

The Board of Governors on September 11, 2009 received this report for INFORMATION.

September 4, 2009

To: The Board of Governors of Exhibition Place
From: Finance & Audit Committee
Subject: **Audit Results for the Consolidated Financial Statements
for Exhibition Place for the Year Ended December 31, 2008**

FOR INFORMATION ONLY

Summary:

The Finance and Audit Committee met on September 4, 2009 to consider this report and refers it to the Board for information and to forward on to City Council.

This report presents for the information of the Finance and Audit Committee and the Board the audit results for the year ended December 31, 2008. The auditor of record for the Board, Ernst & Young LLP, audits these statements in accordance with generally accepted auditing standards and summarizes issues of audit significance and provides the communications required by their professional standards. This is the section of the audit results where the auditors make their suggestions and recommendations, based on audit findings, to improve the accounting and internal control procedures. As noted in the full Audit Results attached, during the 2008 audit, the auditors did not discover any significant opportunities for improvements in the current control environment. This report summarizes the auditor's comments which can be found in full in Attachment 1.

Financial Impact:

There are no financial implications to this report.

Decision History:

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

Issue Background:

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

Comments:

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

Required Communications

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

- There were no significant changes in 2008 overall audit approach compared to the one outlined in the audit planning document sent to Finance and Audit committee members in January 2009.
- There were no significant unusual transactions related to the current year.
- There were no significant audit adjustments for the Board except for classification adjustments.

- There were 23 recorded audit differences; these adjustments had a net impact of increasing the Board's expenses by approximately \$50,000. Sixteen (16) of the recordings are for reclassification entries for the CNEA, Exhibition Place and BMO Field programs. These are balance sheet to balance sheet entries for presentation purposes with no financial impact. For example - reclassifying naming rights accounts receivable at year end with deferred revenue; netting of GST input tax credit receivables with GST payables; two entries to reclassify City term investments to receivable due from the City. Two (2) of the recordings were to address the Mercer actuarial adjustments in May for employee long term benefits. Three (3) entries were for year end consolidated surplus to record the first purchase installment of the two CNEA artifacts (Haines and Satok) as per the MOU between the Board and the CNEA.
- There were no disagreements with management on financial accounting and reporting matters
- No material weaknesses in internal control were identified in the current environment

Items of Audit Significance Discussed with Management

The following issues were discussed with management:

(i) Restatement of the 2007 Consolidated Financial Statements

The actuary engaged by the City made a valuation error in computing the sick leave plan benefits in 2008 which also resulted in an error for the 2007 valuation and as a result the Board has to restate the 2007 consolidated financial statements to correct for this error which is also disclosed in greater details in Note 3 of the statements. The impact of this adjustment result is an increase to employee benefits expense in the amount of \$680,848. It should be noted that this adjustment does not affect the surplus transferred to the City as it is below the line to reflect the Public Sector Accounting Board Disclosure Requirements (PSAB).

(ii) Employee Future Benefits

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

(iii) Restatement of 2007 Consolidated Statements for Energy Retrofitting Projects

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

The Board has previously disclosed the repayment commitments in its financial statements by way of note disclosure and previous agreement with Ernst & Young in 2006 and 2007. For 2008, the City has asked and the auditor has concurred, that the Board, in addition to the note disclosures that the liabilities for the energy retrofit loans be included in the body of the financial statements, with an offset with an asset called energy retrofit asset for the capital improvements undertaken. Staff has complied with the City request notwithstanding that the Board does not own the assets, that is, all Board capital assets are City-owned and are usually carried on the City books. As a result of the above, the Board has restated its consolidated statements. The auditor concurs with the Board's accounting and reporting treatment for these assets and liabilities for

loan repayments within the 2008 financial statements. The auditor recommended that the Board and the City enter into written agreements for all of the financing arrangements under the retrofit programs, but staff (City and Board) are of the view that this is not required as the City has already obtained financing and contractual agreements with the appropriate third party lender on the Board's behalf and City Council has also directed for each of the projects how the accounting, reporting, savings and debt payments should be accounted for between the City and the Board.

(iv) National Soccer Stadium (BMO Field)

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

(v) Conference Centre – Naming Consultant

The Board entered into an agreement with a consultant for the naming of the Conference Centre and the Board is required to pay the consultant a percentage in naming commissions. The auditor wants the Board to expense in 2008 a portion of the naming commission. However, the Board has not taken any of the naming fees received upon execution of the agreement with MTS Allstream into income as the building is yet to be opened. While the naming consultant is still required to service the naming partner as needed no expense will be recorded at this time as the commission is only payable over the term as fees are received; accordingly, the expense will be recognized over a period of 10 years starting with the re-opening of the facility in October 2009 to match the related revenue. This accounting and reporting treatment is also consistent with the Direct Energy Centre naming agreement which the auditor concurs with. In addition, an expense cannot be recognized without the related revenue as City Council has directed that the net proceeds from both naming be placed in the "Exhibition Place Conference Centre Reserve Fund" to provide a backstop and source of funding for any shortfall by the Board in respect of loan payments as required under the loan agreement with the City.

(vi) Related Party Transactions with the City

As is consistent in prior year's audit, staff has provided a listing of all payables due to the City at year end. The auditors are of the opinion that if the corresponding receivables are not in the City listing and/or books, that Exhibition Place should not carry the payables. Exhibition Place staff are of the view that is not the right approach as the legal liability to pay still exists, as these payables were accrued on the basis of direct invoicing from the City (for landscaping); emails from City staff to accrue for legal costs for service rendered in 2008 that are yet to be billed; and payments to the City sick bank reserve for one of the four Exhibition Place programs.

(vii) Changes to Financial Statements in 2008

The auditors are bringing to the reader's attention that there have been changes due to the restatement for employee benefits from the City actuarial adjustments and updates in the notes to the financial statements for 2008 for certain reclassifications and that they agree to these changes in the notes.

Summary of Audit Differences

There were six (6) unrecorded audit differences; one (1) for the BMO Field operations in the amount of \$25,800 for which, if recorded in the financial statements, would increase revenue. The other five (5) unrecorded audit differences for the Exhibition Place program in the amount of \$433,200 recorded as a potential liability for legal issues and other general items, which if adjusted in the financial statements would increase revenue.

Independence Letter from Ernst & Young

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

Memorandum/Letter of Recommendations

This is the section of the audit results where the auditors make their suggestions and recommendations, based on audit findings, to improve the accounting and internal control procedures. During the 2008 audit, the auditors did not discover any significant opportunities for improvements in the current control environment.

Attachments

2008 Board of Governors of Exhibition Place Audit Results