



10

April 20, 2004

To: Board of Governors of Exhibition Place

From: Finance & Audit Committee

Subject: **2003 Consolidated Financial Statements for Exhibition Place**

Recommendation:

It is recommended that the draft audited financial statements pertaining to the operations of Exhibition Place for the twelve-month period ending December 31, 2003 be approved.

Background:

At its meeting of April 20, 2004, the Finance & Audit Committee considered and recommended for approval a report entitled "2003 Consolidated Financial Statements for Exhibition Place".

Discussion:

The following is an extract of the Background and Discussion portion of the above-noted report dated March 30, 2004 from General Manager & CEO of Exhibition Place.

"Background:

The Finance Division of Exhibition Place is responsible for the preparation of the annual 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 National Trade Centre and Exhibition Place operations for the twelve-month period ending December 31, 2003.

Discussion:

The auditor of record for Exhibition Place, Ernst & Young LLP, review these statements in accordance with generally accepted auditing standards. These standards require that the audit is planned and carried out to obtain reasonable assurance that the financial statements are free of material misstatement.

The audit also examines, on a test basis, evidence supporting the amounts and disclosures in the financial statements and assesses the accounting principles used, significant estimates made by management, and evaluates the overall statement presentation.

The 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 as of December 31, 2003.

The audited 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 2003

The Consolidated Statement of Operations indicates a consolidated net loss for the twelve-month period ending December 31, 2003 of \$2,734,740. This represents the following results from the three entities that make up Exhibition Place:

	Financial Statement	
	<u>Income (Loss)</u>	<u>Cash Basis</u>
Canadian National Exhibition Association	\$ (387,523)	\$ (359,720)
Exhibition Place Operations	(3,497,896)	(2,623,422)
National Trade Centre	<u>1,150,679</u>	<u>1,166,449</u>
Consolidated Net Income	\$ (2,734,740)	\$ (1,816,693)

The 2003 financial results are a significant reversal from the 2002 results of consolidated financial statement income of \$2,657,182. The major factors that contributed to the financial results in 2003 were the delay in opening the CNE due to the black-out; the impact of SARS on trade show/event business at the NTC and ancillary parking revenues; and the cost of the Local 506 strike which resulted in lost parking revenues. Since all these factors were specific to 2003, they should not affect the return to a profitable position in 2004.

Payment to 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. Since there was a net loss in 2003, the amount is a receivable from the City. Specifically the adjustments are as follows:

Financial Statement 2003 Net loss	\$ (2,734,740)
Adjust for Fixed Assets	+ 64,354
Sick leave Adjustment	+ 109,052
Vacation Bank Adjustment	+ 57,176
WSIB & Post retirement Benefits	<u>+ 687,465</u>
Net Loss Receivable from the City	1,816,693
Amount payable to the City for OMERS	(696,549)
Adjustment for Prior Years	<u>42,459</u>
Total Receivable from the City	\$ 1,162,603

The OMERS adjustment refers to the amount that had put aside during the period 1998 to 2002 as the employer contribution to the pension during the OMERS declared premium holiday. City Finance staff had directed that these amounts be collected and remitted to the City. The prior period adjustment refers to an overpayment that was made to the City in a prior year and this calculation has been reviewed and verified by the auditors."

Conclusion

This report submits the draft audited financial statements for Exhibition Place for the twelve-month period ending December 31, 2003.

Contact:

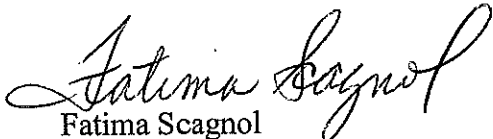
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On Behalf of the Finance & Audit Committee



Fatima Scagnol
Corporate Secretary

Consolidated Financial Statements

Board of Governors of Exhibition Place
December 31, 2003

April 14, 2004 8:50 AM

DRAFT FOR DISCUSSION

AUDITORS' REPORT

To the Members of the
Board of Governors of Exhibition Place

We have audited the consolidated balance sheet of the **Board of Governors of Exhibition Place** as at December 31, 2003 and the consolidated statements of operations and cash flows for the year then ended. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Board as at December 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Canada,
March 23, 2004.

Chartered Accountants

April 14, 2004 8:50 AM

DRAFT FOR DISCUSSION

Board of Governors of Exhibition Place

CONSOLIDATED BALANCE SHEET

As at December 31

	2003 \$	2002 \$
ASSETS		
Current		
Cash and cash equivalents	3,988,561	8,583,487
Accounts receivable		
Trade	4,313,427	3,556,700
City of Toronto	2,479,714	2,147,684
Inventories	157,454	173,083
Prepaid expenses	155,448	208,014
Transfer receivable from the City of Toronto [note 1]	1,162,603	—
Total current assets	12,257,207	14,668,968
Receivable from the City of Toronto [note 3]	4,889,216	4,013,630
Equipment, net [note 4]	161,012	267,826
	17,307,435	18,950,424
LIABILITIES		
Current		
Accounts payable and accrued liabilities		
Trade	4,877,100	4,474,894
City of Toronto	2,937,070	2,695,107
Current portion of employee benefits payable [note 5]	799,197	663,506
Deferred revenue [note 6]	3,636,237	4,016,984
Transfer payable to the City of Toronto [note 1]	—	2,564,933
Total current liabilities	12,249,604	14,415,424
Employee benefits payable [note 5]	5,057,831	4,535,000
	17,307,435	18,950,424

See accompanying notes

On behalf of the Board:

Director

Director

April 14, 2004 8:50 AM

DRAFT FOR DISCUSSION

Board of Governors of Exhibition Place

CONSOLIDATED STATEMENT OF OPERATIONS

Year ended December 31

	2003 \$	2002 \$
REVENUE		
Annual Exhibition <i>[schedule 1]</i>	15,578,083	17,329,027
Exhibition Place <i>[schedule 2]</i>	8,258,320	11,789,573
National Trade Centre <i>[schedule 3]</i>	12,810,572	14,575,434
	36,646,975	43,694,034
EXPENSES		
Annual Exhibition <i>[schedule 1]</i>	15,965,606	15,826,081
Exhibition Place <i>[schedule 2]</i>	11,756,216	13,005,697
National Trade Centre <i>[schedule 3]</i>	11,659,893	12,205,074
	39,381,715	41,036,852
Income (loss) before the following	(2,734,740)	2,657,182
Transfer to (from) the City of Toronto <i>[note 1]</i>	(2,734,740)	2,657,182
Net income for the year	—	—

See accompanying notes

Board of Governors of Exhibition Place

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended December 31

	2003 \$	2002 \$
OPERATING ACTIVITIES		
Net income for the year	—	—
Add non-cash item		
Amortization of equipment	156,656	155,971
	156,656	155,971
Changes in non-cash working capital balances related to operations		
Accounts receivable - Trade	(756,727)	(355,801)
Accounts receivable - City of Toronto	(332,030)	(1,554,486)
Inventories	15,629	(5,442)
Prepaid expenses	52,566	(109,069)
Trade accounts payable	402,206	1,392,605
Payable to the City of Toronto	241,963	1,796,661
Employee benefits payable	658,522	113,300
Deferred revenue	(380,747)	(57,242)
Cash provided by (used in) operating activities	58,038	1,376,497
INVESTING AND FINANCING ACTIVITIES		
Purchase of equipment	(49,842)	(41,701)
Decrease (increase) in receivable from the City of Toronto	(875,586)	92,248
Transfer payable/receivable to/from the City of Toronto	(3,727,536)	1,721,949
Cash provided by (used in) investing and financing activities	(4,652,964)	1,772,496
Net increase (decrease) in cash during the year	(4,594,926)	3,148,993
Cash and cash equivalents, beginning of year	8,583,487	5,434,494
Cash and cash equivalents, end of year	3,988,561	8,583,487

See accompanying notes

Board of Governors of Exhibition Place

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2003

1. OPERATIONS OF EXHIBITION PLACE AND RELATIONSHIP WITH CITY OF TORONTO

The Board of Governors of Exhibition Place [the "Board"] exists as a corporation without share capital by virtue of the City of Toronto Act, 1997 (No. 2) [the "Act"]. The Board operates, manages and maintains Exhibition Place on behalf of the City of Toronto [the "City"] under the terms of an agreement between the Board and the City. As defined within the Act, the City is entitled to any surplus resulting from the Board's activities and is responsible for any deficit the Board incurs. The amount due to/from the City is shown on the balance sheet as a transfer to/from the City.

Major capital facilities and expenditures are the property of the City and, therefore, the cost for such capital assets are recorded in the accounts of the City and not the Board.

To assist with major capital expenditures related to Exhibition Place, a reserve fund has been established that is administered by the City. The value of the reserve fund is recorded within the City's accounts [note 7]. In addition, the Board contributes to the City's vehicle reserve and expenses these contributions as made.

The Board also has an agreement with the City, which established the Exhibition Place Stabilization Reserve Fund ["Stabilization Fund"] for the purpose of putting income aside in profitable years in order to offset deficits in other years. The Stabilization Fund is also recorded in the accounts of the City [note 7].

The Canadian National Exhibition Association ["CNEA"], under an agreement with the Board, manages and operates an annual exhibition [the "Canadian National Exhibition"]. The City has established and maintains a reserve fund for the CNEA for prizes and awards during the annual exhibition. The value of the reserve fund is recorded within the City's accounts [note 7].

The National Trade Centre is managed by O&Y SMG Canada, and the relationship between the National Trade Centre and the Board is governed by the terms of a management agreement.

These consolidated financial statements include the accounts of the CNEA [schedule 1], Exhibition Place [schedule 2] and the National Trade Centre [schedule 3]. The CNEA is the only separate operating unit that is incorporated and, as such, produces audited financial statements for its members.

The Board is not subject to income taxes.

Board of Governors of Exhibition Place

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2003

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for profit-oriented organizations, unless otherwise directed to specific accounting recommendations of the Public Sector Accounting Board. The significant accounting policies are summarized as follows:

Use of estimates

The preparation of the consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the period. The employee benefits, liabilities and related costs charged to the consolidated statement of operations depend on certain actuarial and economic assumptions and on current information available to the Board, the City and the consultants retained to develop the actuarial projections. Actual results could differ from those estimates.

Revenue recognition

Revenue is recorded when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Expenses are recorded when incurred.

Cash and cash equivalents

Cash equivalents consist of term deposits with short-term maturities of three months or less from the date of acquisition. Cash and cash equivalents are valued at cost, which approximates market value.

Inventories

Inventories of materials and supplies are valued at the lower of cost and replacement cost. The average cost basis is used to calculate cost.

Board of Governors of Exhibition Place

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2003

Equipment

Purchased equipment is recorded at cost less accumulated amortization. Amortization is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Motor vehicles	5 to 8 years
Computer equipment	3 years
Electrical equipment	5 years
Other equipment and furniture	2 to 5 years

Sponsorships

Agreements are entered into with a number of corporate sponsors whereby these sponsors provide cash, products, advertising or entertainment support to the Exhibition Place, CNEA, and the National Trade Centre activities. In return, consideration is provided in a number of diverse ways including specific rights to selected attractions or advertising recognition. Only sponsorships received in cash are recorded in the accounts.

Employee benefit plans

The Board has adopted the following policies with respect to employee benefit plans:

- the Board's contributions to a multi-employer, defined benefit pension plan are expensed when contributions are due;
- the costs of termination benefits and compensated absences are normally recognized when the event that obligates the Board occurs; costs include projected future income payments, health care continuation costs and fees paid to independent administrators of these plans, calculated on a present value basis;
- the costs of other employee benefits are actuarially determined using the projected benefits method prorated on service and management's best estimate of retirement ages of employees, salary escalation, expected health care costs and plan investment performance; accrued obligations and related costs of funded benefits are net of plan assets;
- employee future benefit liabilities are discounted using current interest rates on long-term bonds;
- past service costs from plan amendments are amortized on a straight-line basis over the expected average remaining service period of employees active at the date of amendment;

Board of Governors of Exhibition Place

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2003

- net actuarial gains and losses related to compensated absences are amortized over the average expected period during which benefits will be paid; and
- for other benefit plans, the excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized on a straight-line basis over the average remaining service period of active employees.

3. RECEIVABLE FROM THE CITY OF TORONTO

The receivable from the City of \$4,889,216 [2002 - \$4,013,630] represents the estimated future liability payable by the Board for employee-related benefits less the net book value of capital assets and any funds that have been accumulated to offset this future liability.

4. EQUIPMENT

Equipment consists of the following:

	2003			2002		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
	\$	\$	\$	\$	\$	\$
Motor vehicles	261,634	228,822	32,812	261,634	212,415	49,219
Computer equipment	141,021	103,777	37,244	86,124	76,580	9,544
Electrical equipment	308,423	282,885	25,538	308,423	221,200	87,223
Other equipment and furniture	369,691	304,273	65,418	374,746	252,906	121,840
	1,080,769	919,757	161,012	1,030,927	763,101	267,826

Board of Governors of Exhibition Place

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2003

5. EMPLOYEE BENEFITS PAYABLE

The employee benefit payable of the Board consist of the following:

	2003 \$	2002 \$
Sick leave	857,052	748,000
Vacation pay	368,683	311,506
Workplace Safety and Insurance Board ["WSIB"]	1,630,213	1,188,000
Other post-employment and post-retirement benefits	3,001,080	2,951,000
	5,857,028	5,198,506
Less current portion	799,197	663,506
	5,057,831	4,535,000

The Board's accrued benefit obligations, in aggregate, are as follows:

	2003 \$	2002 \$
Accrued benefit obligations		
Balance, beginning of year	4,887,000	4,647,000
Adjustment to actuarial liability, beginning of year	217,475	—
Current service cost	430,514	352,000
Interest cost	303,001	307,000
Expected benefits paid	(349,645)	(419,000)
Balance, end of year	5,488,345	4,887,000
Vacation pay	368,683	311,506
Total obligations	5,857,028	5,198,506
Components of expense		
Current service cost	430,514	352,000
Adjustment to actuarial liability	217,475	—
Interest cost	303,001	307,000
Increase (decrease) in vacation pay	57,176	(126,700)
Total expense	1,008,166	532,300

The benefit plans as noted above are all unfunded; however, the Board participates in reserve funds established by the City. The amounts contributed to these reserves during the year were \$472,639 [2002 - \$893,707] and are included as an expense on the consolidated statement of operations.

Board of Governors of Exhibition Place

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2003

An actuarial revaluation was completed on behalf of Exhibition Place that resulted in an increase of \$217,475 in the projected cost of the liability for future employee benefits as at December 31, 2003 and the associated expense recorded in the Statement of Operations for Exhibition Place [schedule 2].

Due to complexities in valuating the plans, actuarial valuations are conducted on a periodic basis. The most recent actuarial report was prepared at December 31, 2002. The accrued obligation shown for 2003 is based on an extrapolation of the 2002 valuation.

The significant actuarial assumptions adopted in measuring the Board's accrued benefit obligations for other post-employment, and post-retirement benefits are as follows:

	2003 %	2002 %
Discount rate	5.5 - 6.0	6.0 - 6.5
Health care inflation – hospital, dental care and other medical	4.5	5.0
Health care inflation - drugs	12.0	5.0
Rate of compensation increase	3.0	3.0

The health care rate for drugs will reduce to 5.5% over 10 years.

The Centre makes contributions to the Ontario Municipal Employees' Retirement Fund ["OMERS"], which is a multi-employer pension plan, on behalf of most of its employees. The plan is a defined benefit plan, which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay. Employees and employers contribute jointly to the plan.

Because OMERS is a multi-employer pension plan, any pension plan surpluses or deficits are a joint responsibility of all Ontario municipalities and their employees. As result, the City does not recognize any share of the OMERS pension surplus or deficit. Due to past significant surpluses, OMERS declared a temporary contribution holiday for all active employees and participating employees, effective August 1, 1998 through December 31, 2002. As a result of this contribution holiday, no contributions were required on account of current service in 2002 or 2001. Employers' contributions to the OMERS pension plan in the amount of \$135,519 recommenced in 2003.

6. DEFERRED REVENUE

Deferred revenue consists of rentals for space in trade shows and other events which have been paid in advance.

Board of Governors of Exhibition Place

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2003

7. RESERVE FUNDS

The City established and maintains the Exhibition Place Capital Improvement Reserve Fund [the "Capital Improvement Fund"]. The purpose of this Capital Improvement Fund is to assist in the financing of major capital costs related to all of the buildings at Exhibition Place. The balance of the Capital Improvement Fund at December 31, 2003 was \$859,436 [2002 - \$813,200]. There were no contributions to the Capital Improvement Fund in 2003, other than interest income, and no expenditures were made from the Capital Improvement Fund in 2003.

The City has also established and maintains the Exhibition Place Stabilization Reserve Fund for the purpose of putting income aside in profitable years in order to offset deficits in other years. The balance of the Stabilization Fund at December 31, 2003 was \$1,493,180 [2002 - \$1,403,069]. The increase in the year is a result of interest earned on the Stabilization Fund. The current year deficit of the Board will be drawn against this fund.

During 2003, the City Council approved a new contribution policy for Stabilization Reserve Fund and the Capital Improvement Fund. Beginning in fiscal 2003, any financial surplus generated by the operations of Exhibition Place greater than the approved annual budget, will be as follows:

- [i] the surplus [up to a maximum accumulated balance of \$2,000,000] will be contributed to the Exhibition Place Stabilization Fund; and
- [ii] the residual, if any, will be contributed to the Capital Improvement Fund.

The City has also established and maintains the CNEA Prize Fund Reserve [the "Prize Fund"] on behalf of the CNEA. The purpose of the Prize Fund is to ensure that sufficient funds are available to pay for prizes and awards that are presented during the Canadian National Exhibition. The balance of the Prize Fund at December 31, 2003 is \$149,978 [2002 - \$150,000]. There were no contributions to the Prize Fund in 2003, other than interest income, and the only withdrawal was a transfer to the CNEA of \$8,607 [2002 - \$8,155].

8. CONTINGENT LIABILITIES

In the normal course of its operations, the Board is subject to various litigation and claims. The ultimate outcome of these claims cannot be determined at this time. However, the Board's management believes that the ultimate disposition of these matters will not have a material effect on the Board's future financial position.

9. FINANCIAL INSTRUMENTS

The fair values of financial instruments approximate their carrying value.

**ANNUAL EXHIBITION
SCHEDULE OF OPERATIONS**

Year ended December 31

	2003 \$	2002 \$
REVENUE		
Midway, concessions and casino	5,374,924	6,382,469
Ground admissions	5,289,282	6,106,444
Entry fees and exhibit rentals	3,328,825	3,131,106
Parking	903,832	1,208,095
Sponsorships	681,220	500,913
	15,578,083	17,329,027
EXPENSES [note 5]		
Operations	8,197,078	8,151,007
Attractions and casino	5,598,972	5,793,074
Marketing	2,049,770	1,730,172
Parking attendants' wages and sundry costs	113,154	146,600
Amortization of equipment	6,632	5,228
	15,965,606	15,826,081
Net operating income (loss) for the year	(387,523)	1,502,946

EXHIBITION PLACE SCHEDULE OF OPERATIONS

Year ended December 31

	2003 \$	2002 \$
REVENUE		
Building rentals and concessions	1,764,237	1,844,036
Sale of services	2,090,020	4,332,792
Parking	3,399,017	4,448,331
Discounts, commission and realty tax recoveries	1,005,046	1,164,414
	8,258,320	11,789,573
EXPENSES		
Maintenance, cleaning and security	4,124,824	3,888,134
Administration <i>[note 5]</i>	4,014,398	3,123,496
Cost of sale of services	1,642,101	2,987,971
Utilities	630,148	1,675,833
Parking attendants' wages and sundry costs	959,496	951,358
City of Toronto vehicle reserve <i>[note 1]</i>	296,019	292,937
Amortization of equipment	89,230	85,968
	11,756,216	13,005,697
Net operating loss for the year	(3,497,896)	(1,216,124)

NATIONAL TRADE CENTRE SCHEDULE OF OPERATIONS

Year ended December 31

	2003 \$	2002 \$
REVENUE		
Building rentals	6,301,661	7,076,031
Sale of services	4,096,779	4,977,491
Catering commissions	1,062,936	1,319,061
Advertising, sponsorship, interest and recoveries	1,349,196	1,202,851
	<u>12,810,572</u>	<u>14,575,434</u>
EXPENSES		
Maintenance, cleaning and security	3,158,558	3,221,171
Administration	4,051,978	3,983,790
Cost of sale of services	2,225,028	2,765,129
Utilities	2,151,778	2,212,551
Amortization of equipment	60,794	64,772
Employee benefits <i>[note 5]</i>	11,757	(42,339)
	<u>11,659,893</u>	<u>12,205,074</u>
Net operating income for the year	<u>1,150,679</u>	<u>2,370,360</u>