



## INFORMATION ONLY

### 2014 Audited Consolidated Financial Statements and Audit Results for The Board of Governors of Exhibition Place

<b>Date:</b>	June 3, 2015
<b>To:</b>	Audit Committee
<b>From:</b>	Chief Executive Officer, Exhibition Place
<b>Wards:</b>	NA
<b>Reason for Confidential Information</b>	

#### SUMMARY

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This report presents for the information of the Audit Committee and City Council the Audited Consolidated Financial Statements, attached as Appendix A, and the Audit Results, attached as Appendix B, for the Board of Governors ("The Board") for the year ended December 31, 2014.

These financial statements reflect the consolidated financial position of Exhibition Place as at December 31, 2014. 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, 2014 and the results of its operations, changes in net debt and its cash flows for the year then ended December 31, 2014 in accordance with Canadian public sector accounting standards. The financial position includes results of operations for Direct Energy Centre, Exhibition Place and Allstream Centre for the year ended December 31, 2014. 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, 2014 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 2014 was a net income of \$100,000. The 2014 consolidated net profit on a cash basis which will be transferred to the City is \$156,512 compared to a budgeted net income of \$100,000, for a favorable variance of \$56,512 or an achievement of 156.5%.

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 (CCRF) 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 CCRF 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.

## **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 & 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.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2007.EX4.2>

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.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2012.EX24.19>

At its meeting on October 8, 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.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2013.EX34.24>

At its meeting of May 22, 2015, the Board approved Report No. 6 dated April 29, 2015 from the Board's Finance & Audit Committee with respect to the 2014 Audit Results & Consolidated Financial Statements for the Board.

<http://www.explace.on.ca/database/rte/files/6-2014%20Audit%20Results%20%20Financial%20Statements.pdf>

## 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 Direct Energy Centre, Exhibition Place and Allstream Centre for the year ended December 31, 2014.

## 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, 2014 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, 2014 and the results of its operations for the year then ended.

### Operating Results for 2014

The Consolidated Statement of Operations indicates on an accrual basis net profit (loss) for the year ended December 31, 2014 of (\$404,319) (2013 - \$827,782) and a net profit of \$156,512 (2013 - \$1,736,280) 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 2014 was a net income of \$100,000.

In 2014 BMO Field operations has not been consolidated as part of the Boards operations due to the amendment to BMO Field Management Agreement between the Board and MLSE. As approved by City Council on April 1, 2014 in relation to the renovation and expansion of BMO Field, the City approved an amendment to the MLSE management agreement on July 4, 2014 to reflect changes in the terms and working framework of MLSE in their management of the day-to-day operations of BMO Field. The term of the management agreement has been extended to December 31, 2037 and has given MLSE more autonomy in managing the day-to-day operations. Commencing on January 1, 2014 and throughout the remaining term of the agreement, the Board will no longer share in the profit of BMO Field, but rather will receive a guaranteed fee. In 2014, this fee amounted to \$450,000, which is included as revenue in the schedule of operations for Exhibition Place (Schedule 1). As a result of these changes, the Board is no longer consolidating the operations of BMO Field for the current year. The Boards 2014 Budget including BMO Field was approved by City Council prior to the agreement being amended therefore BMO's fields budget has been included in the Boards budgeted 2014 figures. The assets, liabilities, revenues and expenses relating to BMO Field, however, remain reflected also in the 2013 comparative figures.

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

	Net Income (Loss)		Net Income (Loss)	
	Accrual Basis		Cash Basis	
	2014	2013	2014	2013
	\$	\$	\$	\$
Exhibition Place ( <i>schedule 1</i> )	(4,529,342)	(4,904,440)	(4,882,486)	(4,973,413)
Direct Energy Centre ( <i>schedule 2</i> )	6,017,177	6,292,091	6,017,177	6,292,091
Allstream Centre ( <i>schedule 3</i> )	(1,892,154)	(962,759)	(978,179)	-
BMO Field	-	402,890	-	417,602
<b>Net Income</b>	<b>(404,319)</b>	<b>827,782</b>	<b>156,512</b>	<b>1,736,280</b>

The 2014 consolidated net profit on a cash basis is \$156,512 (2013 -\$1,736,280) compared to a budgeted net income of \$100,000 for a favorable variance of \$56,512 or an achievement of 156.5%.

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, 2014 was (\$4,882,486) compared to a budgeted loss of (\$7,175,133) for a favourable variance of \$2,292,647.

	2014	2014	2014
	Actual	Budget	Variance
	\$	\$	\$
Revenue	26,368,897	19,401,519	6,967,378
Expenses	(31,251,383)	(26,576,652)	(4,674,731)
<b>Income (loss) before the following</b>	<b>(4,882,486)</b>	<b>(7,175,133)</b>	<b>2,292,647</b>
Employee benefits (expense) recovery	214,085	-	(214,085)
Vacation (pay) recovery	(84,883)	-	84,883
Amortization of equipment	(43,332)	-	43,332
Step-up lease	289,522	-	(289,522)
Purchase (disposal) of equipment	(22,248)	-	22,248
<b>Net Income (Loss)</b>	<b>(4,529,342)</b>	<b>(7,175,133)</b>	<b>1,939,503</b>

Revenues/Expenses

- Parking revenues at \$7,300,697 is favourable to budget by \$1,022,855 with a corresponding increase in parking expenses/rebates of \$512,199 for a net favourable variance of \$510,656. This is primarily due to higher than budgeted revenue from One of a Kind Spring Show offset by lower than budgeted revenue from the Home Show. In the spring of 2014 there was higher than budgeted parking revenues from Toronto Marlies games at Ricoh Coliseum due to the hockey play-offs. During August there were some high attendance concerts at Ontario Place resulting in additional parking revenue.
- Net tenant event services income of \$226,785 is favourable to budget by \$4,923 primarily due to higher than budgeted services income from tenants.
- Tenant revenue from rent is favorable to budget by \$388,681 primarily due to Princes' Gates Hotel. In accordance with Canadian public sector accounting standards revenue recognition of rent from the Princes' Gates Hotel is recognized on a straight-line basis over the 49 year term of the lease.
- Indirect departmental expenses at \$18,820,424 are favourable to budget by \$977,317 primarily due to lower utilities due to the energy savings initiatives and lower operational maintenance costs.
- Program recoveries at \$350,250 is unfavourable to budget by (\$5,927) 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 \$979,190 is favourable to budget by \$167,002 primarily due to new unbudgeted events from Exhibition Place grounds such as the Indoor Winter Carnival, Superfan Comicon, Psychic Fair and Antique 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, 2014 was \$6,017,177 compared to a budget net operating income of \$6,951,239 for an unfavourable variance of (\$934,062).

				2014	2014	2014
				Actual	Budget	Variance
				\$	\$	\$
Revenue				14,554,723	15,394,190	(839,467)
Expenses				(8,537,546)	(8,442,951)	(94,595)
<b>Net Income (Loss)</b>				<b>6,017,177</b>	<b>6,951,239</b>	<b>(934,062)</b>

Revenues/Expenses

- Rental income from events at \$7,266,740 is unfavourable to budget by (\$283,260) primarily due to higher than budgeted rental income from the Boat Show and Paralegal Exams offset by lower than budgeted rent from Green Living and IIDEX which did not return in 2014.
- Electrical net services of \$1,076,783 are unfavourable to budget by (\$78,652) primarily due to lower than budgeted net electrical services from the CRFA Show, One of A Kind Show, Sportsmen Show, Green Living and IIDEX which did not return in 2014 offset by higher than budgeted net electrical revenue from the Boat Show.
- Food & Beverage concessions of \$642,439 are unfavourable to budget by (\$127,561) primarily due to lower than budgeted corporate and catered events new business as well as lower than budgeted catering from the Boat Show, National Home Show and Motorcycle Show.
- Show services revenue from third-party billings at \$3,014,834 are unfavorable to budget by (\$405,469) with corresponding decrease in related show services expenses of \$119,369 for a net unfavourable variance of (\$286,100) primarily due to lower than budgeted new events.
- Advertising, sponsorship and interest revenue within the Direct Energy Centre at \$250,239 is unfavourable to budget by (\$29,545) primarily due to the interest revenue from term investments being lower than budget.

Allstream Centre (Schedule 3 of Auditors' Report)

Net Operating Profit (loss) for the Allstream Centre before interest on the City loan, amortization of building and contribution from naming fees is (\$25,712) compared to a budget profit of \$831,077 for an unfavourable variance of (\$856,789). 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, 2014.

	2014	2014	2014
	Actual	Budget	Variance
	\$	\$	\$
Building Rental	926,532	1,200,000	(273,468)
Net Show Services, Food and Beverage Commission and Parking	1,048,368	1,410,220	(361,852)
<b>Sub-total - Event Income</b>	1,974,900	2,610,220	(635,320)
Departmental; Overhead Expenses	(2,000,612)	(1,779,143)	(221,469)
<b>Net Profit (Loss) before Naming Fees, Interest and Amortization</b>	(25,712)	831,077	(856,789)
Naming Fees Revenue	1,021,609	1,143,000	(121,391)
Contribution from (to) Conference Reserve Fund - Cash Shortfall	823,536	823,536	-
<b>Net Profit (Loss) before Interest and Amortization</b>	1,819,433	2,797,613	(978,180)
Interest Expenses	(1,769,731)	(1,769,731)	-
Loan Principal Repayments	-	(1,027,882)	1,027,882
<b>Net Profit (Loss) before Amortization</b>	49,702	-	49,702
Amortization	(1,941,856)	-	(1,941,856)
<b>Net Income (Loss) per Financial Statements</b>	(1,892,154)	-	(1,892,154)

- Building rental income at \$926,532 is unfavourable to budget by (\$273,468) primarily due to lower than budgeted rent from Cerise contracted new events. Rental income has grown over 2013 by \$137,379 (17%).
- Food & Beverage concessions of \$700,937 are unfavourable to budget by (\$315,958) primarily due to lower than budgeted food and beverage provider Cerise contracted events. Food & Beverage has grown over 2013 by \$179,655 (34%).
- Show services from third party billings at \$781,471 are unfavourable to budget by (\$135,904) with corresponding reduction in related show expenses of (\$82,617) for a net unfavourable variance of (\$53,287) primarily due to lower than budgeted new events.
- Departmental indirect expenses at \$2,000,612 are unfavourable to budget by (\$221,469) primarily due to lower utilities from the energy savings initiatives offset by higher PMD show costs and maintenance 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 \$1,769,731 and amortization cost of \$1,941,856 (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:

	<b>2014</b>	<b>2013</b>
	<b>Actual</b>	<b>Actual</b>
	<b>\$</b>	<b>\$</b>
<b>Net Income (Loss) per Financial Statements</b>	(404,319)	827,782
Net change of Non- Cash Conference Centre Deficit	913,974	962,759
Amortization	43,332	70,911
(Purchase) disposal of Equipment	22,248	391,368
Employee Benefits	(129,202)	(426,181)
Net Step-up and Other	(289,521)	(90,359)
<b>Transfer Payable to the City</b>	<b>156,512</b>	<b>1,736,280</b>

## CONTACT

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 Dianne Young  
 Chief Executive Officer

## ATTACHMENTS

Appendix "A" Audited Consolidated Financial Statements for the Board – December 31, 2014  
 Appendix "B" Audit Results for the Board - December 31, 2014