May 7, 2010

ACTION REQUIRED

To: Board of Governors of Exhibition Place

From: Finance & Audit Committee

Subject: **2009 Consolidated Financial Statements**
for The Board of Governors of Exhibition Place

Summary:

The Finance and Audit Committee met on May 6, 2010 to consider this report and recommends the Board approve the appended 2009 Consolidated Financial Statements and forward on to City Council.

This report submits the draft audited consolidated financial statements for the Board of Governors of Exhibition Place for the year ended December 31, 2009. These financial statements reflect the consolidated financial position of Exhibition Place as at December 31, 2009. 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, the National Soccer Stadium (BMO Field) and Allstream Centre for the year ended December 31, 2009.

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, 2009 and the results of it's operations and it's cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

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 2009 was a net expenditure or loss of ($27,398). The 2009 consolidated net profit on a cash basis is $ 1,974,051 compared to a budgeted loss of ($27,398) for a favorable variance of $2,001,449. 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 Board approve 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, 2009.

Financial Impact:

There are no financial implications to this report.

Decision History:

Audited consolidated 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 Finance Division 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, 2009.

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 provide an opinion that the consolidated financial statements presents fairly, in all material respects, the financial position of the Board as at December 31, 2009 and the results of it's operation for the year ended in accordance with Canadian generally accepted accounting principles.

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 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, 2009 and the results of its operations for the year then ended.

The audited consolidated 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 2009

The Consolidated Statement of Operations indicates a net profit for the year ended December 31, 2009 of $1,917,677 on an accrual basis to reflect the Public Sector Accounting Board (PSAB) requirements and a net profit of $1,974,051 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 2009 was a net expenditure or loss of ($27,398).

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

	Net Income (Loss) Accrual Basis		Net Income (Loss) Cash Basis	
	2009	**2008**	**2009**	**2008**
Canadian National Exhibition Association	$ 878,003	$2,113,284	$881,800	$2,146,464
Exhibition Place Operations	(6,541,707)	(6,823,774)	(6,498,304)	(7,579,858)
Direct Energy Centre	7,720,421	7,678,765	7,729,595	7,683,879
Allstream Centre	(516,908)	-	(516,908)	-
National Soccer Stadium (BMO Field)	377,868	158,841	377,868	168,839
Consolidated Net Income (Loss)	**$1,917,677**	**$3,127,116**	**$1,974,051**	**$2,419,324**

The 2009 consolidated net profit on a cash basis (before PSAB) is $1,974,051 compared to a budgeted loss of ($27,398) for a favorable variance of $2,001,449. A brief discussion of each program operations follows:

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

The total cash basis net profit for 2009 was $878,003 before the Public Sector Accounting Board requirements compared to a budget of $797,801 for a favourable variance of $80,202 or an achievement of 110%. 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 2009 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 Statement of Operations summarizes the 2009 results in the following manner:

	2008	2009	% +/-
Total Revenues	$25,321,052	$ 28,596,778	12.9
Total Expenses	$23,207,768	$ 27,718,775	19.4
Net Income (Loss)	**$ 2,113,284**	**$ 878,003**	**-58.0**

The total net operating income for CNEA in 2009 was $878,003 compared to a budget of $797,801 for a favourable variance of $80,202 or an achievement of 110%. The positive variance to budget is attributable to a strong program, a well executed marketing plan, and excellent weather conditions throughout the fair.

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

Type of Revenue	2008	2009	Comparison to 2008
• Admission	$ 7,731,261	$ 7,553,167	$ 178,094 decrease
• Parking	$ 1,291,844	$ 1,327,923	$ 36,079 increase
• Entry Fees & Exhibit Rentals	$ 3,729,607	$ 3,769,705	$ 40,098 increase
• Midway, concessions & Casino	$11,009,043	$ 10,500,584	$ 508,459 decrease
• Sponsorships	$1,559,297	$1,393,385	$ 165,912 decrease
Marquee Tourism Event	.00	$4,052,014	$ 4,052,014 increase

Note: Included in sponsorships revenue for 2009 is $184,200 (2008 - $201,500) 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.

Some of the significant features of each line item are as follows:

- Ground admissions at $7,553,167 is unfavourable to budget by ($852,443) due to lower revenue from Ontario Place sharing arrangement and lower revenue from Opening Day due to the special promotion pricing at $1.75 to celebrate Toronto 175th anniversary; revenue is only lower by $178,094 compared to prior year. Overall admission revenues are down, however, the number of units sold were up due to the special promotions
- Parking revenues at $1,327,923 is favourable to budget by $40,843 mainly due to increase in offsite parking.
- Entry fees and exhibit rentals at $3,769,705 is unfavourable to budget by only $10,267 mainly due to the fact that some international exhibitors were not able to participate in the International Pavilion because they could not get their visas in time.
- Concessions revenue of $2,324,896 is favourable to budget by $29,456 due to the special promotions increased attendance and therefore increased in the volume of units sold. In addition, excellent weather and additional revenue percentages from the new five-year agreement with North American Midway also contributed to the increase in revenue.
- Midway rides revenues is $1,620,505 is favourable to budget by $27,201 or 1.71% due to the new five-year agreement with North American Midway and is up by $9,756 from prior year due to the additional percentages in commissions.
- Casino revenues are favourable to budget by $580,183 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 $131,161 to reflect the additional revenue stream from this area.
- Sponsorship cash revenue at $1,019,185 is favourable to budget by $223,209 or 28.09 % due to some of the larger sponsors such as Coke renewing at a higher value and new sponsorships such as Sony, Nintendo, Mosaic Experimental and Westin Harbour Castle. Contra deals are at $184,200 which is lower by $17,300 from the prior year as the 1867 Confederation Log Homes in 2008 did not repeat in 2009 and the CNE did not stage a major contest that required prizing.
- New in 2009 was the Marquee Tourism Event Program (MTEP) with the Federal Government for promotion of tourism-related spending and economic benefits. Contributions from this program allowed the CNE to add two major new events, the international premier soccer game between SL Benefica ‘vs’ Glasgow Celtic, and the President Clinton keynote address; and to enhance two existing programs, FLOWRIDER and the Ice Skating Show by star athletes. Revenue from this additional programming at $4,052,014 includes gated admission revenues from the Clinton event and the soccer game which was used to offset expenditures of $3,900,590.
- Operation expenditures at $11,882,260 is unfavourable to budget by $341,258 mainly due to the Haines and Satok Murals purchase (the Exhibition Place program payment for these artifacts first goes to the CNE Program which then flows money through to CNE

Foundation), additional temporary wages to reflect new pay structure and additional building costs to fix water main damages.

Exhibition Place (Schedule 2 of Auditors' report)

Net Operating Loss for Exhibition Place on a cash basis before the prescribed disclosure requirements of the Public Sector Accounting Board, for the year ended December 31, 2009 was ($6,498,304) compared to a budgeted loss of ($9,569,179) for a favourable variance of $3,070,875.

- Parking revenues at $6,393,673 is favourable to budget by $876,753 mainly due to additional revenues from Direct Energy Centre events, Tenants and Ontario Place events; parking expenses are up by $220,416 to reflect the additional revenue stream for a total net positive variance of $656,336.
- Tenant income for rent and services at $2,674,408 is ahead of budget by $486,397 gross, mainly due to additional show services from Muzik, Medieval Times and Liberty Grand during the third quarter. Show Services expenses are up by $418,947 to reflect the additional revenue stream for a net positive variance of $67,450.
- Indirect expenses at $18,813,319 are favourable to budget by $1,751,641 due to lower utility costs from energy retrofit savings which is used to repay energy retrofit loans. .
- Program recoveries and interest income at $272,671 is lower of budget by $119,361 due to less show services ordered by Ricoh Coliseum and BMO Field and decrease in interest income due to lower interest rates from term investments held with the City of Toronto.
- Advertising and Sponsorship revenue at $652,328 is ahead of budget by $55,920 due to new 15-year contract with Astral Media for the Gardiner Outdoor Billboard signage.
- Rental income at $687,397 is at budget.

Direct Energy Centre (Schedule 3 of Auditors' report)

Net Operating Income for Direct Energy Centre on a cash basis before the prescribed disclosure requirements of the Public Sector Accounting Board, for the year ended December 31, 2009 was $7,729,596 compared to a budget of $8,668,139 for an unfavourable variance of ($938,543).

- Rental income at $7,873,212 is unfavourable to budget by ($204,374) an achievement of over 97.47%. This is a significant achievement considering staff worked diligently to achieve a new business budget target of $1,000,000 in a lingering economy.
- Net electrical services of $1,087,734 is unfavourable to budget by ($38,324) mainly due to lower new business, offset by additional services for the Interior Design Show and National Bridal event.
- Food & Beverage concessions of $998,960 is unfavourable to budget by ($291,879) due to very minimal bookings of corporate events and reduced attendance at some of the larger shows due to the economic slowdown. Finance and F&B staff has met to review the year end result and to discuss the annual target for F&B concessions in 2010.
- Telecommunications revenue at $595,345 is unfavourable to budget by ($15,900) due to lower new business.
- Show services from third-party billings at $3,465,541 are unfavorable to budget by ($166,899) due to lower new business.
- Direct and indirect expenses at $5,088,136 are favourable to budget by $20,953 mainly due to lower expenditures in the Sales and Marketing Division.

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, 2009 was $377,868 compared to a budget of $75,841 for a favourable variance of $302,027 or an achievement of 498%. This is the third year of operations for BMO Field, year over year the operating profit increased significantly.

- Food and Beverage revenues at $4,412,113 is higher than budget by $25,356 as a result of increased per caps and additional events and games, offset by rainy conditions which reduce attendance at TFC games from 18,000 to 17,235.
- Cash sponsorship at $789,583 is higher than budget by $1,614
- Ticket rebates at $118,270 are 70% favourable when compared to budget due to additional TFC events, 6 lacrosse games, two CNE promoted events offset by the loss of one international and one CSA game.
- Event merchandise at $92,408 is lower than budget by $37,264 as a result of lower per caps at TFC games.
- Suites revenue at $557,452 is higher than budget by $18,537 due to additional suites rental at the Real Madrid game and higher than anticipated adopt-a-suite revenue from CONCACAF game in July.
- Other revenue at $177,436 is higher than budget by $135,436 and includes marketing revenues, rent from lacrosse games and rent from international games; lower than prior year as there were no lacrosse games and marketing revenue in 2008.
- Utilities cost were $136,631 or 25% lower than budget due to lower gas and hydro usage as a result of the shortened bubble season and relocation of the bubble to Lamport Stadium.
- Incentives and rebates at $374,663 are higher than budget by $293,055 due to additional operating profits resulting from hosting 9 additional events.
- Operating supplies and services at $1,335,086 is lower than budget by $199,705 due to lower OSA commission, lower building security cost and lower winterization cost from not having the bubble. Decrease from prior year of $460,490 due to lower snow removal and salt costs, lower cleaning consumables as a result of new cleaning suppliers and reduction in OSA commissions from lower renegotiated rate.

Allstream Centre (Schedule 5 of Auditors' report)

Net Operating Loss for the Allstream Centre before interest on City loan, amortization of building and contribution from naming fees is ($351,819) compared to a budget loss of ($228,169) for an unfavourable variance of ($123,650). The Allstream Centre was only operational beginning October 19, 2009. Since, there is no prior year history; the budget was based on the pro-forma information for three months of operations.

- Rent and net show services income are lower than budget primarily due to lower than budgeted new business.
- Indirect expenses of $1,352,419 are unfavourable to budget by ($248,894) primarily due to unbudgeted interest of $365,472 and amortization costs of $375,034 (both non-cash items) related to the City loan financing and capitalization of asset for the new Allstream Centre building. Interest cost of $365,472 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 will not commence until November 1, 2010 which is one full year of operations from opening.

- Food & Beverage concessions of $17,881 is unfavourable to budget by ($88,645) due to lower than budgeted new business as many organizations did not want to take the chance of booking the facility while still under construction .

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:

	2009	**2008**
Financial Statement Net Income (Loss)	$ 1,917,677	$ 3,127,116
Amortization of capital assets	+ 137,441	+ 124,074
Capital assets funding	0)	(9,627)
Net increase (decrease) in employee benefits	(612,241)	(794,389)
Tenants lease adjustments and other	531,174	(77,850)
Advance received from City		+ 50,000
Total (Receivable) Payable to/from the City	**$ 1,974,051**	**$ 2,419,324**

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