

The Board of Governors on September 11, 2009 approved the recommendations embodied in this report.

September 4, 2009

To: The Board of Governors of Exhibition Place

From: Finance & Audit Committee

Subject: **2008 Consolidated Financial Statements for The Board of Governors of Exhibition Place**

ACTION REQUIRED

Summary:

The Finance and Audit Committee met on September 4, 2009 to consider this report and recommends the Board approve the appended 2008 Consolidated Financial Statements and forward on to City Council.

This report submits the draft audited consolidated financial statements for Exhibition Place for the year ended December 31, 2008. These financial statements reflect the consolidated financial position of Exhibition Place as at December 31, 2008. The auditor of record for Exhibition Place, Ernst and Young LLP, audits these statements in accordance with generally accepted auditing standards. These financial statements reflect the financial position and include the results from operations for the Canadian National Exhibition Association, the Direct Energy Centre, Exhibition Place and the National Soccer Stadium (BMO Field) for the year ended December 31, 2008.

The final result of this audit is an opinion from the auditors that the consolidated financial statements present fairly, in all material respects, the financial position of Exhibition Place as at December 31, 2008 and the results of its operations for the year ended December 31, 2008.

The consolidated Operating Budget for Exhibition Place is set on a cash basis before the prescribed disclosure requirements of the Public Sector Accounting Board as per the City directive and the approved budget amount for 2008 was a net expenditure or loss of (\$27,694). The 2008 consolidated net profit on a cash basis is \$2,369,324 compared to a budgeted loss of (\$27,694) for a favorable variance of \$2,397,018. In accordance with the decision of City Council in December 2007, any surplus over budget target will be deposited in the Exhibition Place Conference Centre Reserve Account to be held by the City of Toronto for the purpose of guaranteeing the \$35.6 million loan from the City of Toronto for the retrofitting of the conference centre at the Automotive Building.

Recommendation:

It is recommended that the draft consolidated audited financial statements attached to this report and pertaining to the consolidated operations of the Board of Governors of Exhibition Place for the year ended December 31, 2008, be approved.

Financial Impact:

There are no financial implications to this report.

Decision History:

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

Issue Background:

The Exhibition Place Finance Department is responsible for the preparation of the annual consolidated financial statements for Exhibition Place. These financial statements reflect the financial position and include the results from operations for the Canadian National Exhibition

Association, the Direct Energy Centre, Exhibition Place and the National Soccer Stadium (BMO Field) for the year ended December 31, 2008.

Comments:

The auditor of record for Exhibition Place, Ernst & Young LLP, audits these statements in accordance with Canadian generally accepted auditing standards. These standards require that the audit is planned and carried out to obtain reasonable assurance that the financial statements are free of material misstatement.

The audit also examines, on a test basis, evidence supporting the amounts and disclosures in the financial statements and assesses the accounting principles used, significant estimates made by management, and evaluates the overall financial statement presentation. The financial statements contain an auditor's report that states the opinion of Ernst & Young LLP that the financial statements present fairly, in all material respects, the financial position of the Board of Governors of Exhibition Place as of December 31, 2008 and the results of its operations for the year then ended.

The audited financial statements appended to this report will also be forwarded to the City of Toronto Audit Committee and ultimately to the City of Toronto Council for its information and review.

Operating Results for 2008

The Consolidated Statement of Operations indicates a net profit for the year ended December 31, 2008 of \$3,127,114 on an accrual basis to reflect the Public Sector Accounting Board (PSAB) requirements and a net profit of \$2,369,324 on a cash basis (before PSAB). The consolidated Operating Budget for Exhibition Place is set on a cash basis before the prescribed disclosure requirements of the Public Sector Accounting Board and also prepared on a cash basis as per the City directive; the approved budget amount for 2008 was a net expenditure or loss of (\$27,694).

The following are the results from the four programs that make up Exhibition Place:

	Net Income (Loss) After PSAB		Net Income (Loss) Before PSAB	
	2008	2007	2008	2007
Canadian National Exhibition Association	\$2,146,464	\$ 1,607,145	\$2,113,284	\$1,559,738
Exhibition Place Operations	(7,579,860)	(7,618,743)	(6,823,774)	(9,415,059)
Direct Energy Centre	7,683,879	8,737,367	7,678,765	8,748,781
National Soccer Stadium (BMO Field)	118,841	418,069	158,841	508,070
Consolidated Net Income (Loss)	\$2,369,324	\$ 3,143,838	\$3,127,116	\$1,401,530

The 2008 consolidated net profit on a cash basis (before PSAB) is \$2,369,324 compared to a budgeted loss of (\$27,694) for a favorable variance of \$2,397,018. A brief discussion of each program operations follows:-

Canadian National Exhibition Association (Schedule 1 of Auditors' report)

The total cash basis net profit for 2008 was \$2,113,284 before the Public Sector Accounting Board requirements compared to a budget of \$797,802 for a favourable variance of \$1,315,482 or an achievement of 264% for an improvement \$553,546 from the prior year. The positive variance to budget is mainly attributable to a strong program, and marketing plan as well as excellent weather conditions throughout the fair. It was an extremely successful CNE in 2008 as most of the budgeted revenue categories were exceeded or significantly achieved. A noteworthy achievement as staff undertook to make a diligent effort to reduce expenditures to the degree possible without impacting programming activities.

The following is a comparison of major types of revenue with the corresponding previous year amount:

Type of Revenue	2008	2007	Comparison to 2007
• Admission	\$ 7,731,261	\$ 7,708,770	\$ 22,491 increase
• Parking	\$ 1,291,844	\$ 1,188,958	\$ 102,886 increase
• Entry Fees & Exhibit Rentals	\$ 3,729,607	\$ 3,620,096	\$ 109,511 increase
• Midway, concessions & Casino	\$ 11,009,043	\$ 9,362,382	\$ 1,646,661 increase
• Sponsorships	\$ 1,559,297	\$ 2,060,402	\$ 501,105 decrease

Note: Included in sponsorships revenue for 2008 is \$201,500 (2007 - \$1,172,798) in non cash (contra) items from corporate sponsors whereby these sponsors provide products, advertising or entertainment support to the Canadian National Exhibition activities. A similar amount is recorded as a corresponding offset in the marketing expenses. Canadian generally accepted accounting principles require that non-monetary sponsorship considerations, such as merchandise or services, have to both be given an estimated fair value and be recorded directly in the financial records of the organization.

- Ground admissions at \$7,731,261 is unfavourable to budget by only (\$30,914) due to an ongoing trend toward advance, group, and on-line ticket sales; however it is up by \$22,491 compared to prior year.
- Parking revenues at \$1,291,844 is favourable to budget by \$90,735 mainly due to increase in offsite parking.
- Entry fees and exhibit rentals at \$3,729,607 is favourable to budget by \$113,858 due to additional space rentals from the At Home Pavilion, additional percentage rent over base at the Warehouse Outlet and additional commissions from automated bank machines.
- Concessions revenue of \$2,031,601 is favourable to budget by \$109,837 due to the excellent weather and additional revenue percentages from the new five year agreement with NAME.
- Midway rides revenues is favourable to budget by \$234,576 or 17% due to the new five year agreement with North American Midway and is up by \$403,768 from prior year due to the additional percentages in commissions.
- Casino revenues are favourable to budget by \$1,189,477 due to the six (6) additional days from the World Percheron Congress which boosted attendance and resulted in more gaming tables being used, in addition. Casino expenses are up by \$357,047 to reflect the additional revenue stream from this area.
- Sponsorship cash revenue at \$925,597 is favourable to budget by \$200,597 or 28% due to some of the larger sponsors such as Coke renewing at a higher value and new sponsorship deals such as General Motors. Contra deals are at \$201,500 which is lower by \$971,298 from the prior year as the participation from Canwest Global Promotion and Lego Tower in 2007 did not repeat in 2008.

Exhibition Place (Schedule 2 of Auditors' report)

Net Operating Loss for Exhibition Place before the prescribed disclosure requirements of the Public Sector Accounting Board, for the year ended December 31, 2008 was (\$7,579,860) compared to a budgeted loss of (\$9,321,635) for a favourable variance of \$1,741,775.

- Parking revenues at \$6,333,152 is favourable to budget by \$1,245,484 mainly due to additional revenues from the Boat show, Interior Design, CRFA, Royal Agricultural Winter Fair, One of a Kind Christmas Show BMO Field and Ricoh events, additional Ontario Place concerts and new business. Parking expenses are up by \$248,973 to reflect the additional revenue stream for a total net positive variance after expenses of \$996,511.
- Tenant income for rent and services at \$2,612,091 is ahead of budget by \$300,000 gross, mainly due to additional show services from Muzik, Medieval Times and Liberty Grand. Show Services expenses are up by \$265,000 to reflect the additional revenue stream for a net positive variance of \$.35,000
- Indirect expenses at \$19,184,307 are favourable to budget by \$272,298 due to lower costs for the various trades from efficient scheduling offset by higher snow cleaning costs and higher gas costs.
- Program recoveries and interest income at \$746,069 is ahead of budget by \$406,069 due to additional show services provided to Ricoh, BMO Field and tenants and increase in interest income from term investments held with the City.
- Advertising and Sponsorship revenue at \$420,522 is ahead of budget by \$9,516.
- The loss of the Grand Prix race in 2008 caused a significant budget pressure, however this pressure has been absorbed by operating savings and other favourable operating variance.

Direct Energy Centre (Schedule 3 of Auditors' report)

Net Operating Income for Direct Energy Centre before the prescribed disclosure requirements of the Public Sector Accounting Board, for the year ended December 31, 2008 was \$7,683,879 compared to a budget of \$8,447,194 for an unfavourable variance of (\$763,315).

- Consolidated rental income at \$7,933,993 is favourable to budget by \$25,773 an achievement of over 100%. This is a significant achievement considering staff worked diligently to achieve a new business budget target of \$1,080,000. The rent for the Grand Prix is excluded here as the event was cancelled in 2008.
- Electrical net services of \$1,059,375 is favourable to budget by \$10,344 mainly due to the new CRFA Show (Canadian Restaurant and Foodservices Association) offset by additional costs to deliver back to back events in the month of February due to the tight move in and move out schedule.
- Direct and indirect expenses are unfavourable to budget by (\$516,222) mainly due to additional expenses incurred for technical, telecommunications and electrical infrastructure in the BLC to allow for shows to use this building as a result of the Automotive Building being under construction.
- Food & Beverage concessions of \$1,110,953 is unfavourable to budget by (\$195,678) due to very minimal bookings of corporate events. Finance and F&B staff has met to review the year end result and to discuss the annual target for F&B concessions in 2009
- Telecommunications income at \$522,455 is favourable to budget by \$5,644
- Show services from third party billings are up by \$1,055,812 with corresponding increase in expenses mainly due to additional services provided to the Boat Show, the new CRFA Show and His Highness Aga Khan event.

National Soccer Stadium (BMO Field) (Schedule 4 of Auditors' report)

Net Operating Income on a cash basis, before the prescribed disclosure requirements of the Public Sector Accounting Board, for the year ending December 31, 2008 was \$118,841 compared to a budget of \$48,945 for a favourable variance of \$69,896.

This is the second year of operations for BMO Field and the prior year financial history is for eight months of operations. Year over year the operating profit decrease significantly as the U-20 FIFA World Cup Soccer in 2007 generated a net profit of approximately \$1.4 million.

- Food and Beverage revenues at \$4,274,129 is higher than budget by \$411,079 as a result of increased per caps compared to budget and additional volume resulting from the unbudgeted events, offset by additional cost of goods sold.
- Cash sponsorship at \$768,750 is higher than budget by \$208,750
- Ticket rebates are up by \$60,000 compared to budget due to strong online sales.
- Event merchandise at \$117,141 is higher than budget by \$49,600 as a result of increased per caps.
- Suites revenue at \$570,024 are higher than budget by \$53,700 due to additional suites rental at the MLS All-Star game and higher than anticipated adopt-a-suite revenue.

Settlement with the City of Toronto

As in prior years, various adjustments have to be made to the reported net income to determine the amount payable to or receivable from the City of Toronto on a “cash” basis. Specifically the adjustments are as follows:

	2008	2007
Financial Statement Net Income (Loss)	\$ 3,127,116	\$ 1,401,530
Amortization of capital assets	+ 124,074	+ 122,716
Capital assets funding	(9,627)	(170,364)
Net increase (decrease) in employee benefits	(794,389)	+ 1,870,480
Escalation, tenants lease adjustments	(77,850)	(80,524)
Advance received from City	+ 50,000	
Total (Receivable) Payable to/from the City	\$ 2,419,324	\$ 3,143,838