

November 23, 2009

To: The Board of Governors of Exhibition Place

ACTION REQUIRED

From: Dianne Young, Chief Executive Officer

Subject: **Purchase of CNEA Cultural Artifacts**

Summary:

In the 2008 Memorandum of Understanding (MOU), the Board of Governors of Exhibition Place (BOG) and the Canadian National Exhibition Board of Directors (CNEA) entered into a purchase and sale agreement at fair market value for three artifacts that are owned by the CNEA - the Haines Murals located within the Direct Energy Centre; the statues of the Garden of the Greek Gods in front of the Muzik Clubs building; and the Satok Mural on the lawn in front of Medieval Times. The terms and conditions of this purchase and sale agreement would allow for the BOG to purchase the Haines Murals (\$150,000) and Satok Mural (\$130,000) at a total fair market value of \$280,000 over the three year term of the 2008 MOU subject to the BOG first achieving a consolidated surplus over budget and subject to the size of that surplus. All funds from the sale of these artifacts will be paid by the CNEA into the CNEA Foundation.

Because the BOG /CNEA achieved the level of surplus in 2008 as set out in the MOU, it has recorded and paid the amount of \$90,000 to the CNEA in connection with the purchase of the Haines and Satok Murals and the CNEA in turn has paid the CNE Foundation. The MOU provides that the balance of the purchase price for the Haines and Satok Murals is payable by the Board as follows, provided that the conditions related to its surplus are met, \$90,000 in 2009 and \$100,000 in 2010.

Finance staff has completed a forecast for 2009 and it is likely that the Board will achieve a consolidated surplus over the 2009 consolidated budgeted surplus of \$27,694. Staff is therefore recommending that the purchase and sale of these two artifacts be accelerated to the 2009 budget year.

Recommendation:

It is recommended that the BOG approve of the balance of the full purchase of the Haines and Satok Murals by the Board from the CNEA at their 2008 appraised value totalling up to \$190,000 (\$280,000 less \$90,000 paid in 2008) provided that the consolidated 2009 year-end surplus is greater than \$190,000.

Financial Impact:

The financial changes proposed for 2009 will have zero impact on the year-over-year consolidated operating budget for Exhibition Place provided to City Council on an annual basis, as the Exhibition Place consolidated operating budget provides for the same net expenditure in 2009 as was approved by City Council which means that the Exhibition Place operations will have no negative impact on the City tax base

Decision History:

At its meeting on June 20, 2008, the Board and the CNEA approved entering into a MOU on the terms and conditions set out in that report for the three year period from January 1, 2008 to December 31, 2010.

Issue Background:

Since 1983, the BOG and the CNEA have entered into successive agreements (MOU) that address the operation of the annual CNE on the grounds. Since 1997, such agreements have recognized the CNEA's ownership of three significant assets on the grounds which had been donated to the CNEA many years ago. These assets (Haines Murals within the Direct Energy Centre, Garden of the Greek Gods statuary on the south lawn in front of the Muzik Clubs building and the Satok Mural on the front lawn of Medieval Times) are major features on the grounds and have been the subject matter of agreements between the two Boards and which require that the BOG take all necessary action to maintain and preserve these assets at the BOG's sole cost. In 2008 MOU proposed terms for the sale of these assets to Exhibition Place which provided for a three-year purchase agreement commencing 2008, 2009 and 2010 for the Haines and Satok Murals.

Comments:

As part of the purchase agreement between the BOG and CNEA, a valuation for fair market value for these artefacts has been completed and valued them as follows: \$150,000 for the Haines Murals; \$130,000 for the Satok Mural. The purchase agreement stipulated that the BOG would pay up to \$90,000 to the CNEA Foundation for 2008 and 2009 and \$100,000 in 2010 as a budgeted expense for the purchase at fair market value of the Haines Murals and the Satok Mural. The agreement also provided that if, in any one year, the consolidated actual financial results for the BOG is less than the budget as approved by City Council, there will be no payment to the CNEA Foundation for that year.

Because the Board achieved the level of surplus in 2008 as set out in the MOU, it has recorded and paid the amount of \$90,000 to the CNEA Foundation as required for the purchase of the Haines and Satok Murals. Exhibition Place finance staff has completed a forecast for 2009 and it is likely that the Board will achieve a consolidated surplus over budget as approved by City Council. Staff is therefore recommending that the purchase and sale of the two artifacts be accelerated to the 2009 budget year.

As of the end of December 2008, the CNEA Foundation had accumulated funds in the amount of \$284,232, including the \$90,000 received in 2008. The limited purpose of this Foundation according to its charter is to receive and maintain funds for use in supporting charitable projects generally serving the same purposes as the CNEA. In the past, the CNEA has included the interest earned from Foundation funds and a small contribution from the CNE Casino to fund the Foundation for its general expenses and the grants given out each year. These grants have been used to help support programs put forward by CNE departments and external charities and non-profit organizations. There are many additional such programs that would meet the Foundation's mandate if there were more funds available.

The purchase and sale of the two artifacts would, by the end of the three year term of the 2008 MOU, result in a cash infusion of \$280,000 into the Foundation which would then total \$474,232 and at current interest rates would yield approximately \$9,000 annually in interest payments that could be used by the CNEA for programming as allowed by the Foundation criteria.

Agricultural associations similar to the CNEA (such as the Royal Agricultural Winter Fair) have determined the need to have at least two million dollars set aside as "restricted assets" - one million to ensure a reserve for working capital for continuing operations, plus another one million dollars as a stabilization reserve in order to cope through "problematic" years. Mr. Bednar also suggests that infusion of these additional funds into the Foundation could serve as an impetus to make the Foundation more active to raise additional funds from the community through new events.