Item No. 10

Exhibition Place

ACTION REQUIRED

May 8, 2012

To: Board of Governors of Exhibition Place

From: Finance & Audit Committee

Subject: **2011 Consolidated Financial Statements for <u>The Board of Governors of Exhibition Place</u>**

<u>Summary:</u>

This report submits the draft audited consolidated financial statements for the Board of Governors of Exhibition Place for the year ended December 31, 2011. These financial statements reflect the consolidated financial position of Exhibition Place as at December 31, 2011. The auditor of record for Exhibition Place, Price Waterhouse Coopers LLP, audited the financial statements in accordance with Canadian generally accepted auditing standards. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The audit is planned to provide an opinion that the financial statements present fairly, in all material respects, the financial position and the results of its operations, changes in net debt and its cash flows for the year ended December 31, 2011. The financial position includes results of operations for Canadian National Exhibition Association (CNEA), the Direct Energy Centre, Exhibition Place, the National Soccer Stadium (BMO Field), and Allstream Centre for the year ended December 31, 2011.

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, 2011 and the results of its operations and its cash flows for the year then ended in accordance with Canadian Public Sector Accounting Standards..

The consolidated Operating Budget for Exhibition Place is set on a cash basis as per the City directive. The approved budget amount for 2011 was a net loss of ($46,775). The 2011 consolidated net profit on a cash basis which will be transferred to the City is $3,049,605 compared to a budgeted loss of ($46,775), for a favorable variance of $3,096,380 or an achievement of 6,624.8%.

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 to provide a source of funding for any cash shortfalls with respect to Allstream Centre operations for the purpose of guaranteeing the loan of $35.6M from the City of Toronto for the renovations of the Conference Centre which reopened in October 2009. In addition, City Council at its meeting of March 5th and 6th, 2012 in considering the City Manager report on "Separation of the Canadian National Exhibition Association from Exhibition Place and the City", agreed to authorize the placement of any surplus in excess of the Council approved budget for the CNEA Program, which is contained within the Exhibition Place operating budget, for 2011 and 2012 into the existing "Exhibition Place Stabilization Reserve Fund" to be held by the City for the sole purpose of assisting the CNEA to become independent from the Board and the City in 2013.

Recommendations:

It is recommended that the:

1) **Draft consolidated audited financial statements attached as Appendix "A" to this report and pertaining to the consolidated operations of the Board of Governors of Exhibition Place for the year ended December 31, 2011, be approved;**

2) **Sum of $1,320,261 be transferred to the Exhibition Place Stabilization Reserve Fund being the surplus over budget for the CNEA Program; and**

3) **Sum of $1,729,344 be transferred to the Exhibition Place Conference Centre Reserve Account as recommended by City Council in 2007 being the surplus over budget for the consolidated Exhibition Place operations (save and except for the CNEA Program).**

Financial Impact:

There are no financial implications to this report.

Decision History:

A formal meeting of the Finance & Audit Committee was scheduled for May 7, 2012, however due to Member commitments, a quorum was not present. A briefing was conducted with those members in attendance, namely, the Chair of the Finance & Audit Committee, Councillor Gloria Lindsay Luby, Committee member Connie Dejak, and via telephone conference, Committee member Sean Webster, who were all in agreement with recommending this report be sent directly to the Board for approval as recommended by staff at which meeting the external auditor will be in attendance to respond to questions.

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

At its meeting of December 2007, City Council approved of a recommendation to deposit any surplus over budget into the Exhibition Place Conference Centre Reserve Account to provide a source of funding for any cash shortfalls with respect to Allstream Centre loan repayment.

At its meeting of March 5 & 6, 2012, City Council approved of a recommendation to deposit any surplus over budget for the CNEA Program in 2011 and 2012 in the "Exhibition Place Stabilization Reserve Fund" for the sole purpose of assisting the CNEA to become independent.

Issue Background:

The 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, Allstream Centre and the National Soccer Stadium (BMO Field) for the year ended December 31, 2011.

Comments:

The auditor of record for Exhibition Place, Price Waterhouse Coopers LLP, audits these statements in accordance with Canadian Generally Accepted Auditing Standards. These standards require that the audit is planned and carried out to provide an opinion that the consolidated financial statements presents fairly, in all material respects, the financial position of the Board as at December 31, 2011, and the results of it's operation for the year ended in accordance with Canadian Public Sector Accounting Standards.

The audit also examines, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used, significant estimates made by management, as well as evaluating the overall financial statement presentation. The consolidated financial statements contain an auditor's report that states the opinion of Price Waterhouse Coopers LLP that the financial statements present fairly, in all material respects, the financial position of the Board as of December 31, 2011 and the results of its operations for the year then ended.

Operating Results for 2011

The Consolidated Statement of Operations indicates a net profit for the year ended December 31, 2011 of $1,740,504 on an accrual basis and a net profit of $3,049,605 on a cash basis. The consolidated Operating Budget for Exhibition Place is set on a cash basis per the City directive; the approved budget amount for 2011 was a net loss of ($46,775).

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

	Net Income (Loss) Accrual Basis		**Net Income (Loss) Cash Basis**	
	2011	**2010**	**2011**	**2010**
	$	$	$	$
Canadian National Exhibition Association	2,070,337	28,043	2,120,261	(219,186)
Exhibition Place	(6,008,921)	(7,027,364)	(5,835,832)	(6,826,557)
Direct Energy Centre	6,232,299	7,975,787	6,234,358	7,984,505
National Soccer Stadium (BMO Field)	496,869	303,936	530,818	323,965
Allstream Centre	(1,050,080)	(1,613,089)	-	-
Consolidated Net Income	1,740,504	(332,687)	3,049,605	1,262,727

The 2011 consolidated net profit on a cash basis is $3,049,605 compared to a budgeted loss of ($46,775) for a favorable variance of $3,096,380. A brief discussion of each program operations follows:

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

The Statement of Operations summarizes the 2011 results in the following manner:

	2010	2011	% +/-
Total Revenues	$24,414,204	$ 25,910,870	+6.1
Total Expenses	$24,376,156	$ 23,840,533	-2.2
Net Income (Loss)	$ 38,048	$ 2,070,337	+5341.0
Restatement - due to PSAS	($ 10,005)		
	$ 28,043	$ 2,070,337	

	2011 Actuals	2011 Budget	2011 Variance
	$	$	$
Revenue	25,910,870	24,714,972	1,195,898
Operating Expenses	23,790,608	23,854,647	64,039
Net Profit (Loss) before Amortization and Employees Benefits	**2,120,262**	**860,325**	**1,259,936**
Vacation benefits	22,543	-	(22,543)
Sick leave benefits	11,375	21,700	10,325
Amortization of equipments	16,006	38,625	22,619
Net Profit (Loss) per Financial Statements	**2,070,337**	**800,000**	**1,270,337**

The total net operating income for CNEA in 2011 was $2,070,337 compared to a budget of $800,000 for a favourable variance of $1,270,337 or an achievement of 259%. The year-end favourable variance was mainly attributable to higher attendance, strong programming, a well-executed marketing plan and favourable weather conditions on the final weekend of the fair. It was an extremely successful CNE in 2011 as most of the significant 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 the various programming activities.

The chart below is a comparison of major types of revenue with the corresponding previous year amount.

Type of Revenue	2010	2011	Comparison to 2010
Admission	$ 7,050,397	$ 7,864,052	$ 813,655 increase
Parking	$ 1,281,453	$ 1,580,923	$ 299,470 increase
Entry Fees & Exhibit Rentals	$ 3,949,670	$ 4,094,056	$ 144,386 increase
Midway, Concessions, Casino	$10,326,114	$11,313,229	$ 987,115 increase
Sponsorships*	$ 1,046,957	$ 1,058,611	$ 11,654 increase

** Sponsorship Note: Included in sponsorships revenue for 2011 is $125,464 (2010 - $40,000) 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 sponsorship.*

- Ground admissions at $7,864,052 is unfavourable to budget by ($239,385) due to Ontario Place providing free admissions during the fair. As a result there was no gate sharing arrangement in 2011, this revenue loss was offset by higher paid attendance. In addition, weather conditions were quite favourable and revenue is higher by $813,655 from the prior year.
- Parking revenues at $1,580,923 is favourable to budget by $293,843 mainly due to increase in attendance.
- Entry fees and exhibit rentals at $4,094,056 are favourable to budget by $175,015 due to higher automated banking fees from a new supplier arrangement and higher electrical show services.
- Concessions revenue of $2,187,953 is favourable to budget by $96,727 due to higher attendance and is higher by $301,595 from prior year
- Midway rides revenues is $1,663,218 and is favourable to budget by $49,915 due to increase attendance and favourable weather.
- Casino revenues are favourable to budget by $641,387 due to additional attendance which resulted in more gaming tables being used; as well as the additional revenues generated from poker games. Casino expenses are up by $55,485 to reflect the additional revenue stream from this area for a net favourable variance of $585,902.
- Sponsorship cash revenue at $933,147 is unfavourable to budget by ($26,854) due to some of the larger sponsors such as Endo Networks (Sony Mobile) and Casino Media Group (Pokerstar) which did not return in 2011. Contra deals are at $125,464 which is higher by $85,464 from the prior year due to Transat Holidays trip sponsorship, additional in kind from Rogers and new sponsorship from the National Post for advertising.
- The Marquee Tourism Event Program (MTEP) with the Federal Government was a two year agreement that allowed for $750,000 in funding for 2010 and therefore did not provide for any contribution in 2011. The contribution from MTEP allowed the CNE to purchase four people movers (trams) in 2010. A fifth tram was purchased by Exhibition Place.
- Operation expenditures at $11,958,542 is favourable to budget by $96,132 mainly due to Ontario Place not having a gate sharing arrangement in 2011 and therefore no commission was paid; lower utilities cost due to various energy initiatives by Exhibition Place; offset by additional cost in building rentals due to the reconfiguration in the Food building.

Exhibition Place (Schedule 2 of Auditors' Report)

Net Operating Loss for Exhibition Place on a cash basis for the year ended December 31, 2011 was ($5,835,832) compared to a budgeted loss of ($7,982,550) for a favourable variance of $2,146,718.

	2011 Actuals	2011 Budget	2011 Variance
	$	$	$
Revenue	18,699,372	13,912,091	4,787,280
Expenses	24,535,204	21,844,641.07	(2,690,563)
Net Income before Employee Benefits and Amortization	**(5,835,833)**	**(7,932,550)**	**2,096,717**
Employee benefits	268,797	-	(268,797)
Vacation benefit	55,480	-	(55,480)
Amortization of equipments	47,818	50,000	2,182
Step-up lease	(199,007)	-	199,007
Net Income per Financial Statements	**(6,008,921)**	**(7,982,550)**	**1,973,629**

- Parking revenues at $6,680,228 is favourable to budget by $407,078 primarily due to the events in Ricoh plus additional attendance at Marlies Games, 10% increase in cars parked for the Home Show and additional revenues from Canada Blooms. Parking expenses are unfavourable to budget by ($321,764) to reflect the additional revenue streams for a total net favourable variance after expenses of $85,314.
- Tenant revenues for rent and services at $2,383,329 are unfavourable to budget by $42,843, mainly due to lower show services from the QE Theatre, Muzik, Medieval Times and Liberty Grand during the third quarter. Show Services expenses are favourable to budget by $46,811 for a net positive variance of $3,967.
- Indirect expenses at $19,784,872 are favourable to budget by $1,187,904 primarily due to lower utilities due to the energy savings initiatives and warmer temperatures and lower operational maintenance costs.
- Program recoveries and interest income at $455,877 is favourable to budget by $89,962 primarily due to additional interest income and additional services to Ricoh Coliseum.
- Rental income from events at $1,077,445 is favourable to budget by $427,841 due to additional new business.
- Advertising and sponsorship revenues at $1,416,834 and are favourable to budget by $22,253.

Direct Energy Centre (Schedule 3 of Auditors' Report)

Net Operating Income for Direct Energy Centre on a cash basis for the year ended December 31, 2011 was $6,234,358 compared to a budget of $6,919,306 for an unfavourable variance of ($684,948).

	2011 Actuals	2011 Budget	2011 Variance
	$	$	$
Revenue	15,354,367	15,467,331	(112,964)
Expenses	9,120,009	8,542,025	(577,983)
Net Income (Loss) before Amortization	**6,234,358**	**6,925,306**	**(690,947)**
Amortization of equipment	2,059	6,000	3,941
Net Income (Loss) per Financial Statements	**6,232,299**	**6,919,306**	**(687,006)**

- Rental income from events at $7,339,037 is unfavourable to budget by ($21,493), a budget achievement of 99.7%, a noteworthy achievement considering staff worked diligently to achieve a new business target of $850,000 in a still lingering economy. The prior year amount is higher by $1,117,111 mainly due to the G8/G20 International Media Centre and the Aga Khan event.
- Net income from electrical services of $1,125,752 is favourable to budget by $87,157 mainly due to the additional services for the Artist Project and the UFC Fan Expo.
- Food & Beverage concessions of $777,844 are unfavourable to budget by ($65,532) due to very minimal bookings of corporate events and reduced attendance at some of the larger shows due to the economic slowdown.
- Telecommunications net revenue at $421,107 is unfavourable to budget by ($17,961) primarily due to lower than budgeted direct event Telecom revenue for Honda Indy and Chin Picnic.
- Show services revenue from third-party billings at $3,436,670 are unfavorable to budget by ($189,407) with corresponding decrease in related show services expenses of $192,002 for a net favourable variance of $2,595.

- Advertising and sponsorship revenue within the Direct Energy Centre at $210,776 is favourable to budget by $10,586 due to new business from National Post.
- Administration expenses at $4,347,808 are higher than budget by $465,000 due to increase in bad debt provision for a larger event, additional cost for telecomm infrastructure upgrades and additional banking and credit card fees as more show managers and exhibitors are using credit card payment for services.

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, 2011 was $530,815 compared to a budget of $216,469 for a favourable variance of $314,346 or an achievement of 245%. This is the fifth year of operations for BMO Field.

	2011 Actuals	2011 Budget	2011 Variance
	$	$	$
Revenue	10,576,746	7,767,071	2,809,675
Expenses	10,045,931	7,510,602	(2,535,329)
Net Income (Loss) before Amortization	**530,815**	**256,469**	**274,346**
Amortization of equipment	53,192	40,000	(13,192)
Purchase of equipments	(19,246)	0	19,246
Net Income (Loss) per Financial Statements	**496,869**	**216,469**	**280,400**

Revenues

- Overall, revenues were $2,800,000 favourable to budget due primarily to $1,800,000 in cost recoveries which are offset by $1,800,000 recoverable expenses. For budget purposes, expense recoveries and recoverable expenses are budgeted on a net basis and have a net zero impact on net income. For external reporting purposes, BMO Field shows expense recoveries on a gross basis. Excluding the impact of cost recoveries, revenues would have been $1,000,000 favourable to budget and expenses would have been $691,000 unfavourable to budget. Below are explanations for other significant variances to budget
- Suites revenue of $1,200,000 was higher than budget by $575,000 due to primarily to a change in presentation for suites. In the past, suites revenues were budgeted and recorded net of the 45% royalty payable to MLSE. In 2011, BMO Field has recorded suites revenue on a gross basis with the offsetting royalty included in expenses. Excluding the impact of the change in presentation, suite revenues were $16,000 favourable to budget due primarily from nightly rental revenue for the CCL matches hosted by TFC.
- Other revenue was $450,000 favourable to budget due to the CSA settlements for 2009 and 2010 for disputed contractual games.
- Food and beverage revenues of $4.6M were higher than budget by $60,000 as a result of five additional TFC games because the team advanced to the CONCACAF Champion League ("CCL") tournament; partially offset by Canadian Soccer Association ("CSA") only hosting four of the six games anticipated in budget, and two fewer International matches.
- TFC usage fees of $364,000 were favourable to budget by $57,000 due to hosting five additional TFC games.
- Cash sponsorship revenue of $818,000 was higher than budget by $10,000 as a result of higher than anticipated CPI increases.

- Ticketmaster rebates of $257,000 were lower than budget by $30,000 because of lower rebates from the four CSA games than budgeted and two fewer International matches than anticipated.
- Event merchandise at $84,000 was lower than budget by $27,000 due primarily to lower per caps at TFC games.

Expenses

- Royalty expenses were $469,000 unfavourable to budget due primarily to the change in presentation of suites royalties as noted above. Excluding the impact of the suite royalty presentation change, royalties would have been $89,000 favourable to budget due primarily to lower food and beverage royalties paid to the CSA as a result of the new operating terms between BMO Field and the CSA.
- Incentives and rebates of $568,000 were higher than budget by $342,000 due to higher operating profits in 2011.
- Excluding the impact of recoverable expenses, supplies and services of $3.3M were unfavourable to budget by $144,000 due primarily to snow removal costs from a large snow storm in March and the earlier anticipated start to the TFC season resulting in additional maintenance and winterization costs.
- Cost of goods sold were $47,000 favourable to budget due primarily to higher than anticipated food margins (65.4% actual versus budget of 63.8%) driven primarily by changes in inventory management in the year.
- Utility expenses of $374,000 were favourable to budget by $35,000 due to lower water and gas charges, partially offset by higher hydro usage as a result of rate increases.

Allstream Centre (Schedule 5 of Auditors' Report)

Net Operating Profit for the Allstream Centre before interest on the City loan, amortization of building and contribution from naming fees is $589,354 compared to a budget profit of $500,649 for a favourable variance of $88,705. The Allstream Centre commenced operations October 19, 2009. Since, there is little prior year history; the rental budget was based on the pro-forma information presented to the City for the year ended December 31, 2011.

	2011 ACTUALS	2011 BUDGET	VARIANCE
Bulding Rental	1,099,570	854,675	244,894
Net Show Services, Food and Beverage Commission and Parking	805,621	1,015,191	(209,570)
Subtotal - Events Revenue	**1,905,191**	**1,869,866**	**35,324**
Departmental Overhead Expenses	1,315,836	1,369,217	53,380
Net Profit (Loss) before Naming Fees, Interest and Amortization	**589,354**	**500,649**	**88,705**
Naming Fees Revenue	1,142,601	1,168,000	(25,399)
Contribution from (to) Conference Reserve Fund - Cash Shortfall	1,065,708	1,129,829	(64,121)
Net Profit (Loss) before Interest and Amortization	**2,797,664**	**2,798,479**	**(815)**
Interest Expenses	1,903,913	1,904,728	815
Loan Principal repayments	-	893,751	893,751
Net Profit (Loss) before Amortization	893,751	-	893,751
Amortization Expenses	1,943,831	-	(1,943,831)
Net Income (Loss) per Financial Statements	**(1,050,080)**	**-**	**(1,050,080)**

- Building rental income is at $1,099,570 compared to a budget of $854,675 for a favourable variance of $244,894 primarily due to the events such as Shoppers Drug Mart, Ford Dealership, Mesh Marketing and TDSB.
- Show services revenue at $944,613 is favourable to budget by $222,368 primarily due to services from some of the larger events offset by additional service delivery costs.
- Food and Beverage concessions of $769,750 are higher than budget by $69,750 due to the Shoppers Drug Mart, and Juno Award and Gala.
- Telecommunication net income at $10,102 is unfavourable to budget by ($1,349).
- Parking revenues at $174,195 is favourable to budget by $89,477 mainly due to the fact that that most of the attendees from the larger events and galas choose to drive and park.
- Direct and indirect expenses of $5,516,179 are unfavourable to budget by ($151,521) primarily due to higher show set up costs (PMD) which are offset by lower utilities due to energy savings initiatives and lower operational maintenance costs.
- Interest cost of $1,903,913 and amortization cost of $1,943,831 (a non-cash item) is related to the City loan financing and capitalization of asset for the new Allstream Centre building. Interest cost is reported on the accrual basis including the interest accrued on advances made by the City during the period of construction, under the loan agreement with the City and as per City Council directive actual loan repayment to the City commenced on November 1, 2010 which is one full year of operations from the date of opening, however, the higher interest cost included here is for a full 12 months period as required under generally accepted accounting principles compared for only 11 months in 2010.

Settlement with the City of Toronto

As in prior years, various adjustments have to be made to the reported consolidated 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:

	2011	**2010**
	$	**$**
Net Income (loss) per financial statements	1,740,504	(332,687)
Conference Centre Accumulated Deficit	1,050,081	1,613,089
Amortization of capital assets	119,075	142,089
Capital asset funding	(19,243)	(946,355)
Net Increase (decrease) in employee benefits	358,194	190,026
Tenants lease adjustment and other	(199,007)	596,600
Total payable (receivable) from City	3,049,604	1,262,762

Contact:
Hardat Persaud, Chief Financial Officer
Telephone: 416 263-3031
Fax: 416 263-3690
E-mail: HPersaud@Explace.on.ca

Finance & Audit Committee