherwise required to be included therein by the laws and regulations to which the Foundation is subject.

We have appropriately reconciled our books and records (e.g., general ledger accounts) underlying the financial statements to their related supporting information (e.g., sub ledger or third party data). All related reconciling items considered to be material were identified and included on the reconciliations and were appropriately adjusted in the financial statements. There were no material unreconciled differences or material general ledger suspense account items that should have been adjusted or reclassified to another account balance. There were no material general ledger suspense account items written off to a balance sheet account, which should have been written off to a profit and loss account and vice versa. All consolidating entries have been properly recorded. All intracompany and intercompany accounts have been eliminated or appropriately measured and considered for disclosure in the financial statements.

Accounting policies
We confirm that we have reviewed the Foundation's accounting policies and, having regard to the possible alternative policies, our selection and application of accounting policies and estimation

techniques used for the preparation and presentation of the financial statements is appropriate in the Foundation's particular circumstances to present fairly in all material respects its financial position, results of operations and cash flows in accordance with Canadian generally accepted accounting principles.

Internal controls over financial reporting
We have designed disclosure controls and procedures to provide reasonable assurance that material information relating to the Foundation, including its subsidiaries, is made known to us by others within those entities.

We have designed internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles.

We have disclosed to you all deficiencies in the design or operation of disclosure controls and procedures and internal control over financial reporting that we are aware as of December 31, 2010.

Disclosure of information
We have provided you with:

- Access to all information of which we are aware that is relevant to the preparation of the financial statements, such as records, documentation and other matters including:
  - Contracts and related data;
  - Information regarding significant transactions and arrangements that are outside of the normal course of business;
  - Minutes of the meetings of shareholders, management, directors and committees of directors. The most recent meetings held were November 25, 2010:
- Additional information that you have requested from us for the purpose of the audit; and
- Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

Completeness of transactions
All contractual arrangements entered into by the Foundation with third parties have been properly reflected in the accounting records or/and, where material (or potentially material) to the financial statements, have been disclosed to you. We have complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance.

Fraud
We have disclosed to you:

- The results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- All information in relation to fraud or suspected fraud of which we are aware affecting the Foundation involving management, employees who have significant roles in internal control or others where the fraud could have a material effect on the financial statements; and
- All information in relation to any allegations of fraud, or suspected fraud, affecting the Foundation's financial statements, communicated by employees, former employees, analysts, regulators or others.

Compliance with laws and regulations
We have disclosed to you all aspects of laws, regulations and contractual agreements that may affect the financial statements, including actual or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

We are not aware of any illegal or possibly illegal acts committed by the Foundation's directors, officers or employees acting on the Foundation's behalf.

Accounting estimates and fair value measurements
Significant assumptions used by the Foundation in making accounting estimates, including fair value accounting estimates, are reasonable.

For recorded or disclosed amounts in the financial statements that incorporate fair value measurements, we confirm that:

- the measurement methods are appropriate and consistently applied;
- the significant assumptions used in determining fair value measurements represent our best estimates, are reasonable and have been consistently applied;
- no subsequent event requires adjustment to the accounting estimates and disclosures included in the financial statements; and
- the significant assumptions used in determining fair value measurements are consistent with the Foundation's planned courses of action. We have no plans or intentions that have not been disclosed to you, which may materially affect the recorded or disclosed fair values of assets or liabilities.

Significant estimates and measurement uncertainties known to management that are required to be disclosed in accordance with Canadian Institute of Chartered Accountants (CICA) Handbook Section 1508, Measurement Uncertainty, have been appropriately disclosed.

Related parties
We confirm the completeness of information provided to you regarding the identification of related parties as defined by CICA Handbook Section 3840, Related Party Transactions, which include, but are not limited to directors, officers, senior members of management, or immediate family members of such individuals, or entities over which these individuals are able to exert significant influence. We also confirm the completeness of information provided to you regarding the nature of the Foundation's relationships with and transactions involving those entities.

The identity and relationship of and balances and transactions with related parties have been properly recorded and adequately disclosed in the financial statements, as required by Canadian generally accepted accounting principles.

The list of related parties attached to this letter as Appendix B accurately and completely describes the Foundation's related parties and the relationships with such parties.

Going concern
We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements (e.g. to dispose of the business or to cease operations).

Assets and liabilities
We have satisfactory title or control over all assets. All liens or encumbrances on the Foundation's assets and assets pledged as collateral, to the extent material, have been disclosed in the notes to the financial statements.

Receivables recorded in the financial statements represent bona fide claims against debtors for sales or other charges arising on or before the statement of financial position date and are not subject to discount except for normal cash discounts. Receivables classified as current do not include any material amounts that are collectible after one year. All receivables have been appropriately reduced to their estimated net realizable value.

We have recorded or disclosed, as appropriate, all liabilities, in accordance with Canadian generally accepted accounting principles. All liabilities and contingencies, including those associated with guarantees, whether written or oral, under which the Foundation is contingently liable in accordance with Accounting Guideline 14, Disclosure of Guarantees, or CICA Handbook Section 3290, Contingencies, have been disclosed to you and are appropriately reflected in the financial statements.

Litigation and claims
All known actual or possible litigation and claims, which existed at the statement of financial position date or exist now, have been disclosed to you and accounted for and disclosed in accordance with Canadian generally accepted accounting principles, whether or not they have been discussed with legal counsel.

Misstatements detected during the audit
Certain representations in this letter are described as being limited to those matters that are material. Items are also considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement.

We confirm that the financial statements are free of material misstatements, including omissions.

The effects of the uncorrected misstatements in the financial statements, as summarized in the accompanying schedule (Appendix C), are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We confirm that we are not aware of any uncorrected misstatements other than those included in Appendix C.

The adjusted misstatements identified during your audit and summarized in the attached table (Appendix C) have been approved by us and adjusted in the financial statements.

Events after balance sheet date
We have identified all events that occurred between the statement of financial position date and the date of this letter that may require adjustment of, or disclosure in, the financial statements, and have effected such adjustment or disclosure.

Cash and banks
The books and records properly reflect and record all transactions affecting cash funds, bank accounts and bank indebtedness of the Foundation.

All cash balances are under the control of the Foundation, free from assignment or other charges, and unrestricted as to use, except as disclosed to you.

The amount shown for cash on hand or in bank accounts excludes trust or other amounts which are not the property of the Foundation.

Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, line of credit, or similar arrangements have been properly disclosed.

All cash and bank accounts and all other properties and assets of the Foundation of which we are aware are included in the financial statements at December 31, 2010.

Accounts receivable
All amounts receivable by the Foundation were recorded in the books and records.

Amounts receivable amounted to $5,139,848 and is considered to be fully collectible, except to the extent of amounts for which full allowance has been made in the accounts.

Amounts receivable that are non-interest bearing and are expected to be received more than a year after initial recognition date have been initially recognized at fair value, using an appropriate discount rate, and subsequently measured at amortized cost.

All receivables were free from hypothecation or assignment as security for advances to the Foundation, except as hereunder stated.

The Foundation has accounted for and disclosed transfers of receivables (including securitizations) in accordance with the provisions of AcG-12, Transfers of Receivables.

Accounts payable
Amounts payable that are non-interest bearing and are expected to be paid more than a year after initial recognition date have been initially recognized at fair value, using an appropriate discount rate, and subsequently measured at amortized cost.

Commitments
Provisions have been made for losses to be sustained in the fulfillment of, or from inability to fulfill, any sales commitments.

Provisions have been made for losses to be sustained as a result of purchase commitments for inventory quantities in excess of normal requirements or at prices in excess of prevailing market prices.

Yours truly,

Canadian National Exhibition Foundation

____
Dianne Young, Chief Executive Officer

____
Hardat Persaud, Chief Financial Officer

Appendix E: Independence letter

PricewaterhouseCoopers LLP
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April 20, 2011

The Finance Committee of the Board of Directors of
Canadian National Exhibition Association, and
Canadian National Exhibition Foundation

To the Members of the Finance Committee

We have been engaged to audit the financial statements of the Canadian National Exhibition Association and the Canadian National Exhibition Foundation (collectively, the Organizations) for the year ended December 31, 2010.

Canadian generally accepted auditing standards (GAAS) require that we communicate at least annually with you regarding all relationships between the Organizations, their management and us that may reasonably be thought to bear on our independence.

In determining which relationships to report, these standards require us to consider relevant rules and related interpretations prescribed by the Ontario provincial institute covering such matters as:

(a) holding a financial interest, either directly or indirectly, in a client;
(b) serving as an officer or director of a client;
(c) performance of management functions for an assurance client;
(d) personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client or its management;
(e) economic dependence on a client;
(f) long association of senior personnel with a listed entity audit client;
(g) audit committee approval of services to a listed entity audit client; and
(h) provision of services in addition to the audit engagement.

We have prepared the following comments to facilitate our discussion with you regarding independence matters.

We are not aware of any relationships between the Organizations or their management and PricewaterhouseCoopers LLP that may reasonably be thought to bear on our independence, that have occurred to April 20, 2011.

PRICEWATERHOUSECOOPERS

We hereby confirm that we are independent with respect to the Organizations within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario as of April 20, 2011.

This report is intended solely for the use of the Finance Committee, the Board of Directors, management, and others within the Organizations and should not be used for any other purposes.

We look forward to discussing with you the matters addressed in this letter at our upcoming meeting on April 26, 2011.

Yours very truly,

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

Appendix F: Financial reporting update

Financial Reporting Release

Keeping your head above water…

Recent issues in financial reporting

January 2011

In this Issue

It will come as no surprise that this issue of *Financial Reporting Release* is all about International Financial Reporting Standards. How could it not? With Canadian publicly accountable enterprises on the cusp of adopting IFRS and existing Canadian GAAP frozen in anticipation of the changeover, 2010 year end statements are ho-hum. What's really causing all the excitement in town these days is first-time 2011 IFRS reporting.

And so let us start this edition with the welcome news that the final piece in Canada's IFRS reporting puzzle has been put into place. In the last quarter of 2010, Canadian Securities Administrators published their IFRS-related amendments to Canadian securities reporting rules. Are you going to have to make last minute fixes to your IFRS accounting as a result? Do you have more reporting options than you did before? We have some thoughts.

Not everybody's excited about 2011 IFRS reporting. Canadian rate-regulated enterprises and investment companies got a reprieve from this reporting from the Accounting Standards Board in Canada. They are now required to adopt IFRS only in 2012. The stories behind the deferrals are specific to these sectors but they also reveal a broader truth about global standard-setting which we would all do well to remember: sometimes it can move very slowly; indeed, sometimes not at all.

But don't infer from the above that life in IFRS land has come to a complete standstill since our last visit. While no blockbuster standards were issued, and only one exposure draft of any consequence (on hedging), there have been some developments that might affect 2011 transition reporting. Hint: if you own real estate or other investment properties, or have commercial paper outstanding, you might want to pay close attention. Really close.

As you know, our usual practice is to report only recent accounting developments but in this edition we've made an exception. Seeing as how everyone's focusing on IFRS transition, we've also snuck in an important reminder – whatever you do, make sure that you've nailed down the implications of IFRS on your debt covenants. The credit standing you wind up saving could be your own.

These days no issue of *Financial Reporting Release* would be complete without an update on the ambitious plans of the IASB and FASB (collectively, "the Boards") to converge their respective standards. The saga continues. Late in the year, the Boards announced radical surgery to their plans, abandoning some projects, at least for the moment, and ramping up others. Wondering where your favourite project fits? Read on, dear reader, read on.

And there you have it. Everything you need to know about IFRS developments affecting your transition and life beyond. Does it get any better than this?

Transitioning to IFRS

“Change is inevitable – except from a vending machine” – C. Gallagher

For all Canadian publicly accountable enterprises (well almost all, as we’ll see in a few minutes) the priority for 2011 will be to get over the IFRS transition hump – negotiating the changeover from existing Canadian GAAP to IFRS in first quarter 2011 interim financial statements all in one piece.

There were some developments late in 2010 that will affect your transition. In October, the CSA released their long-awaited IFRS amendments to Canadian securities reporting requirements. There are no real surprises when it comes to first-time IFRS interim financial statements. Consistent with the CSA’s draft proposals, the final amendments require inclusion of a supplementary IFRS balance sheet as at the effective date of your transition to IFRS (January 1, 2010 for most companies), and an explicit affirmation in your disclosures that the statements are in compliance with IFRS interim reporting requirements.

The CSA’s IFRS amendments include revised guidance on the use of performance measures, such as EBITDA, in an IFRS reporting environment. That guidance is similar in many respects to existing requirements, but with a few twists. For example, it doesn’t outright ban the use of EBITDA and other performance measures in financial statements not explicitly contemplated by IFRS. Don’t cheer too loudly, EBITDA lovers. The criteria for applying these measures are strict.

You should also know that in late November 2010, the Ontario Securities Commission released a “top ten” summary of IFRS transition reminders and advice which provides a convenient basis for assessing how your IFRS transition reporting stacks up against regulatory expectations. This includes disclosure about IFRS transition in your 2010 annual MD&A filings. Much of the commentary takes the form of suggestions but, as always with regulators’ suggestions, disregarding them could lead to some unwelcome chats down the road.

PwC Observation. Listen to your inner voice in deciding how best to comply with requirements for transitioning to IFRS, and communicating the changes to financial statement users. Rigid reliance on rote, “check the box”, or copycat approaches usually will result in a clutter of irrelevant information that will only obscure, confuse and distract the reader. Just because somebody else did it one way doesn’t mean you should too – or that it’s good enough for you.

Rate-regulated Accounting

“The difference between depression and disappointment is your level of commitment”
– Marc Maron

The following is a cautionary tale about the ups and downs of the global standard-setting process and its effect on domestic financial reporting. The subject is rate-regulated accounting (“RRA”) but that doesn’t really matter. It could be anybody’s accounting.

Our story begins a few years ago, when Canadian rate-regulated enterprises (“RREs”) preparing for transition to IFRS began to fuss about whether RRA could survive under IFRS. RRA involves setting up assets or liabilities for future charges or refunds to customers instead of treating them as adjustments of revenue when they happen. Unlike existing Canadian and US GAAP, IFRS doesn’t explicitly sanction this basis of accounting. As a result of concern over this, Canada asked the IASB to provide guidance on the issue. And so in 2009, the IASB issued an exposure draft which allowed RRA in qualifying circumstances. The exposure draft enjoyed broad support from North American constituents but drew significant opposition from many other parts of the world. In July 2010, the IASB postponed making a final decision, deciding more research and deliberation was necessary.

Given the prospect of delay, the AcSB proposed a two-year deferral from adopting IFRS for RREs. The thinking was that this would allow the IASB sufficient time to finish the project and provide certainty to Canadian RREs on how IFRS applies. Alas, after further considering its own priorities (more about those later) and other factors, the IASB abruptly withdrew RRA from its agenda shortly thereafter. In the circumstances, the AcSB and the CSA deemed it only fair to give affected Canadian RREs more time to ponder the appropriateness of RRA under existing IFRS. As a result, RREs and companies that consolidate RREs now have until years starting on or after January 1, 2012 to effect the changeover.

PwC Observation. In the end, the IASB’s RRA project had much in common with a Greek tragedy – it’s hard to walk away feeling other than depressed or disappointed. The IASB has made some vague noises about perhaps resurrecting the project at some later date in perhaps a different form, but there’s no prospect of this happening anytime soon.

Investment Companies

"By trying we can easily endure adversity. Another man's, I mean." – Mark Twain

You're probably familiar with at least parts of this story. As we've discussed in previous issues of the *Financial Reporting Release*, existing Canadian GAAP precludes an investment company from consolidating investments it might happen to control in all but remote circumstances. Existing IFRS, however, always requires consolidation. IFRS reporting thus is a significant issue for IFRS-bound Canadian investment companies, all of which are adamant that consolidation doesn't provide sufficient meaningful information in a world where the overriding concern of investors is fair value.

Relief is supposed to be on the way. As part of its convergence efforts with the FASB, the IASB has a project on its agenda to exempt investment companies from consolidation. In anticipation, in September the AcSB deferred mandatory adoption of IFRS for investment companies until years starting on or after January 1, 2012 (segregated accounts of life insurance enterprises get the same break for the same reasons). The CSA also has provided relief for investment funds. Beware. If you're not an investment company, but are consolidating one, there is no relief. You're stuck with consolidating the investments controlled by these entities on transition to IFRS in 2011.

Implicit in the AcSB's deferral, of course, is the assumption that the IASB will issue their consolidation exemption in time for adoption by Canadian investment companies in their 2012 reporting. Ominously perhaps, the IASB announced in November 2010 that it no longer considered the project to be a top priority (we explain why later). The aim now is to complete the project by the end of 2011 though the IASB hasn't committed to this timing in its official work plan. As you might imagine, this has caused a collective gulp in the Canadian investment company community. Still, there's nothing more that can be done now other than…endure.

PwC Observation. While some might see disturbing parallels between the investment company project and rate-regulated accounting, there's one important difference. IASB staff outreach on the project revealed unanimous support for investment company consolidation relief from investor user groups, everywhere. We're hopeful the IASB will complete the project in 2011. Nevertheless, the timing is a worry. Further transition relief from the AcSB may be necessary. We expect the AcSB would give this every consideration.

Recent IFRS Developments Affecting Transition

"Tut, tut, child," said the Duchess. "Everything's got a moral if only you can find it."
– Lewis Carroll, *Alice in Wonderland*

Since our last issue, there have been a few IFRS developments that might affect your transition in 2011. No blockbuster new standards, mind you, but the changes still might wallop your financial statements. Here are some of the more important ones.

Classification by the borrower of commercial paper and other similar debt

In early January 2011, the IFRS Interpretations Committee considered the issue of balance sheet classification of commercial paper and other short-term debt obligations backed by long-term loan facilities. The IFRIC agreed that under existing IFRS these debts should be classified as current liabilities when the facility is with a different lender. If the facility is from the same lender, long-term classification is appropriate in some circumstances. The Committee will recommend that the IASB clarify the applicable IFRS requirements as part of their annual improvements project.

Income taxes – investment properties

Late in 2010, the IASB amended its income tax standard in order to simplify the calculation of deferred taxes for investment properties elected to measure at fair value under IFRS. What are investment properties? Think of things like office buildings and other income-producing properties in the real estate industry. Under the amendment, you would set up deferred income taxes at the tax you'd expect to pay assuming you sold the property for its fair value at the balance sheet date. The rule applies even if you don't intend to sell – with one exception. If your business plan is to hold and operate the asset for its remaining useful life (and we mean all of the remaining life), then you would set up taxes assuming this course of action. In some jurisdictions, calculating deferred taxes on the basis a property will be sold rather than held and operated can result in significantly different deferred taxes because the tax consequences of the two alternatives aren't always the same. For example, when the fair value of a property is in excess of its cost, presuming a sale might result in taxes being set up using the capital gains rather than the ordinary business rate. The amendment is effective for annual periods beginning on or after January 1, 2012 but you can adopt it earlier if you like, including at transition.

IFRS transition rules

The IASB made a few last minute changes to IFRS transition rules. From a Canadian perspective, perhaps the most significant one relates to the date for determining when you have to apply the IFRS derecognition requirements. Previously, you had to consider all transactions occurring on or after January 1, 2004. Now, you will have to consider transactions occurring only after the date of transition. The change is effective for years beginning on or after July 1, 2011 but earlier application is permitted. This gives you the opportunity to reconsider your transition accounting for things like securitizations of receivables that qualify as sales under existing Canadian GAAP, but are financings under IFRS (subject to any regulatory approval you might require).

Other

The IASB amended its financial instrument rules for financial liabilities elected by the entity for measurement at fair value through profit and loss. Now, changes attributable to credit risk go to OCI instead. Also, derecognition and interim disclosures have been beefed up.

PwC Observation. Consider the effects of these changes with care. For example, setting up deferred income taxes with the expectation that you're going to sell an investment property at the balance sheet date might lead to some pretty wonky looking income tax expenses if you're still holding the property when you run out of tax shelter. The moral here? Not everything might be as it seems.

IFRS Transition and Debt Covenants

"Running into debt isn't so bad, it's running into creditors that hurts." – Unknown

Over the holidays, you may have noticed a bit in the business section about the impact of moving over to IFRS on companies' credit ratings. The gist was that changing over shouldn't ordinarily affect ratings because IFRS is only a different way of communicating financial information and doesn't affect a company's fundamentals. This is true, but don't get too comfortable. Changing over to IFRS could affect your technical compliance with financial debt covenants. And that, of course, could affect your credit standing.

Everybody and their mothers know by now that transitioning to IFRS can result in significant differences in the recognition, measurement and classification of assets and liabilities relative to existing Canadian GAAP. It would be nice to provide general guidance on the implications of those differences for debt covenant calculations, but it's just not possible. And that's because there's no standard wording for covenants. In some cases, for instance, you have to measure compliance using the GAAP in effect when the debt was issued. In others, covenants ask you to incorporate the effects of some or all subsequent changes in GAAP.

Often, covenant calculations include special non-GAAP adjustments. How a changeover from existing Canadian GAAP to IFRS fits into the overall picture will very much depend on the terms of each agreement.

In considering debt covenants, we do have one general thought. You might think you're moving over to a different GAAP when you move over to IFRS, and you are, but remember, IFRS technically still qualifies as "Canadian GAAP". In the brave new world of financial reporting in Canada, the term "Canadian GAAP" has become a kind of overarching label that accommodates, at last count, five separate and distinct basis of financial reporting: Existing Canadian GAAP, IFRS, Private Enterprise GAAP, Not-for-Profit Organizations, and Pensions Plans. Which of these do your covenants require you to apply?

PwC Observation. Assessing the impact of IFRS on debt covenants is sort of like cutting wood – better measure twice before starting to saw.

Global GAAP Convergence

"Everybody has a plan until they're punched in the face" – Mike Tyson

We know. We know. You're tired of hearing about global GAAP convergence. We'll keep it short.

What's new is that late in 2010, the Boards suspended work on four projects: financial statement presentation, distinguishing debt from equity, emissions trading schemes, and, less significantly for everyone other than those with a dangerously misplaced interest in all things accounting, the reporting entity phase of the conceptual framework.

The Boards are pulling the plug on these undertakings, temporarily, because they need more time to finish other convergence projects that have a higher priority and are subject to their self-imposed deadline of June 30, 2011 (see Table on right). The IASB has also stopped or slowed down work on other projects, including provisions and contingencies, income taxes, annual IFRS improvements, and as we have already seen, rate-regulated accounting and consolidation by investment companies. They've also decided to defer release of their new joint ventures standard until new consolidation rules come out.

The Boards issued a consultative document asking constituents' views on when and how the new standards should be mandatorily effective. We expect this will be 2013 at the earliest.

PwC Observation. In the past, the Boards have given a variety of reasons for their mid-2011 timing: G20 pressure for common global accounting standards, the impending retirement of the Chair of the IASB, the SEC 2011 decision whether to adopt IFRS for US reporting purposes, and to help countries that are moving over to IFRS in 2011 avoid double switches in accounting. The downside to the Boards' timing, of course, is the risk that this will compromise due process and the quality of standards. The Boards swear this won't happen but it hasn't stopped some from expressing concerns that perhaps the Boards are moving too fast.

IASB Convergence Projects Still Standing

Project	Primary Objective
Financial instruments (Q2)	Um, well, uh … see the next page.
Fair value measurement (Q1)	Tweaking guidance on the largely philosophical question of what fair value is, and the largely practical question of how to measure it.
Revenue recognition (Q2)	Reducing the plethora of revenue recognition models out there to a single basic one that everybody has to follow.
Leases (Q2)	Killing off-balance sheet accounting for operating leases.
Presentation of OCI (Q1)	Improving, if not entirely demystifying, the reporting of that beast called other comprehensive income.
Consolidation, other than investment companies (Q1)	Narrowing the gap between IFRS and US GAAP rules, including the rules for SPEs. There will be new disclosures as well.
Insurance contracts (Q2)	Divining an IFRS standard for insurance contracts that the FASB hopefully will also pick up. This project has resisted resolution for years and years and years.
(Q1) or **(Q2)** = quarter of expected release of standard	

Financial Instruments

"There is no problem so big it cannot be run away from." – Charles Schulz

It is a truth universally acknowledged that financial instruments are a cornerstone of the Boards convergence strategy. But don't expect fully converged IASB and FASB financial instrument standards to hit your doorstep by the middle of 2011. As we discuss below, the risk is very high that significant differences will remain.

As contemplated by the Boards, convergence of financial instrument standards involves addressing the following main issues:

- Determining which instruments to measure at fair value and whether to report changes in fair value in net income or OCI;
- Setting criteria for recognition of impairment losses on assets carried at amortized cost (including loan portfolios) and how to measure the losses;
- Deciding when to allow hedge accounting and how to apply it (see next page); and
- Establishing rules to offset derivatives and other recognized financial assets and liabilities and to present them net on the balance sheet (this just added to the agenda).

What's the problem in coming up with common solutions? In a nutshell – the Boards have strongly held but differing views as to what improvements to standards are necessary and appropriate. For instance, recent FASB proposals would have many more financial instruments being measured at fair value than under IFRS. Convergence efforts also have been complicated by political pressures. During the financial crisis, the Boards were compelled to undertake improvements to their own standards separately, according to their own timetables, and only then undertake a common effort to produce joint standards (offsetting is an exception).

The Boards have been frank in acknowledging the diversity in their views and other challenges in the process of converging financial instrument standards. So much so that in a recent report on the status of the IASB's progress on financial instruments, the IASB Chair observed that the Boards might have to consider what steps, if any, should be taken to assist investors and other users of financial statements to reconcile unresolved differences, such as through presentation and disclosures.

PwC Observation. The Boards aren't running away from the problems; they are just out of time.

Hedge Accounting

During the crossing, Einstein explained his theory to me every day, and by the time we arrived I was fully convinced that he really understands it – C. Weismann

There's no getting around it, existing hedge accounting requirements, both under IFRS and US GAAP, can be tough. Really tough. Listening to a hedge accounting expert explain hedging rules is sort of like hearing your car mechanic explain why your repair bill is so high – for most of us, all you can do is try to look intelligent, nod at what you hope are the appropriate intervals, and then pay up.

The IASB hopes to address this concern. In December 2010, the IASB issued an exposure draft of a revised hedge accounting standard that has simplification as a major objective. Key proposals designed to achieve this are:

- Linking the qualification criteria for hedge accounting more closely to the entity's business risk management strategies;
- Eliminating arbitrary bright line tests as to what constitutes a successful hedge (the dreaded "80-125" correlation test);
- Allowing hedge accounting for more particular risks inherent in non-financial assets; and
- Accumulating changes in fair value of hedged items in a separate balance sheet account rather than posting them to the assets and liabilities to which they relate.

FASB hedging proposals for US GAAP were issued a few months ago. These are not nearly so accommodating. In fact, they contain none of the IASB's simplification proposals. In these respects, anyway, it's pretty much business as usual. It's not a drive down a different path from current requirements.

PwC Observation. Hedge accounting changes the timing of recognition of gains and losses in net income from what normally happens under GAAP. For this reason, some accountants think that the criteria for using it have to be very strict. Otherwise, the door would be open for the nefarious to do an end run around regular GAAP. Others believe that relaxing the criteria somewhat is fundamental if management is to be able to properly explain the consequences of the business's risk management strategies. Right now, anyway, it sure looks like the Boards are sitting on opposite sides of this important philosophical divide. Resolving this difference by June 2011 appears unlikely, especially given the timing for completion of the FASB's separate project.

Life after Convergence

"In theory there is no difference between theory and practice. In practice there is." – Yogi Berra

The IFRS Advisory Council was formed a few years ago to advise the IASB on its work plans and agenda. We thought you might like a peek at the Council's recommendations to the IASB subsequent to its global GAAP convergence activities with the US.

In summary, the major recommendations are:

- Focus on ensuring that IFRS achieves the objective of requiring high quality financial reporting by being responsive to the needs of those already using IFRS, or who are moving to IFRS.
- Continue to develop standards that meet the needs of investors but monitor and co-ordinate activities with regulators so that financial statements, to the extent possible, can accommodate their needs and objectives, in particular, financial stability.
- Provide a period of calm after convergence is complete and new standards are issued. Be prepared to respond quickly to implementation issues as new standards come into effect.
- Allocate significant resources to ensure that standards are consistently interpreted and applied and that they produce the intended results.
- Update the conceptual framework that underpins standards and develop a disclosure framework.
- Enhance outreach activities. One option may be establishing regional offices.
- Monitor trends and developments in financial reporting, such as XBRL, and develop strategic plans accordingly so as to protect the relevance of the IFRS brand.
- Manage the relationship between IFRS and the special IFRS standards for small and medium enterprises ("SMEs") to avoid confusion in the market. Update IFRS for SMEs as appropriate.

PwC Observation. We expect that many Canadian companies would firmly support many of these proposals. In particular, the absence of mechanisms in IFRS to address emerging issues effectively on a timely basis has been a common concern. Providing extensive interpretation and application guidance got a bad name during the financial crisis because of the worry that this was aiding and abetting financial statement engineering. Popular opinion, in Canada anyway, seems to be that a happy balance has yet to be struck. While the theory that everyone should use professional judgment to come up with the one answer that's particularly appropriate in their circumstances sounds good, it's creating significant discomfort in practice.

For more information …

This newsletter has been prepared for the clients and friends of PricewaterhouseCoopers by National Accounting and Assurance. For further information on any of the matters discussed, please feel free to contact any member of NAA, or your PwC engagement leader. This newsletter is available from the PwC Canada web site, which is located at **www.pwc.com/ca**.

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