Exhibition Place

Item No. 17

April 28, 2011

ACTION REQUIRED

To: Board of Governors of Exhibition Place

From: Finance & Audit Committee

Subject: **2010 Consolidated Financial Statements**
for The Board of Governors of Exhibition Place

Summary:

This report submits the draft audited consolidated financial statements for the Board of Governors of Exhibition Place for the year ended December 31, 2010. These financial statements reflect the consolidated financial position of Exhibition Place as at December 31, 2010. The auditor of record for Exhibition Place, Price Waterhouse Coopers LLP, audits these statements in accordance with Canadian 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, 2010.

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, 2010 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 2010 was a net expenditure or loss of ($35,130). The 2010 consolidated net profit on a cash basis which will be transferred to the City is $1,262,762 compared to a budgeted loss of ($35,130) for a favorable variance of $1,297,892. 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 in respect of the 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 at the Automotive Building which reopened in October 2009.

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, 2010, be approved.

Financial Impact:

There are no financial implications to this report.

Decision History:

At its meeting of April 26, 2011, the Finance & Audit Committee reviewed subject report and recommended it to the Board for approval.

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, 2010.

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, 2010 and the results of it's operation for the year ended in accordance with Canadian Generally Accepted 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 of Governors of Exhibition Place as of December 31, 2010 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 2010

The Consolidated Statement of Operations indicates a net loss for the year ended December 31, 2010 of ($987,291) on an accrual basis to reflect the Public Sector Accounting Board (PSAB) requirements and a net profit of $1,262,762 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 2010 was a net expenditure or loss of ($35,130).

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	**2010**	**2009**	**2010**
Canadian National Exhibition Association	$ 878,003	$38,048	$881,800	$(219,186)
Exhibition Place Operations	(6,541,707)	(7, 691, 973,)	(6,498,304)	(6,826,522)
Direct Energy Centre	7,720,421	7,975,787	7,729,595	7,984,505
Allstream Centre	(516,908)	(1,613,089)	(516,908)	0
National Soccer Stadium (BMO Field)	377,868	303,936	377,868	323,965
Consolidated Net Income (Loss)	**$1,917,677**	**($987,291)**	**$1,974,051**	**$1,262,762**

The 2010 consolidated net profit on a cash basis (before PSAB) is $1,262,762 compared to a budgeted loss of ($35,130) for a favorable variance of $1,297,892. A brief discussion of each program operations follows:

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

The Statement of Operations summarizes the 2010 results in the following manner:

	2010	2009	% +/-
Total Revenues	$24,414,204	$ 28,596,778	-14.6
Total Expenses	$24,376,156	$ 27,718,775	-12.1
Net Income (Loss)	**$ 38,048**	**$ 878,003**	**-95.7**

The total net operating income for CNEA in 2010 was $38,048 compared to a budget of $800,000 for an unfavourable variance of $761,952. The unfavourable variance was due mainly to the revenues shortfall from lower attendance as a result of extremely unfavorable weather from hurricane Earl over the long Labour Day weekend when the Air Show is scheduled. This weekend is very important to the Fair as the CNE receives approximately 35% of its overall revenues over the Labour Day weekend.The negative variance to budget from admissions and other ancillary revenues was offset by a strong program, a well executed marketing plan, and excellent weather conditions throughout the first 15 days of the Fair.

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

Type of Revenue	2010	2009	Comparison to 2009	
• Admission	$ 7,050,396	$ 7,553,167	$502,771	decrease
• Parking	$ 1,281,453	$ 1,327,923	$ 46,470	decrease
• Entry Fees & Exhibit Rentals	$ 3,949,671	$ 3,769,705	$179,966	increase
• Midway, concessions, Casino	$ 10,326,114	$ 10,500,584	$174,470	decrease
• Sponsorships*	$ 1,046,957	$ 1,393,385	$346,428	decrease
• Marquee Tourism Event	$ 759,613	$4,052,014	$3,292,401	decrease

- Ground admissions at $7,050,396 is unfavourable to budget by ($1,300,828) due to lower revenues from the long Labour Day weekend due to the extremely bad weather from hurricane Earl

- Parking revenues at $1,281,453 is unfavourable to budget by only ($5,627) mainly due to decrease in offsite parking as a result of the Jameson Bridge construction.

- Entry fees and exhibit rentals at $3,949,671 are favourable to budget by $109,905 due to the fact that at home pavilion and warehouse pavilion/sample alley exhibit space rentals are higher.

- Concessions revenue of $1,886,356 is unfavourable to budget by ($226,086) due to the rainy weather on the long Labour Day long weekend. This affects both the CNEA concession revenues and the concession revenue percentages from NAME, the fair midway ride operator.

- Midway rides revenues is $1,491,183 and is unfavourable to budget by ($122,121) due to the rainy weather as well.

- Casino revenues are favourable to budget by $426,804 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 $117,364 to reflect the additional revenue stream from this area.

- Sponsorship cash revenue at $874,657 is unfavourable to budget by ($25,343) due to some of the larger sponsors such as Maple Lodge Farms and Subway Franchise which did not return in 2010. Contra deals are at $40,000 which is lower by $144,200 from the prior year as the Mosaic Experimental Marketing (Teletoon) and Transat Tours in 2009 did not repeat in 2010.

- The Marquee Tourism Event Program (MTEP) with the Federal Government was a two year agreement that allowed for $750,000 in funding for 2010. This contribution allowed the CNE to purchase four people movers (trams) in 2010. A fifth tram was purchased by Exhibition Place from the Fleet Reserve Account.

- Operation expenditures at $11,938,533 is favourable to budget by $35,648 mainly due to reduced commission paid to Ontario Place for the decreased admission revenue collected, lower utilities cost, lower facility services, and 4th quarter reductions in staff discretionary spending.

* Sponsorship note: Included in sponsorships revenue for 2010 is $40,000 (2009 - $184,200) 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. Revenue also includes $125,000 representing the first of four annual installment payments for the payment of the Garden of Greek Gods.

<u>Exhibition Place (Schedule 2 of Auditors' report)</u>

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, 2010 was ($6,826,522) compared to a budgeted loss of ($7,670,270) for a favourable variance of $843,748.

- Parking revenues at $6,645,284 is favourable to budget by $453,496 mainly due to additional revenues from the G8/20 International Media Centre, Tenants and Ontario Place events; parking expenses are up by $31,657 to reflect the additional revenue stream for a total net positive variance of $421,839.
- Tenant income for rent and services at $2,251,991 is favourable to budget by $2,244, mainly due to additional show services from the QE Theatre, Muzik, Medieval Times and Liberty Grand during the third quarter. Show Services expenses are favorable by $101,719 for a net positive variance of $103,963.
- Indirect expenses at $19,642,430 are favourable to budget by $344,158 due to lower utility costs from warmer temperatures and energy retrofit savings initiatives which is used to repay energy retrofit loans; and lower operational maintenance costs.
- Program recoveries and interest income at $335,431 is lower of budget by ($139,569) due to less show services requirements by Ricoh Coliseum and BMO Field and decrease in interest income due to lower interest rates during the year from term investments held with the City of Toronto.
- Advertising and Sponsorship revenue at $1,301,485 is lower than budget by ($173,627) due to new 15-year contract with Clarity Outdoor for the Strachan Outdoor Billboard signage.
- Rental income at $792,123 is higher than budget by $182,741 due to additional new business such as the Artist Project, Esprit Warehouse Sales and the Business Franchise Expo.

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, 2010 was $7,984,505 compared to a budget of $6,675,401 for a favourable variance of $1,309,104.

- Rental income at $8,456,148 is favourable to budget by $1,595,374 an achievement of over 123%. This is a significant achievement considering staff worked diligently to achieve a new business budget target of $750,000 in still a lingering economy. The positive variance is mainly due to the G8/20 International Media Centre and the Aga Khan event
- Net electrical services of $1,145,305 is favourable to budget by $212,414 mainly due to the additional services for the Artist Project and the International Media Centre.
- Food & Beverage concessions of $1,002,957 is unfavourable to budget by $69,047 due to very minimal bookings of corporate events and reduced attendance at some of the larger shows due to the economic slowdown; offset by additional revenues from the International Media Centre
- Telecommunications net revenue at $389,392 is unfavourable to budget by ($13,200).
- Show services from third-party billings at $4,032,978 are favorable to budget by $1,199,789 with corresponding increase in related show services expenses of $1,120,992 for a net favourable variance of $78,797.
- Advertising and sponsorship revenue within the Direct Energy Centre at $202,327 is favourable to budget by $1,373.

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, 2010 was $323,965 compared to a budget of $159,740 for a favourable variance of $144,196 or an achievement of 190%. This is the fourth year of operations for BMO Field.

- Food and Beverage revenues at $4,416,723 is lower than budget by ($136,828) as a result of Canadian Soccer Association only hosting two of the required six games under the terms of the Stadium LOI signed by the City of Toronto, the Board of Governors of Exhibition Place, the CSA and MLSE., offset four additional unbudgeted TFC games as TFC qualified for the CONCACAF Champions League ("CCL") and hosted the 2010 MLS Cup.
- Cash sponsorship at $791,952 is lower than budget by ($15,716) as a result of lower than anticipated CPI increase.
- Ticket rebates of $199,189 are flat to budget because of tickets sold in the new additional seating in the north-end grandstands and increased TFC game attendance is, offset by the loss of 6 lacrosse games to Lamport Stadium, the loss of three international games compared to budget and four less CSA game.
- Event merchandise at $74,841 is lower than budget by ($36,209) as a result of lower per caps at TFC games.
- Suites revenue at $734,796 is higher than budget by $112,255 due to additional nightly suites rentals for the CCL matches and additional rentals from 2010 MLS Cup as well as having a twenty eighth suite available for rent.
- Other usage fees on a gross basis are significantly down from prior year mainly due to the bubble relocation to Lamport Stadium in 2009. However, this loss is offset also by much lower expenses in supplies and services and utilities. The net loss of the bubble relocation is $112,000; however, this loss is contractually compensated for by MLSE resulting in a net zero net impact to the Board operations.
- Utilities cost of $403,691 is 23% lower than budget due to lower gas and hydro usage as a result of relocation of the bubble to Lamport Stadium.
- Incentives and rebates at $344,819 are higher than budget by $162,579 due to additional operating profits when compared to budget, but lower than prior year.
- Operating supplies and services at $945,857 is favourable to budget by $454,133, due to lower OSA commission, lower building security cost and lower winterization cost all from not having to operate the bubble. The decrease from prior year of $389,229 is also due primarily to not having to operate the bubble.

Allstream Centre (Schedule 5 of Auditors' report)

Net Operating Profit for the Allstream Centre before interest on City loan, amortization of building and contribution from naming fees is $632,952 compared to a budget profit of $587,956 for a favourable variance of $44,996. 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 presented to the City for twelve months of operations.

	2010 ACTUAL	2010 BUDGET	VARIANCE
Building Rental	$ 1,028,334	$ 832,059	$ 196,275
Net Show Services, Food and Beverage Commission and Parking	710,198	1,050,765	-340,566
Subtotal Event Revenue	**1,738,532**	**1,882,823**	**-144,291**
Department overhead expenses	1,105,580	1,294,868	189,288
Net profit (loss) before naming fees, interest and amortization expenses	**632,952**	**587,956**	**44,996**
Naming fees revenue	1,073,141	1,168,000	-94,859
Contribution from (to) Conference Centre Reserve Fund - Cash shortfall	369,707	-856,578	1,226,285
Net profit (loss) before interest and amortization expenses	**2,075,800**	**899,378**	**1,176,423**
Interest expenses	1,745,048	326,966	-1,418,082
Amortization expense	1,943,841	572,412	-1,371,429
Net profit(loss) per financial statements	**-1,613,089**	**-0**	**-1,613,089**

- Rental income is at $1,028,333 compared to a budget of $832,059 for a favourable variance of $ 196,274 mainly due to the G8/20 Summit.
- Show services income at $839,951 are higher than budget by $74,902 primarily due to the G8/20 Media summit...
- Food and Beverage concessions of $500,000 are lower than budget by ($92,950) as the building is still fairly new and many organizations did not want to take the chance of booking the facility while it was still under construction in late 2009.
- Telecommunication net income at $41,671 is higher than budget by $14,371.
- Parking revenues at $104,299 is unfavourable to budget by ($108,747) mainly due to the fact that that most attendees at the conference centre in 2010 are visitors to Toronto and arrive by taxi, shuttle or transit.
- Direct and indirect expenses of $1,279,641 are favourable to budget by $15,230 primarily due to lower utilities cost.
- Interest cost of $1,745,048 and amortization cost of $1,943,841 (a non-cash item) 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 date of opening, however, the interest cost included here is for a full 12 months period as required under generally accepted accounting principles compared for only 2 months in 2009. Amortization is also higher in 2010 as it represents a full year compared with a 2 month stub period in 2009.

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	**2010**
Financial Statement Net Income (Loss)	$ 1,917,677	$(987,291)
Conference Centre Accumulated Deficit	.00	+1,613,089
Amortization of capital assets	+ 137,441	+ 142,089
Capital assets funding	.00	(946,355)
Net increase (decrease) in employee benefits	(612,241)	844,630
Tenants lease adjustments and other	531,174	596,600
Total (Receivable) Payable to/from the City	**$ 1,974,051**	**$ 1,262,762**

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Finance & Audit Committee