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EXHIBITION PLACE

April 6, 2006

To: Finance and Audit Committee of the Board of Governors of Exhibition Place

From: Dianne Young
General Manager & CEO

Subject: Audit Results for the Consolidated Financial Statements for Exhibition Place for the Year Ended December 31, 2005

Purpose:

This report presents the audit results for the consolidated financial statements for Exhibition Place for the review and approval of the Board.

Financial Implications & Impact Statement:

There are no financial implications to this report.

Recommendation:

It is recommended that the attached report from the auditors, Ernst & Young LLP, entitled Audit Results – Year Ended December 31, 2005, be received for information.

Background:

As a local board of the City of Toronto, the Board of Governors is required to approve of its year-end financial statements and related communications from the auditors for submission to the City.

Discussion:

As part of their audit engagement for the Board of Governors Exhibition Place, Ernst and Young, the external auditors, provide a comprehensive reporting document to the Finance and Audit Committee of Exhibition Place.

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 professional accounting standards.

The Audit Results report from Ernst & Young 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 2005 in the overall audit approach compared to the audit planning document
- There were no significant audit adjustments related to the current year
- There were no disagreements with management on financial accounting and reporting matters
- No material weaknesses in internal control were identified

Items of Audit Significance Discussed with Management

The following issues were raised by the auditor and discussed with management:

(i) Contingencies – 2005 Injured Workers

Besides the amounts paid with respect to the electrical accident that occurred in 2005, an additional amount ($65,000) was accrued for 2005 WSIB expenses that had not yet been received. The auditors agree with the accounting treatment used to record these costs.

(ii) Employee Future Benefits

The auditors confirmed that there has not been any significant changes in 2005 in the employee benefit programs offered by the organization that would have an impact on the previously prepared actuarial evaluations.

(iii) 2004 Property Tax Rebate

As a result of the termination of the lease of the Ricoh Coliseum with CRC in 2004, the Coliseum property lost its taxable status for property taxes and Exhibition Place is entitled to a tax refund for the period from June 2004 to December, 2004. As of the date of the audit, this refund had not been formally approved by City Council.

Exhibition Place staff recognized a receivable from the City with regard to this matter but the auditors believe it would have been preferable to wait until official notification had been received from the City before formally recognizing any amount owing from the City.

However, the auditors agree that this difference in accounting treatment is not of material significance to the presentation of the financial statements.

(iv) Direct Energy Sponsorship Agreement

The auditors concur that the first year of this agreement is 2006 and does not need to be recorded in any manner in the 2005 statements.

(v) Accounts Receivable

The auditors note two material accounts receivable in the course of their audit engagement – one for the Royal Agricultural Winter Fair (NTC related) and one for the Coliseum Renovation Corporation (Ricoh Coliseum) (related to the NTC and the Board).

The auditors confirmed that the amounts shown in the financial records as receivables for these accounts are reasonable and no adjustments or provisions are needed at this time.

(vi) Changes to the 2005 Financial Statements

In the 2005 financial statements various notes to the financial statements have been updated or changed by management. The auditors are in agreement with these changes to the notes to the 2005 financial statements.

Summary of Audit Differences

(i) Advanced Sales Tickets – Canadian National Exhibition Association

An amount of $17,257 for sales of advanced tickets did not become evident until after the books were closed in mid- February. Accordingly, this amount has been recorded as a 2006 revenue.

(ii) Under Provision for Doubtful Accounts – CNEA and BOG

Currently amounts of $36,694 (CNEA) and $118,715 (BOG) are recorded in the financial records as provision for doubtful accounts. The auditors believe that additional amounts of $12,100 (CNEA) and $49,081 (BOG) should be provided for accounts receivable that may prove to be uncollectible in the future. Management believes that the current provisions to be reasonable and collection of the additional amounts are still possible.

Independence Letter from Ernst & Young

Ernst & Young confirm their independence with respect to this audit engagement and state that there are no personal or business relationships that could impair this independence.

Letter of Recommendations

This is the section of the audit results where the auditors make their suggestions and recommendations to improve the accounting and internal control procedures.

(i) 2005 Recommendation – Accounting for Sponsorships - CNEA

The current accounting policy with respect to CNEA sponsorships has been to record sponsorship revenue in the financial records only when cash has been received. The auditors point out that Canadian accounting principles require that non-monetary sponsorship receipts, such as merchandise or services, have to be given an estimated value and recorded in the financial records of the organization.

Management agrees with this audit recommendation and will begin in 2006 to record non-monetary sponsorship receipts at their fair market value. It should be pointed out that this change in accounting procedure will have very little impact on the net income of the CNEA in future years as normally these non-monetary sponsorships would be used up or consumed by the CNEA. For example if air line flights are given to the CNEA as a non-monetary sponsorship and these flights are subsequently used by members of the organization then equal amounts of income and expense would be recorded in the financial records of the CNEA.

(ii) 2004 Recommendations

The auditors made three recommendations with respect to the 2004 audit on the following subjects:

- Payroll procedures
- Non-standard journal entries
- Journal entries

The auditors note that all three of their recommendations were implemented.

Conclusion:

This report presents the "Audit Results" document for the consolidated financial statements for Exhibition Place from Ernst & Young LLP, the external auditors for 2005.

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Submitted by:

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General Manager & CEO

Assurance and Advisory Business Services

Board of Governors of Exhibition Place

Audit Results – Year Ended December 31, 2005

Report to the Finance and Audit Committee of the Board of Governors

Ernst & Young

Quality In Everything We Do

ERNST & YOUNG

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March 31, 2006

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

Dear Members of the Finance and Audit Committee:

We are pleased to present the results of our audit of the financial statements of the Board of Governors of Exhibition Place (the "organization" or the "Board") and the status of our final procedures, which we anticipate will be completed on or about April 15, 2006.

This report to the Finance and Audit Committee summarizes the terms of our engagement, the issues of audit significance discussed with management and provides the communications required by our professional standards.

Our audit was designed to express an opinion on the December 31, 2005 financial statements of the organization. In planning the audit we held discussions with management, considered current and emerging business needs, along with an assessment of risks that could materially affect the financial statements and aligned our audit procedures accordingly. We received the full support and assistance of the organization's personnel in conducting our audit.

This report is intended solely for the use of the Finance and Audit Committee, the Board of Governors, management and ultimately the City of Toronto Council, and is not intended to be and should not be used by anyone other than these specified parties. We disclaim any responsibility to any third party who may rely on it. Further, this report is a by-product of our audit of the December 31, 2005 financial statements and indicates matters identified during the course of our audit. Our audit did not necessarily identify all matters that may be of interest to the Finance and Audit Committee in fulfilling its responsibilities.

We appreciate this opportunity to present the contents of this report with you and answer any questions you may have about these or any other audit-related matters.

Very truly yours,

Ernst & Young LLP

Diana Brouwer / John Teti
905-882-3037 / 905-882-3023

Required Communications

Generally accepted auditing standards in Canada require the auditor to ensure that the committee of the Board having oversight responsibility for the financial reporting process receives additional information regarding the scope and results of the audit that may assist them in fulfilling their responsibilities.

Area	Comments
Auditors' Responsibilities Under Generally Accepted Auditing Standards (GAAS) As set out in the section on audit approach, we designed our audit to express an opinion on your organization's financial statements. The financial statements are the responsibility of management. Our audit was designed in accordance with GAAS which provides for reasonable, rather than absolute, assurance that the financial statements are free from material misstatement. As a part of our audit, we obtained a sufficient understanding of the internal control structure to plan our audit and to determine the nature, timing and extent of testing performed.	We anticipate issuing an unqualified audit opinion dated March 17, 2006 upon approval of the financial statements by the Finance and Audit Committee of the Board of Directors and completion of certain outstanding procedures. The following procedures are outstanding: • *Management representation letter; and* • *Legal confirmation*
Changes to Audit Approach Outlined in Planning Document In our planning document, we indicated that we would conduct our audit in accordance with Canadian generally accepted auditing standards in order to deliver to you our final report for your 2005 financial statements. Our plan to you indicated that our strategy would be to test and rely on controls around payroll and other disbursements, while the remainder of the audit would be substantive in nature with the use of confirmations and specific testing of account balances.	There were no changes to the audit approach outlined in the planning document.
Adoption of, or Changes in, an Accounting Principle , Including Material Alternative Accounting Treatments Discussed with Management and Acceptability of a Particular Policy used by Management We determine that the Finance and Audit Committee is informed about the initial selection of, and any changes in, significant accounting principles or their application when the accounting principle or its application, including alternative methods of applying the accounting principle, has a material effect on the financial statements. In addition, we report to the Finance and Audit Committee all alternative accounting treatments within Canadian generally accepted accounting principles (GAAP) for policies and practices related to material items (including recognition, measurement, presentation and disclosure alternatives) that have been discussed with management during the current audit period including ramifications of the use of such alternative disclosures and treatments and the preferred treatment by us.	None.

Required Communications

Area	Comments
Sensitive Accounting Estimates and Disclosures The preparation of financial statements requires the use of accounting estimates. Certain estimates are particularly sensitive due to their significance to the financial statements and the possibility that future events may differ significantly from management's current judgments. We determine that the Finance Committee is informed about management's process for formulating particularly sensitive accounting estimates and disclosures and about the basis for our conclusions regarding the reasonableness of those estimates.	There are significant judgments and estimates required to prepare the financial statements where actual amounts may differ significantly from the estimates with respect to employee future benefits or contingencies. See "Areas of Significance Discussed with Management".
Major Issues Discussed with Management Including Accounting for Significant Unusual Transactions and for Controversial or Emerging Areas We determine that the Finance and Audit Committee is informed about the methods used to account for significant unusual transactions and the effects of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.	We are not aware of any significant unusual transactions recorded by the organization or of any significant accounting policies used by the organization related to controversial or emerging areas for which there is a lack of authoritative guidance.
Significant Audit Adjustments and Unadjusted Differences Considered by Management to be Immaterial We provide the Finance and Audit Committee with information about adjustments arising from the audit (whether recorded or not) that could in our judgment either individually or in the aggregate have a significant effect on the organization's financial statements. We inform the Finance and Audit Committee about unadjusted audit differences accumulated by us during the current audit period and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.	There were no significant recorded audit adjustments related to the current year. There were no unrecorded audit adjustments that could, in our judgment, either individually or in the aggregate, have a significant effect on the financial reporting process. Refer to "Summary of Audit Differences" section.
Disagreements with Management	None.
Serious Difficulties Encountered in Dealing with Management when Performing the Audit	None.
Material Weaknesses in Internal Controls	No material weaknesses in internal control were identified.
Fraud and Illegal Acts We report to the Finance and Audit Committee fraud and illegal acts involving senior management and fraud and illegal acts (whether caused by senior management or other employees) that cause a material misstatement to the financial statements.	We are not aware of any matters that require communication.

Required Communications

Area	Comments
Consultation with Other Accountants	None of which we are aware.
Other Information in Documents Containing Audited Financial Statements	None.
Related Party Transactions Related party transactions identified by the auditor that are not in the normal course of operations or that involve significant judgments made by management concerning measurement or disclosure must be disclosed to the Finance Committee.	Related party amounts are with respect to the City of Toronto and are disclosed within the financial statements. The City's transactions are conducted in the normal course of operations.
Matters Relating to Component Entities of the Organization When the financial statements of a organization (primary entity) include financial information from financial statements of a component entity (a subsidiary, investee (other than a portfolio investment), or joint venture; or an entity whose financial information from financial statements is included with those of the primary entity), the auditor communicates with the Finance and Audit Committee those matters relating to the component entities that in the auditor's judgment are of significance in the context of the primary entity (for example, weaknesses in systems of internal control that have resulted, or could result, in material errors in the primary entity's consolidated financial statements).	These statements include the balances of the Canadian National Exhibition Association. There is nothing, in our opinion, that is of further significance to report that is not already covered within this package.
Major Issues Discussed with Management in Connection with Initial or Recurring Retention	None.
Auditors' Independence Canadian generally accepted auditing standards (GAAS) require that we communicate at least annually with you regarding all relationships between your organization and Ernst & Young that, in our professional judgment, may reasonably be thought to bear on our independence.	Refer to "Independence Letter" section.
Other Audit and Non-Audit Services Provided to Your Organization	None.

Required Communications

Area	Comments
Fees	A summary of our fees for the year ended December 31, is included below for your reference.

	2005 $	2004 $
Annual audit fees – Board of Governors	15,000	15,000
Annual audit fees – CNEA	10,000	10,000
Annual audit fees – Foundation	5,000	5,000

Fees are inclusive of expenses and GST in accordance with our agreed proposal with the City of Toronto.

Items of Audit Significance Discussed with Management

During the course of planning and executing our audit, the following items/matters of audit significance were discussed with management:

Item	Description	Audit Results and Comments
Contingencies - 2005 Injured Workers	• In 2005, two electricians were injured while working on a transformer on the grounds. Total expenses incurred and paid for the period up to Dec 31/05 was $128K. In addition, an accrual for $65K was made at year-end for any unpaid invoices that relate to 2005. • Based on discussions with WSIB and Mercer officials, cost of injuries is based on an extrapolation from the last valuation date of Dec. 31/02, which takes into account projected new injuries. A new valuation will be completed in 2006 as at Dec. 31/05. Based on correspondence with WSIB and Mercers – no further provision was deemed necessary.	• We have evaluated the responses from both WSIB and Mercers together with the information available from management. • We concur with the accounting for the costs in 2005.
Employee Future Benefits	• Mercer Human Resources Consulting prepares the actuarial valuation of the employee future benefits on behalf of the Board of Governors of Exhibition Place. • There were no changes to benefit plans at the Board of Governors during 2005 that would have an impact on the calculation of the previous valuation prepared by Mercers.	• We confirm through our audit procedures that there have not been any changes to plans offered by the organization that would have an impact on the valuation as previously provided by Mercers. • We concur with the accounting and recording of amounts within the 2005 financial statements.
2004 Property Taxes Rebate	• With Ricoh Coliseum being vacated in June of 2004, the Board had applied for a vacancy rebate from the City for the property taxes. Until the assessment is made by the City, the Board does not have a receivable from them nor do they owe any amounts back to the previous tenant. There is no impact on the statement of operations as these costs are a flow through to the tenant that occupied the building. • As a result of the above, the Board currently has overstated the receivable from the City of Toronto in the amount of $343,562 [2004 – $250,381], trade receivable from the tenant is understated by $250,381 [2004 – $250,381] and accrued liabilities are over-stated by $93,181. • No adjustments were made to the 2005 or 2004 statements to reclassify the above noted amounts.	• We evaluated the transactions and the impact on the consolidated financial statements. Given the transactions have no effect on the statement of operations during the year, and the Board has no covenants for debt that would be impacted by the misclassification, we concur that the amount is not material. • We have discussed with management the appropriate accounting for these transactions and we will monitor the changes in 2006.

Item	Description	Audit Results and Comments
	• 2004 final property tax assessments are expected to be received in 2006.	
Direct Energy Sponsorship Agreement	• During the year the Board entered into a sponsorship agreement with Direct Energy in regards to the naming rights of the National Trade Centre. • The agreement is effective for the year commencing 2006 and as such, no amounts have been recorded in 2005.	• We obtained a copy of the agreement from management and concur that there is no impact in 2005. We will ensure that the amounts are appropriately accounted for in 2006.
Accounts Receivable	• During the course of the audit, we noted material balances in accounts receivable from Ricoh Coliseum (with respect to CRC) and the Royal Agricultural Winter Fair. These balances have been outstanding since 2003. • For the balance outstanding from the Ricoh Coliseum, arbitration for the amounts in question has not been finalized. BOG and BPC negotiated a new lease and sublease agreement on June 16, 2005, where BPC agreed to pay a monthly amount against the arrears amount from the old Ricoh. • For the balance outstanding from the Royal Agricultural Winter Fair for 2003, 50% is to be paid by the Fair, 25% has been provided for, and the remaining 25% is to be reimbursed by the City of Toronto. In 2005, 50% of the amounts owed by the Fair were paid and two post-dated cheques for the remaining balance were received and will be cashed in 2006.	• We evaluated the amounts within accounts receivable to ensure a reasonable estimate has been made for an allowance. For the amounts from Ricoh, we did have consultation with the lawyer and from the facts and information available at this time, we concur with the amounts recorded. • In addition, we evaluated the amounts outstanding from the Royal Agricultural Winter Fair and the correspondence and transactions that have been occurring with respect to the amounts owing. We concur with the accounting for this transaction and agree no further provisions are necessary at this time.
Changes to the 2005 Financial Statements	The following changes were made to the statements in 2005 (as compared to the 2004 presentation): • Note 1 – updated for inclusion of disclosure of insurance premiums paid to the City • Note 2 – updated policy for accounting for sponsorships • Note 4 – step up lease receivable has been changed from a prior year adjustment note last year to a receivable note to explain the account.	• We agree with the changes to the statements.

Items of Audit Significance Discussed with Management

Item	Description	Audit Results and Comments
	• Note 5 [g] has been streamlined for the OMERS portion to remove the history on the contribution holiday • Comparative note added. Prior year trade receivables and deferred revenue have been reduced by $652,644 representing amounts relating to 2005. 2005 numbers have also backed out amounts relating to 2006. These changes only impact balance sheet classifications.	

Summary of Audit Differences

During the course of our audit, we accumulate differences between amounts recorded by management and amounts that we believe are required to be recorded under generally accepted accounting principles. Following is a summary of those differences:

	Recording Differences Would Have Increased (Decreased) Net Income	
	2005	2004
	$	$
Known Audit Differences:		
BOG – Hydro Rebate	-	70,242
BOG - Over-accrual of OMERS payable	-	39,646
CNEA – Accounts payable not recorded	-	(7,800)
CNEA - Understatement of revenues for 2005ticket sales not recorded until 2006	17,257	-
BOG – Overstatement of lease receivable	(55,336)	(25,000)
Likely Audit Differences:		
CNEA – Under provision of allowance for doubtful accounts	(12,100)	-
BOG – Under provision of allowance for doubtful accounts	(49,081)	(81,550)
Total Unadjusted Audit Differences Before Turnaround Effect of Prior Year Differences	(99,260)	(4,462)
Turnaround Effect of Prior Year Differences in Net Assets	4,462	
Total Unadjusted Audit Differences in Income After Turnaround Effect of Prior Year Differences	(94,798)	

- Management has concluded that these differences are not material, either individually or in the aggregate, to the financial statements taken as a whole.
- In evaluating these differences we considered both qualitative and quantitative factors. Materiality is a matter of professional judgment, but as a general rule is judged in relation to the reasonable prospect of an item's significance in the making of decisions by the readers of financial statements.
- We concur with management's conclusion that these differences are not material.

Independence Letter

March 17, 2006

The Finance and Audit Committee of the Board of Directors
Board of Governors of Exhibition Place

We have been engaged to audit the financial statements of the Board of Governors of Exhibition Place ("Board") for the year ending December 31, 2005.

Canadian generally accepted auditing standards (GAAS) require that we communicate at least annually with you regarding all relationships between the Board and us that, in our professional judgment, 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 appropriate provincial institute / ordre and applicable legislation, covering such matters as:

(a) holding a financial interest, either directly or indirectly, in a client;

(b) holding a position, either directly or indirectly, that gives the right or responsibility to exert significant influence over the financial or accounting policies of a client;

(c) personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client;

(d) economic dependence on a client; and

(e) provision of services in addition to the audit engagement.

We have prepared the following comments to facilitate my discussion with you regarding independence matters arising since the date of our last letter.

We are not aware of any relationships between the Board and us that, in our professional judgment, may reasonably be thought to bear on our independence, that have occurred from April 8, 2005 (date of our last letter) to March 17, 2006.

The total fees charged to the Board during the period from January 1, 2005 to March 17, 2006 are set out in the Audit Results package.

GAAS require that we confirm our independence to the audit committee, in the context of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario. Accordingly, we hereby confirm that we are independent with respect to Centre within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario as of March 17, 2006.

This report is intended solely for the use of the Finance and Audit Committee, the Board of Directors, management, and others within the Board (ultimately the City of Toronto) and should not be used for any other purposes.

Yours truly,

Ernst & Young LLP

Diana Brouwer/John Teti

Letter of Recommendations

March 31, 2006

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

Dear Members of the Finance and Audit Committee:

In planning and performing our audit of the financial statements of the Board of Governors of Exhibition Place for the year ended December 31, 2005, we considered its internal control structure to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. Our consideration of internal control for the limited purpose of determining the nature, timing, and extent of our auditing procedures to express an opinion on the organization's 2005 financial statements would not necessarily disclose all deficiencies in internal control over financial reporting. While our purpose was not to provide assurances on the internal control structure, certain matters came to our attention that we want to report to you. These matters, along with our recommendations, are described in the accompanying memorandum. This report is intended solely for the use of the Finance and Audit Committee, the Board of Directors, management, and ultimately the City of Toronto, and is not intended to be and should not be used by anyone other than these specified parties. We disclaim any responsibility to any third party who may rely on it.

We would be pleased to discuss the above matters or to respond to any questions, at your convenience.

Very truly yours,

Ernst & Young LLP

Diana Brouwer/John Teti

Accounting for Sponsorships

Observation and Recommendation:

During the annual exhibition, agreements are entered into with many sponsors whereby there will be an exchange of goods and/or services. Many sponsors may provide products, support, advertising or entertainment support for the annual exhibition in return for specific rights to attractions and/or advertising. Where there has been receipt of cash for these transactions, management has recorded the amounts at the amount of consideration received. Where the transaction is a trade of services, no transaction has been recorded in the accounts. The amounts of consideration received or provided, are not material to the overall operations of the exhibition and the recording of these would increase the amount of revenues recognized in the year offset by an increase in expenses, resulting in no impact to the net income for the year.

Canadian generally accepted accounting principles would record these amounts at the fair value of either the consideration received or given up, whichever is more reliably measurable. We recommend that management review their processes for accounting for these transactions and begin reflecting the amounts within their 2006 financial statements.

Management's Comments:

Management concurs with this observation and will record in 2006 the non-monetary benefits received from sponsors at the fair value of either the consideration received or given up, whichever is more reliably measurable.

The following points are a carried forward from the prior year letter.

Payroll Procedures

Observation and Recommendation:

Our audit observations indicated that the approval of payroll figures are done online through Apogee before being transmitted to ADP. We understand that payroll data is transmitted to ADP electronically and the output from ADP is compared to Apogee afterwards. Our review of the output did not show evidence that the payroll data has been reviewed for accuracy after transmission by a signature on the hardcopy printouts. We understand that this is being done, but without the signature there is no trail. In addition, the requirement of a signature also improves the organization's controls by ensuring that the individual who is responsible for the review has in fact done the work.

Lack of approval for payroll figures may result in inaccurate or unauthorized payments to employees.

We recommend that payroll figures are reviewed after transmission to ADP and that the hard copy ADP payroll register is signed off to indicate that a proper review was completed. Ideally this review of the ADP payroll register should be performed by an individual who is independent of the payroll processing function.

2005 Update:

We observed that the payroll registers for salary employees and hourly employees are signed off by the Director of Finance and Payroll Supervisor respectively. Our recommendation has been implemented.

2004 Management's Comments:

As noted above, the payroll process presently requires verification of the electronic record sent and received from ADP by the payroll supervisor.

The hourly payroll, which is issued weekly, is prepared by the payroll staff and will be reviewed by the Payroll Supervisor. The Payroll Supervisor will also sign the summary page for the payroll register which shows all of the cheques and direct deposits produced on the payroll.

The salaried payroll, which is paid every two weeks, is prepared by the Payroll Supervisor and will be reviewed by the Director of Finance. The Director of Finance will also sign the summary page for the payroll register which shows all of the direct deposits produced on the payroll.

2005 Management's Comments:

The two payrolls are now signed every time they are issued by a person who is not directly involved in entering the transactions into the system:

Payroll # 1 Salary Bi-Weekly: reviewed and signed by Director of Finance

Payroll # 2 Hourly – Weekly: reviewed and signed by Payroll Supervisor (she does not enter the data for the hourly payroll)

Non-standard journal entries

Observation and Recommendation:

The Board uses two separate general journals for the Board of Governors of Exhibition Place and CNEA. Although there are two separate general journals; the Board uses one numerical sequence of journal entries. These non-standard journal entries are held by two separate individuals.

By having two sets of general journals utilizing one numerical sequence, it is difficult to obtain comfort that the sequence of journal entries is complete.

We recommend that two separate numerical sequences be maintained for the two separate entities. As well, we recommend that these journal entries be filed in a central location and not with an individual.

2005 Update:

We observed the completeness of the journal entries for both entities as demonstrated by the numerical sequence of the journal entries as they are created. All manual journal entries are filed in binders with supporting material attached. Our recommendation has been implemented.

2004 Management's Comments:

The Finance Division of Exhibition Place provides accounting services for the Board of Governors and the Canadian National Exhibition Association and owing to the structure of many payroll and work orders it is necessary to prepare accounting entries that affect both entities simultaneously. In addition some cheques are paid to vendors where the accounting ledgers of both organizations are charged by the same transaction.

For these reasons it would not be technically possible to adopt the auditor's first recommendation of having separate numerical sequences for the journals of each organization. A significant number of the journals represent inter-company transactions as noted above which affect both entities simultaneously.

However the auditor's second recommendation is reasonable and will be adopted. Copies of all the journals will be filed in numerical sequence in a central location with all of the appropriate back – up material.

2005 Management's Comments:

The journals are filed sequentially in a central location in binders with back up material attached.

Journal entries

Observation and Recommendation:

Currently on the APOGEE system employees are capable of posting one entry partly into general ledger of the Board and partly into the Canadian National Exhibition Association. As a result when employees post inter-company transactions the general ledgers become out of balance. To compensate for this, employees have been instructed to post inter-company transactions to inter-company accounts. To further mitigate this factor the Director of Finance reconciles the general ledgers at the end of the year; however, this process is time consuming and may still result in errors.

The result of this is such that journal entries may be incorrectly posted. This could cause transactions to be inappropriately recorded in the general ledger leading to a misstatement in the financial statements.

We recommend that logical access to the general ledgers be restricted. Only employees whose job functions require access to the general ledger of a specific entity should be allowed to post entries to the general ledger of that entity. Furthermore job functions should be segregated so that employees do not post entries to both entities. The Director of Finance or other competent, knowledgeable staff should be responsible for posting complex transactions including inter-company transactions. Additionally if appropriate job segregation is not possible all inter-company transactions and similar complex transactions should be reviewed by the appropriate level of management (i.e. Director of Finance).

2005 Update:

No errors were noted on inter-company transactions. Our recommendation has been implemented.

2004 Management's Comments:

We can appreciate the auditors' concern about posting journal entries because 2004 was not a typical year for the organization. A new financial and accounting system was implemented in March 2004 and the closing of the books and the reconciliation of the various accounts in 2004 was more complex and required more journal adjustments than in previous years.

The auditor's observation about the necessity for posting journals into both the Board of Governors and the CNEA accounting records simultaneously is true and, as explained above, is an integral part of the inter-company transactions that occur between the two organizations for payroll, work orders and other activities. For example, during the period of the annual Canadian National Exhibition, Board cleaning staff provide a service to the CNEA, and their wages, in the first instance are charged to a Board compensation account. Subsequently, by an inter-company transaction, the full cost of the cleaning services is transferred to the CNEA.

Board accounting staff responsibilities are divided along functional lines such as accounts payable and payroll, because this is the most efficient operational structure whereby in the winter accounts payable staff are busy with Board/NTC accounts and in the summer with CNE accounts. To have to reorganize the staff not only by functional lines but also by programs has would likely require increase in account staffing. Therefore, it would be very difficult to adopt the auditors' recommendation of giving only certain staff access to the CNEA accounts.

However the auditors' second recommendation is appropriate and all inter-company journals will be reviewed and initialed by the Accounting Manager or the Director of Finance.

Also, beginning with April, a monthly review will be made to ensure that all of the inter-company transactions have been correctly posted and the general ledgers of the Board of Governors and CNEA are in balance.

2005 Management's Comments:

All adjusting non-standard journals are reviewed and signed by the Director of Finance or the Manager of Accounting. Also a senior staff member has the responsibility for reviewing the trial balances each month (Board, CNEA, Capital) and ensuring that the inter-company entries have been posted properly and the general ledger and inter-company accounts are in balance.

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