



Exhibition Place

Item No. 8

May 9, 2014

To:

Board of Governors of Exhibition Place

ACTION REQUIRED

From:

Finance and Audit Committee

Subject:

**2013 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, 2013. These financial statements reflect the consolidated financial position of Exhibition Place as at December 31, 2013. The auditor of record for Exhibition Place, PricewaterhouseCoopers LLP (PWC), audited the financial statements in accordance with Canadian public sector accounting 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 of Exhibition Place as at December 31, 2013 and the results of its operations, changes in net debt and its cash flows for the year then ended December 31, 2013 in accordance with Canadian public sector accounting standards. The financial position includes results of operations for the Direct Energy Centre, Exhibition Place, the National Soccer Stadium (BMO Field), and Allstream Centre for the year ended December 31, 2013.

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, 2013 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 for 2013 was a net income of \$100,000. The 2013 consolidated net profit on a cash basis which will be transferred to the City is \$1,736,280, compared to a budgeted net income of \$100,000, for a favorable variance of \$1,636,280 or an achievement of 1,736%. In 2013, the Board paid from its operations \$700,000 in addition to what was received from the City to remedy the hotel soil contamination; if not for this emergency expenditure, the Board profit would have been \$2,436,280.

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 Fund 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 (\$38.675M with accrued interest on cash advances during construction) from the City of Toronto for the renovations of the Conference Centre which reopened in October 2009. At its meeting on September 9, 2013 City Council recommended that Exhibition Place use its funds from the Conference Centre reserve to fund the cost for the disposal of pre-existing contaminated soil dating from the early 1900's which expenditures are in keeping with Board's obligation and the terms of the lease agreement between Exhibition Place and Princes Gates Hotel LLP. As well

City Council recommended that Exhibition Place will arrange to replenish back this fund from any operating surplus.

Recommendations:

It is recommended that, subject to the finalization of the wording of the audit report and completion of the cash flow statement and note 14 (Expenses by object) on page 13, 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, 2013, be approved;**
- 2) Total sum of \$1,736,280 be transferred to the Exhibition Place Conference Centre Reserve Fund as described below:**
 - a) \$102,605 as recommended by City Council in 2007 being the surplus over budget for the consolidated Exhibition Place operations; and**
 - b) \$1,633,675 as recommend by City Council on its September 9, 2013 meeting to pay back the reserve fund for the disposal costs of pre-existing contaminated soil from the surplus over budget for the consolidated operations; and**
- 3) Chief Financial Officer provide to the Board at its meeting of May 23, 2014 a list of the auditors of record for each of the Exhibition Place tenants that pay percentage rent to the Board.**

Financial Impact:

There are no financial implications to this report.

Decision History:

A meeting of the Finance & Audit Committee was held on May 9, 2014 wherein a briefing was conducted with those members in attendance, namely, the Chair of the Finance & Audit Committee, Councillor Gloria Lindsay Luby, Committee members Wayne Copeland and 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 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 annual 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.

On November 5, 2012, City Council approved of a recommendation to expand the purpose of the Exhibition Place Conference Centre Reserve Fund to provide a source of funding for both Allstream Centre loan repayments and also maintaining Direct Energy Centre and Allstream Centre in a state of good repair.

At its meeting on September 9, 2013 City Council recommended that Exhibition Place use its funds from the Conference Centre reserve to fund the cost for the disposal of pre-existing contaminated soil dating from the early 1900's which expenditures are keeping with the terms of the lease agreement between Exhibition Place and Princes Gates Hotel LLP. As well City Council recommended that Exhibition Place will arrange to replenish back this fund from any operating surplus.

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 Direct Energy Centre, Exhibition Place, Allstream Centre and the National Soccer Stadium (BMO Field) for the year ended December 31, 2013.

Comments:

The auditor of record for Exhibition Place, PWC, audits these statements in accordance with Canadian public sector accounting 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 of Governors of Exhibition Place as at December 31, 2013 and the results of its operations, changes in its net debt and its cash flows 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 PWC that the financial statements present fairly, in all material respects, the financial position of the Board of Governors of Exhibition Place as at December 31, 2013 and the results of its operations for the year then ended.

Operating Results for 2013

The Consolidated Statement of Operations indicates a net profit for the year ended December 31, 2013 of \$827,782 (2012 - \$3,630,495) on an accrual basis and a net profit of \$1,736,280 (2012 - \$4,618,811) 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 2013 was a net income of \$100,000. In 2013, the Board paid from its operations \$700,000 in addition to what was received from the City to remedy the hotel soil contamination, if not for this emergency expenditure, the Board profit would have been \$2,436,280.

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

	Net Income (Loss)		Net Income (Loss)	
	Accrual Basis		Cash Basis	
	2013	2012	2013	2012
	\$	\$	\$	\$
Canadian National Exhibition Association	-	2,802,734	-	2,654,663
Exhibition Place	(4,904,440)	(4,953,429)	(4,973,413)	(4,816,473)
Direct Energy Centre	6,292,091	6,446,496	6,292,091	6,446,496
BMO Field	402,890	342,228	417,602	334,125
Allstream Centre	(962,759)	(1,007,534)	-	-
Net Income	827,782	3,630,495	1,736,280	4,618,811

The 2013 consolidated net profit on a cash basis is \$1,736,280 compared to a budgeted net income of \$100,000 for a favorable variance of \$1,636,280 or an achievement of 1,736%. A brief discussion of each program operations follows:

Exhibition Place (Schedule 1 of Auditors' Report)

Net Operating Loss for Exhibition Place on a cash basis for the year ended December 31, 2013 was (\$4,973,413) compared to a budgeted loss of (\$7,160,966) for a favourable variance of \$2,187,553.

	2013	2013	2013
	Actual	Budget	Variance
	\$	\$	\$
Revenue	26,745,780	23,580,382	3,165,398
Expenses	(31,719,193)	(30,741,348)	(977,845)
Income (loss) before the following	(4,973,413)	(7,160,966)	2,187,553
Employee benefits	194,741	-	(194,741)
Vacation (pay) recovery	231,440	-	(231,440)
Amortization of equipment	(53,369)	-	53,369
Step-up lease	93,189	-	(93,189)
Purchase (disposal) of equipment	(397,028)	-	397,028
Net Income (Loss)	(4,904,440)	(7,160,966)	2,118,580

Revenues/Expenses

- Parking revenues at \$6,959,538 is favourable to budget by \$807,781 primarily due to higher than budgeted revenue from Sportsman Show, Toronto Marlies games, Toronto Artist Show, SIAL, Tenants, TFC and CSA game and as well as sold out events at Ontario Place. Parking

expenses are unfavourable to budget by \$318,410 primarily due to the servicing required to produce the additional revenue stream for a net favourable variance of \$489,371.

- Net tenant event services income is unfavourable to budget by (\$29,622) primarily due to lower than budgeted services income from tenants. Tenant revenue from rent is favourable to budget by \$29,657 primarily due to higher than budgeted rent.
- Indirect expenses at \$14,487,914 are favourable to budget by \$795,737 primarily due to lower utilities due to the energy savings initiatives and warmer temperatures in early 2013 and lower operational maintenance costs.
- Program recoveries and interest income at \$274,361 is unfavourable to budget by (\$114,610) primarily due to an unfavourable variance from BMO Field and Ricoh Coliseum recoveries due to lower level of labor services.
- Rental income from events at \$952,236 is favourable to budget by \$203,566 primarily due to new unbudgeted events from Exhibition Place grounds such as Beceel Ride for Heart, Mazda Ride and Drive and Delicious Food Show.

Direct Energy Centre (Schedule 2 of Auditors' Report)

Net Operating Income for Direct Energy Centre on a cash basis for the year ended December 31, 2013 was \$6,292,091 compared to a budget of \$6,656,346 for an unfavourable variance of (\$664,255).

				2013	2013	2013
				Actual	Budget	Variance
				\$	\$	\$
Revenue				14,169,918	15,399,445	(1,229,527)
Expenses				(7,877,827)	(8,443,099)	565,272
Net Income (Loss)				6,292,091	6,956,346	(664,255)

Revenues/Expenses

- Rental income from events at \$7,020,114 is unfavourable to budget by (\$479,882) primarily due to lower than budgeted rent from new events or unidentified new business target set in the 2012 budget cycle.
- Electrical net services of \$1,247,878 are favourable to budget by \$114,272 primarily due to higher than anticipated actual electrical services delivered to events.
- Food & Beverage concessions of \$725,739 are unfavourable to budget by (\$124,261) primarily due to less than budgeted corporate events and lower attendance at some of the larger events.
- Telecommunications net revenue at \$357,104 is unfavourable to budget by (\$71,107) primarily due to less than budgeted new events.
- Show services revenue from third-party billings at \$2,750,022 are unfavorable to budget by (\$658,273) with corresponding decrease in related show services expenses of \$412,063 for a net unfavourable variance of (\$246,210) primarily due to lower than budgeted new events.
- Advertising and sponsorship revenue within the Direct Energy Centre at \$234,644 is favourable to budget by \$12,644.

National Soccer Stadium (BMO Field) (Schedule 3 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, 2013 was \$417,602

compared to a budget of \$344,620 for a favourable variance of \$72,982 or an achievement of 121%. This is the seventh year of operations for BMO Field.

	2013	2013	2013
	Actual	Budget	Variance
	\$	\$	\$
Revenue per financial statements	9,097,274	8,565,311	531,963
Recoveries (Note 1)	(1,487,145)	-	(1,487,145)
Net Revenues	7,610,129	8,565,311	(955,182)
Expenses per financial statements	(8,679,672)	(8,220,691)	(458,981)
Recoveries (Note 1)	1,487,145	-	1,487,145
Net Expenses	(7,192,527)	(8,220,691)	1,028,164
Income (loss) before the following	417,602	344,620	72,982
Amortization of equipment	(17,542)	(40,000)	(22,458)
Purchase of equipment	2,830	-	(2,830)
Net Income (Loss)	402,890	304,620	47,694

Note 1 - 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.

Overall, net revenues were unfavourable to budget by (\$955,182) and net expenses were favourable to budget by \$1,218,541. Below are explanations for significant variances to budget.

Revenues/Expenses

- Suite and ticket rebates of \$1,617,978 were favourable to budget by \$140,190 primarily due to lower than anticipated demand for suite rentals throughout partially offset by higher Ticketmaster rebates and servicing fees from the TFC, CSA and Rugby matches.
- Food and beverage revenues of \$3,671,232 were unfavourable to budget by (\$1,169,379) primarily due to lower than anticipated sales at the TFC games due to lower stile count and per caps, not hosting three additional CSA matches and lower sales from the international friendly match. These shortfalls were partially offset by higher sales from the Rugby matches and CSA match.
- Usage fees of \$773,697 were favourable to budget by \$50,363 due to higher fees generated from the Rugby matches partially offset by lost fees from not hosting three additional CSA matches and two TFC matches (TFC home opener was moved to the Rogers Center and TFC did not qualify for the second round of the Amway Canadian Championships).
- Other revenue and CRF of \$535,268 were favourable to budget by \$58,288 due to higher ancillary revenues and CRF earned from the Rugby matches partially offset by lower CRF fees earned due to lower sales from TFC games, hosting two less TFC games, and hosting three less CSA games.
- Cost of goods sold of \$1,079,126 was \$339,083 favourable to budget primarily due to lower sales volume.
- Royalty expenses of \$1,248,870 were \$428,043 favourable to budget primarily due to lower food and beverage sales and lower suite license fees collected.

- Excluding the impact of recoverable expenses, supplies and services of \$1,259,091 was \$108,367 favourable to budget mainly due to savings in equipment leases, IT costs, HR costs, and winterization costs.

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 \$129,231 compared to a budget profit of \$845,137 for an unfavourable variance of (\$715,906). The Allstream Centre commenced operations October 19, 2009. Since, there is little prior year history; the rental budget was based on the proforma information presented to the City for the year ended December 31, 2013.

					2013	2013	2013
					Actual	Budget	Variance
					\$	\$	\$
Building Rental					789,153	966,376	(177,223)
Net Show Services, Food and Beverage Commission and Parking					465,151	1,222,437	(757,286)
Sub-total - Event Income					1,254,304	2,188,813	(934,509)
Departmental; Overhead Expenses					(1,124,268)	(1,342,670)	218,402
Net Profit (Loss) before Naming Fees, Interest and Amortization					130,036	846,143	(716,107)
Naming Fees Revenue					1,077,870	1,143,000	(65,130)
Contribution from (to) Conference Reserve Fund - Cash Shortfall					1,589,768	808,531	781,237
Net Profit (Loss) before Interest and Amortization					2,797,674	2,797,674	-
Interest Expenses					(1,816,601)	(1,816,601)	-
Loan Principal Repayments					-	(981,073)	981,073
Net Profit (Loss) before Amortization					981,073	-	981,073
Amortization					(1,943,832)	-	(1,943,832)
Net Income (Loss) per Financial Statements					(962,759)	-	(962,759)

- Building rental income at \$789,153 is unfavourable to budget by (\$177,223) primarily due to lower than budgeted new events. In both 2011 and 2012, rental income exceeded the budget by \$115,795 and \$311,326 respectively.
- Food & Beverage concessions of \$521,282 are unfavourable to budget (proforma) by (\$527,386) primarily due to lower than budgeted corporate events and lower than budgeted new gala events booked by Cerise.
- Show services from third party billings at \$834,936 are unfavourable to budget by (\$433,053) with corresponding reduction in related show expenses of (\$273,042) for a net unfavourable variance of (\$120,245) primarily due to lower than budgeted new events.
- Direct and indirect expenses at \$5,688,075 are favourable to budget by \$363,659 primarily due to lower utilities from the energy savings initiatives and lower operational maintenance costs and timing of marketing and sales expenditures offset by higher PMD show costs. Indirect expenses include costs from various departments. These are Marketing, Event Services, Security, Concierge, Finance, Cleaning and Décor, House Technician, Operations,

Utilities and wages & materials for base building upkeep and general maintenance of the buildings.

- Interest cost of \$1,816,601 and amortization cost of \$1,943,832 (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.

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:

				2013	2012
				Actual	Actual
				\$	\$
Net Income (Loss) per Financial Statements				827,782	3,630,495
Conference Centre Deficit				962,759	1,007,534
Amortization				70,911	80,296
(Purchase) disposal of Equipment				391,368	(195,863)
Employee Benefits				(426,181)	326,999
Net Step-up and Other				(90,359)	(230,650)
Transfer Payable to the City				1,736,280	4,618,811

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Finance & Audit Committee