

**Board of Governors of Exhibition Place**  
Year-end Report to the Finance and Audit Committee  
December 31, 2010

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April 20, 2011

Members of the Finance and Audit Committee of the  
Board of Governors of Exhibition Place

Dear Committee Members

We are in the process of completing our audit of the consolidated financial statements of the Board of Governors of Exhibition Place (the Board) for the year ended December 31, 2010 and propose to issue an unqualified report on those financial statements, pending resolution of outstanding items outlined on page 1. Our draft auditor's report is included in Appendix A.

We have issued the accompanying report to assist you in your review of the consolidated 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 and Audit Committee our key findings.

We would like to express our sincere thanks to the management and the staff of the Board 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 and Audit 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

- Appendix A: Draft financial statements
- Appendix B: Summary of unadjusted and adjusted items
- Appendix C: Management representation letter
- Appendix D: Independence letter

The matters raised in this and other reports that will flow from the audit are only those that have come to our attention arising from or relevant to our audit that we believe need to be brought to your attention. They are not a comprehensive record of all the matters arising and, in particular, we cannot be held responsible for reporting all risks in your business or all internal control weaknesses. This report has been prepared solely for your use and should not be quoted in whole or in part without our prior written consent. No responsibility to any third party is accepted, as the report has not been prepared for, and is not intended for, any other purpose. Comments and conclusions should only be taken in context of the financial statements as a whole as we do not mean to express an opinion on any individual item or accounting estimate.

## 1. Executive summary

### a. Status of the audit

We **have completed** our audit of the 2010 consolidated 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
• Receipt of confirmations from the City of Toronto	Management is following up
• Legal letters	Confirmations are outstanding from: <ul style="list-style-type: none"> <li>◦ Legal Services, City of Toronto</li> <li>◦ Hicks Morley, Barristers and Solicitors</li> </ul>
• Completion of subsequent events procedures	Discussion to be held with management when audit report finalized
• Finalization of employee future benefits testing	Final assessment on actuarial assumptions to be provided by our internal expert
• Finalization of manual journal entry testing	Follow up on certain queries
• Receipt of signed management representation letter	To be provided to management
• Approval of the financial statements by the Board of Governors	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.

	Issue	Summary discussion	For further reference
i.	Significant audit, accounting and financial reporting matters	<ul style="list-style-type: none"> <li>• We discussed the following significant audit, accounting and financial reporting matters with management:               <ul style="list-style-type: none"> <li>◦ Revenue recognition;</li> <li>◦ Completeness and accuracy of transactions recorded with related parties;</li> <li>◦ Employee future benefits payable;</li> <li>◦ Purchase of the Garden of Greek Gods statues;</li> <li>◦ Management override of controls;</li> <li>◦ Financial statement presentation and disclosure changes.</li> </ul> </li> </ul>	Page 3

	<b>Issue</b>	<b>Summary discussion</b>	<b>For further reference</b>
ii.	Summary of unadjusted items	<ul style="list-style-type: none"> <li>We identified several unadjusted items during the audit. As a result, net income is understated by \$156,392 as compared to overall materiality of \$600,000.</li> <li>We also noted disclosure exceptions and other unadjusted items not affecting net income (loss) and these are discussed on page 7 and detailed in Appendix B.</li> <li>In our opinion, the consolidated financial statements, taken as a whole, are free of material misstatement.</li> </ul>	Appendix B
iii.	Fraud	<ul style="list-style-type: none"> <li>No instances of fraud were noted as part of our audit procedures.</li> <li>We wish to confirm whether the Finance and Audit Committee is aware of any known, suspected or alleged incidents of fraud.</li> </ul>	Page 8
iv.	Management representations	<ul style="list-style-type: none"> <li>Under Canadian Auditing Standards, we are required to inform you of the representations we are requesting from management. A copy of the management representation letter is included in Appendix C.</li> </ul>	Appendix C
v.	Independence	<ul style="list-style-type: none"> <li>We are independent of the Board as at April 20, 2011, and our independence letter can be found in Appendix D.</li> </ul>	Appendix D
vi.	Significant deficiencies in internal control	<ul style="list-style-type: none"> <li>We noted certain deficiencies in internal controls that we have discussed with management:</li> </ul>	Page 9

## 2. Significant audit, accounting and financial reporting matters

The preparation of the consolidated 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 company's reported results.

We are responsible for discussing with the Finance and Audit Committee our views about the significant qualitative aspects of the company'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 consolidated 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:

Issue	Discussion
<p><b>Revenue Recognition</b></p> <p>The Board has several significant revenue streams including (but not limited to):</p> <ul style="list-style-type: none"> <li>• Parking;</li> <li>• Building rentals and services; and</li> <li>• Admissions, midway, concessions, and casino.</li> </ul> <p>The Board has processes and controls in place to ensure that revenue is appropriately recognized and measured.</p>	<p>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 different revenue streams as follows:</p> <p>Parking:</p> <ul style="list-style-type: none"> <li>◦ Controls over the reconciliation of cash collected to amounts deposited for attended lots were tested with no exceptions noted.</li> <li>◦ Detailed testing over parking pass and pay and display lot revenues through reconciliations to third party service reports.</li> </ul> <p>Building Rentals and services:</p> <ul style="list-style-type: none"> <li>◦ Controls over contract review were tested to ensure such rental agreements were approved by the appropriate level of management and in accordance with Board policy. No exceptions were noted.</li> <li>◦ Detailed testing over a sample of tenants and exhibitors to agree amounts recorded to their respective agreements and/or cash settlement.</li> <li>◦ Testing to ensure appropriate lease accounting for step rents and revenue recognition in accordance with Canadian GAAP.</li> <li>◦ All exceptions noted in rental revenue and/or receivables have been included in Section 3 of this report.</li> </ul> <p>Admissions, midway, concessions, and casino:</p> <ul style="list-style-type: none"> <li>◦ Controls over the reconciliation of concessionaire payments received by third party manager to bank deposits.</li> <li>◦ Reconciliation of amounts recognized as midway and concession revenues managed by North American Midway Entertainment (NAME) to final settlement report.</li> </ul>

Issue	Discussion
	<ul style="list-style-type: none"> <li>◦ Recalculation of concession revenue for a sample of concessionaires based on established agreements.</li> <li>◦ Reconciliation of amounts recognized as casino revenue to casino report and bank deposits.</li> <li>◦ All exceptions and/or control recommendations have been included in Sections 3 and 5, respectively.</li> </ul>
<p><b>Completeness and accuracy of transactions recorded with related parties</b></p> <p>The Board engages in many transactions with the City of Toronto (the City) and its various Agencies, Boards, and Commissions (ABCs).</p>	<p>We have obtained and tested management's reconciliation of amounts due to/from the City. We have confirmed loan balances as well as amounts due to/from the City, and have investigated all significant reconciling items. However, as noted on page 1 of our report, we are awaiting the confirmation from the City on the reserve balances that are disclosed in the notes to the consolidated financial statements. Any additional reconciling items not already examined will be further validated once received.</p> <p>As part of our testing, we noted that the Board does not separately report or disclose transactions with other related parties, primarily the other ABCs. In the current year, we have asked management to determine which ABCs have significant transactions in the year with the Board and disclose such items in their consolidated financial statements.</p>
<p><b>Employee future benefits payable</b></p> <p>The Board sponsors a defined benefit plan, providing retirement and post-employment benefits to its employees, for which the City of Toronto funds the obligation.</p>	<p>We have obtained the actuarial report as of December 31, 2010 from the Board'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. Some exceptions were noted as a result of this testing; however, we have worked with both management and the actuary to conclude that the differences would be immaterial to the overall financial statements.</p> <p>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.</p>
<p><b>Purchase of the Garden of Greek Gods statues</b></p> <p>In 2008, a memorandum of understanding (MOU) was signed between the Board and the Canadian National Exhibition Association (CNEA) relating to the purchase of 3 artifacts, one of which is a series of statues</p>	<p>We have obtained and reviewed the documents supporting this transaction, including the MOU signed in 2008, the letter provided to the Board from Dianne Young on March 1, 2010 seeking approval for the transaction, and the external valuation of the statues to support the purchase price.</p>

Issue	Discussion
<p>known as the Garden of Greek Gods that was purchased in the current year by the Board.</p> <p>The statues were sold to the Board for \$500,000 however payment will be made in annual installments of \$125,000 to the CNEA for the next 4 years (2010-2013) on the condition that the consolidated operating loss does not exceed the budget. The CNEA will, in turn, donate any payments received to the Foundation.</p>	<p>In our assessment of management's accounting for this transaction, it was noted that the Board did not record an asset for the statues purchased, nor did the CNEA record a gain on the sale.</p> <p>Management has asserted that it is appropriate that the asset be expensed in accordance with generally accepted accounting principles since they have cultural and historical significance (Section 4440). In addition, the entire gain of \$500,000 has not been recorded in CNEA as the remaining payments are based on the financial performance of the Board and are not assured. We concur with management's conclusions.</p>
<p><b>Management override of controls</b></p> <p>There is an inherent risk of misstatement due to management override of controls.</p>	<p>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.</p> <p>In addition to the above, as an unpredictable procedure, we have also tested a sample of management expense reports to ensure that the amounts submitted for reimbursement were supported, were approved in accordance with Board policy, and represented valid expenditures for reimbursement. No exceptions were noted as a result of this testing.</p>
<p><b>Financial statement presentation and disclosure changes</b></p> <p>Several changes have been made to the consolidated financial statements of the Board to better align with the accounting and disclosure requirements of Canadian GAAP.</p>	<p>As part of our audit of the financial statements, we have incorporated several changes to the presentation and disclosure in the financial statements. Such enhancements include the following:</p> <ul style="list-style-type: none"> <li>• Related party transactions disclosure – as noted above, the related party note to the consolidated financial statements was enhanced to include disclosure of amounts paid and received during the year from the City of Toronto, as well as any significant amounts from other ABCs.</li> <li>• Reserve funds disclosure – the reserve funds note to the consolidated financial statements was enhanced to better reflect the various funds that the City maintains on behalf of the Board, their purpose of each fund, and the respective balance and activity in the year.</li> <li>• Vacation accrual – in previous years, this amount was included in the employee future benefits line of the consolidated financial statements; however, accrued vacation does not meet the</li> </ul>



Issue	Discussion
	<p>definition of an employee future benefit under the CICA Handbook Section 3461. As a result, we have reclassified the vacation accrual to accrued liabilities and removed it from the note disclosure.</p> <ul style="list-style-type: none"><li>• Gross vs. net reporting of revenues and expenses – we noted in our review that certain revenues and expenses were reflected and reported on a net basis in the financial statements. Such items included electrical revenues, administrative markup of maintenance staff, and realty taxes. As there was no right to offset for most of these transactions, we have adjusted the consolidated financial statements to reflect the revenue and expense at their gross value, in accordance with Canadian GAAP.</li></ul>

### 3. Summary of unadjusted and adjusted items

Our responsibility is to issue an opinion as to whether the consolidated 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 consolidated financial statements to reflect certain of these items. The items that remain unadjusted are summarized in (a) below and described further in Appendix B. Under Canadian Auditing Standards we are required to ask the Finance and Audit Committee to consider adjusting the consolidated financial statements for these items.

We are also required to communicate the effects of any unadjusted items that relate to prior periods. These are also included in Appendix B.

#### a. Unadjusted items

Total unadjusted items have a net income effect of \$156,392. The materiality level (as previously communicated to you) is \$600,000.

In addition, we noted certain disclosure exceptions, which are summarized in Appendix B.

We have concluded that the consolidated 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 an unqualified opinion on the consolidated financial statements.

#### b. Adjusted items

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

## 4. Other required communications

Canadian Auditing Standards require that the external auditor communicate certain matters to the Finance and Audit 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 Board:

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. A copy of the management representation letter is included in Appendix C.
Significant deficiencies in internal control	Changes to Canadian Auditing Standards require us to communicate to the Finance and 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 and Audit 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 audit that require the attention of the Finance and Audit 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 consolidated financial statements, came to our attention as a result of our audit procedures.
Inclusion of "Emphasis of matter" or "Other matter" paragraph in audit opinion	See Appendix A 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 consolidated financial statements.

The audit included consideration of internal controls relevant to the preparation of the consolidated 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 deficiencies and certain other control recommendations that we have discussed with management and wish to bring to your attention.

Item	Recommendation	Management's response
<p><b>Data entry of time sheets</b></p> <p>As part of our review over payroll controls, it was noted that time sheets are input by the payroll clerk and the total hours are reconciled by another individual.</p> <p>However, during our testing we noted that an input error occurred whereby the hours were inputted on a wrong line which caused the employee to be paid at the wrong rate. As a result, there is an increased risk of inaccurate payments to employees and/or incorrect payroll expenses being recorded.</p>	<p>We recommend that an individual with more seniority than the payroll clerk entering the time sheet data, review the inputs to ensure complete and accurate data entry.</p>	<p>Hourly payroll input is reviewed by another staff member to ensure that hours are reconciled to the time sheet; however, due to volume, the number of union agreements and different job rates, the classification of rates is only verified on a sample basis. Going forward, management will increase the sample size in their review.</p> <p>There are also mitigating controls in place whereby management review the payroll registers for hourly and salaried employees on a periodic basis.</p>
<p><b>IT Data Backup</b></p> <p>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.</p>	<p>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.</p>	<p>Management agrees with this recommendation and has noted that this has already been put in place and tested for the current year.</p>
<p><b>Management oversight of financial processes managed by third parties</b></p> <p>The Board utilizes the services of a variety of third parties to manage various aspects of their operations. More notably, Maple Leafs Sports and Entertainment (MLSE) manages the operations of BMO Field on behalf of the Board.</p>	<p>We recommend that the Board periodically review BMO Field to ensure that their financial and accounting practices coincide with the Board's policies and that MLSE is maintaining complete and accurate information.</p>	<p>Management believes that sufficient oversight is provided through periodic walkthroughs and the review of the budget, monthly financial reports and financial analysis of key areas, and analytical comparisons to prior</p>

Item	Recommendation	Management's response
<p>While management does perform some checks over the operations of BMO Field (through discussions of management reports, and site visits to view operating activities), random checks into the financial management of the field should be undertaken.</p>		<p>year results. On the expenditure side, BMO Field receives payroll services directly from the Board, which forms a major portion of the expenditures; other major expenditures are contractual in nature and the Board is privy to such agreements and ensures to that they are properly reflected within the consolidated financial statements.</p>
<p><b>Review of census data submitted to actuary</b></p> <p>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.</p> <p>Differences in data can result in incorrect assumptions used by the actuary and hence a misstated employee future benefits payable.</p>	<p>We recommend that management check, on a sample basis, the data returned 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.</p>	<p>Management will consider this recommendation for future periods.</p>
<p><b>Contract Maintenance</b></p> <p>While reviewing the Board's lease agreements, it was noted that that Board was continuing to operate under one arrangement with MLSE for use of certain space in the Ricoh west annex whereby the initial annual term had expired and had not been renewed.</p> <p>This poses a legal risk, as without a binding agreement, the Board may not be able to enforce the terms of the agreement should the tenant not perform in accordance with the terms of the agreement or should any issues arise that would require legal action.</p>	<p>We recommend that management maintain a listing of all contracts and commitments that are open and track upcoming expirations to ensure that such agreements are renewed on a timely basis.</p>	<p>Management will look into this recommendation for future periods.</p> <p>A comprehensive listing of all leases is currently maintained by both the Corporate Secretary and the Finance department. The annual renewal letter for the continued use of this space was signed by MLSE on March 14, 2011. Management will ensure this arrangement is finalized on an annual basis prior to year-end.</p>

Item	Recommendation	Management's response
<p><b><i>Daily casino cash reconciliation</i></b></p> <p>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.</p>	<p>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.</p>	<p>We discussed this item with management who agree that it is important to ensure that the bank deposit and casino sales report are in agreement, reconciled and investigated for differences to detect any potential misappropriation.</p>