

**EXHIBITION PLACE**

April 17, 2003

To: Board of Governors of Exhibition Place  
From: Finance and Audit Committee  
Subject: **2002 Consolidated Financial Statements for Exhibition Place**

**Recommendation(s):**

**The Finance and Audit Committee recommends the adoption of the report (April 7, 2003) from the General Manager & CEO entitled "2002 Consolidated Financial Statements for Exhibition Place" without amendment.**

(Report dated April 7, 2003, addressed to the Finance and Audit Committee from General Manager & CEO)

**Recommendations:**

**The Finance and Audit Committee recommend that the Board approve the draft audited financial statements pertaining to the operations of Exhibition Place for the twelve-month period ending December 31, 2002 attached to this report.**

**Background/Discussion:**

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, 2002.

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, 2002.

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 2002

The Consolidated Statement of Operations indicates consolidated net income for the twelve-month period ending December 31, 2002 of \$2,657,182.

This represents the following results from the three entities that make up Exhibition Place:

	<u>Income (Loss)</u>	<u>2002 Budget</u>
Canadian National Exhibition Association	\$ 1,502,946	\$ (59,000)
Exhibition Place Operations	(1,216,124)	(1,535,100)
National Trade Centre	<u>2,370,360</u>	<u>1,705,700</u>
 Consolidated Net Income	 <b>\$ 2,657,182</b>	 <b>\$ 111,600</b>

Each program at Exhibition Place had a very successful year and these are some of the factors that contributed to the strong year-end results:

#### Canadian National Exhibition Association

- All of the revenue sources exceeded budget targets by the following amounts:

<u>Revenue Source</u>	<u>Amount Exceeding Budget</u>
Admissions	\$ 286,353
Parking	240,594
Agriculture	47,750
Concessions (includes Food Bldg & Rides)	382,826
Marketing	25,413
Casino	208,698
Building Rentals	19,807

- Expenses were held at approximately 2001 even with the additional revenue earnings

#### Exhibition Place Operations

- Parking revenues exceeded budget by \$320,518
- Third party billings exceeded budget by \$125,789 largely because of the World Youth Day Event

#### National Trade Centre

- Direct event income consisting of rent and show services exceeded budget \$272,784
- Expenditures were controlled during 2002 so that direct and indirect expenses were \$369,563 below budget

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 the City of Toronto on a "cash" basis. These adjustments concern accounting charges for fixed assets and the liability for the future payment of employee benefits. Specifically the adjustments are as follows:

Financial Statement 2002 Net Income	\$2,657,182
Adjust for Fixed Assets	114,269
Sick leave Adjustment	(11,000)
Vacation Bank Adjustment	(126,700)
WSIB & Post retirement Benefits	<u>( 68,818)</u>
<b>Net Income on a "Cash" Basis</b>	<b>\$ 2,564,933</b>

This amount of \$2,564,933 will be paid to the City of Toronto as indicated on the Balance Sheet and compares to the 2002 budget target for the consolidated income for Exhibition Place of \$111,600.

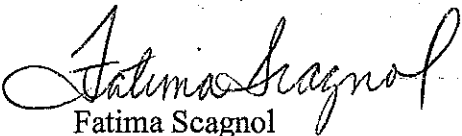
Conclusion:

This report submits the draft audited financial statements for Exhibition Place for the twelve-month period ending December 31, 2002.

Contact:

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Submitted by:

  
 Fatima Scagnol  
 Corporate Secretary

Consolidated Financial Statements

**Board of Governors of Exhibition Place**  
December 31, 2002

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***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, 2002 and the consolidated statements of operations and cash flows for the year then ended. These consolidated 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, 2002 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 26, 2003.

Chartered Accountants

Board of Governors of Exhibition Place

**CONSOLIDATED BALANCE SHEET**

As at December 31

	2002 \$	2001 \$
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	8,583,487	5,434,494
Accounts receivable		
Trade	3,556,700	3,200,899
City of Toronto	2,147,684	593,198
Inventories	173,083	167,641
Prepaid expenses	208,014	98,945
<b>Total current assets</b>	<b>14,668,968</b>	<b>9,495,177</b>
Receivable from the City of Toronto <i>[note 3]</i>	4,013,630	4,105,878
Capital assets, net <i>[note 4]</i>	267,826	382,096
	<b>18,950,424</b>	<b>13,983,151</b>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities		
Trade	4,474,894	3,082,289
City of Toronto	2,695,107	898,446
Current portion of employee benefits payable <i>[note 5]</i>	663,506	779,206
Deferred revenue <i>[note 6]</i>	4,016,984	4,074,226
Transfer payable to the City of Toronto <i>[note 1]</i>	2,564,933	842,984
<b>Total current liabilities</b>	<b>14,415,424</b>	<b>9,677,151</b>
Employee benefits payable <i>[note 5]</i>	4,535,000	4,306,000
<b>Total liabilities</b>	<b>18,950,424</b>	<b>13,983,151</b>

*See accompanying notes*

On behalf of the Board:

Director

Director

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**DRAFT FOR DISCUSSION**

**Board of Governors of Exhibition Place**

**CONSOLIDATED STATEMENT OF OPERATIONS**

Year ended December 31

	2002	2001
	\$	\$
<b>REVENUE</b>		
Annual Exhibition <i>[schedule 1]</i>	17,329,027	16,046,342
Exhibition Place <i>[schedule 2]</i>	11,789,573	9,237,349
National Trade Centre <i>[schedule 3]</i>	14,575,434	12,527,103
	<u>43,694,034</u>	<u>37,810,794</u>
<b>EXPENSES</b>		
Annual Exhibition <i>[schedule 1]</i>	15,826,081	15,805,277
Exhibition Place <i>[schedule 2]</i>	13,005,697	10,514,709
National Trade Centre <i>[schedule 3]</i>	12,205,074	10,715,194
	<u>41,036,852</u>	<u>37,035,180</u>
Income before the following	2,657,182	775,614
Payable to City of Toronto <i>[note 1]</i>	2,657,182	775,614
<b>Net income for the year</b>	<u>—</u>	<u>—</u>

*See accompanying notes*

**Board of Governors of Exhibition Place****CONSOLIDATED STATEMENT OF CASH FLOWS**

Year ended December 31

	2002 \$	2001 \$
<b>OPERATING ACTIVITIES</b>		
Net income for the year	—	—
Add non-cash item		
Amortization of capital assets	155,971	201,828
	<u>155,971</u>	<u>201,828</u>
Changes in non-cash working capital balances related to operations		
Accounts receivable - Trade	(355,801)	(78,096)
Accounts receivable - City of Toronto	(1,554,486)	1,573,795
Inventories	(5,442)	18,477
Prepaid expenses	(109,069)	38,869
Trade accounts payable	1,392,605	(2,045,005)
Employee benefits payable	113,300	290,827
Payable to the City of Toronto	1,796,661	(803,564)
Deferred revenue	(57,242)	584,593
Obligation under capital lease	—	(50,000)
Transfer payable to the City of Toronto	1,721,949	(43,837)
<b>Cash provided by (used in) operating activities</b>	<u>3,098,446</u>	<u>(312,113)</u>
<b>INVESTING AND FINANCING ACTIVITIES</b>		
Purchase of capital assets	(41,701)	(176,378)
Decrease (increase) in receivable from the City of Toronto	92,248	(67,371)
<b>Cash provided by (used in) investing and financing activities</b>	<u>50,547</u>	<u>(243,749)</u>
<b>Net increase (decrease) in cash during the year</b>	<u>3,148,993</u>	<u>(555,862)</u>
Cash and cash equivalents, beginning of year	5,434,494	5,990,356
<b>Cash and cash equivalents, end of year</b>	<u>8,583,487</u>	<u>5,434,494</u>

*See accompanying notes*



## Board of Governors of Exhibition Place

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002

#### 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.

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, 2002

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies are summarized as follows:

**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.

**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. 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. These amounts may change significantly upon the next actuarial valuation.

**Cash and cash equivalents**

Cash equivalents consist of term deposits, which are readily cashable on short notice.

**Inventories**

Inventories of materials and supplies are valued at the lower of cost and replacement cost.

**Capital assets**

Purchased capital assets are 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

## **Board of Governors of Exhibition Place**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2002

#### **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 made;
- 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;
- net actuarial gains and losses related to compensated absences are amortized over the average expected period during which benefits will be paid;
- 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.

## Board of Governors of Exhibition Place

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002

#### 3. RECEIVABLE FROM THE CITY OF TORONTO

In 2000, the Board adopted new rules related to the accounting for employee benefit costs and capitalizing assets, which resulted in the recording of a liability in the amount of \$4,794,379 and an asset of \$233,695. At this time, no amount was set up as a receivable from the City for future funding of these costs. During 2001, the City agreed that it would be responsible for any deficits in accordance with the new accounting rules.

Accordingly, the consolidated financial statements indicate an amount receivable from the City of \$4,013,630 [2001 - \$4,105,878] which 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. CAPITAL ASSETS

Capital assets consist of the following:

	2002			2001		
	Cost \$	Accumulated amortization \$	Net book value \$	Cost \$	Accumulated amortization \$	Net book value \$
Motor vehicles	261,634	212,415	49,219	261,634	196,009	65,625
Computer equipment	86,124	76,580	9,544	76,991	55,492	21,499
Electrical equipment	308,423	221,200	87,223	308,423	159,512	148,911
Other equipment and furniture	374,746	252,906	121,840	342,178	196,117	146,061
	<u>1,030,927</u>	<u>763,101</u>	<u>267,826</u>	<u>989,226</u>	<u>607,130</u>	<u>382,096</u>

**Board of Governors of Exhibition Place**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2002

**5. EMPLOYEE BENEFITS**

The employee benefits obligations of the Board consist of the following:

	2002 \$	2001 \$
Sick leave	748,000	759,000
Vacation pay	311,506	438,206
Workplace Safety and Insurance Board	1,188,000	1,143,000
Other post-employment and post-retirement benefits	2,951,000	2,745,000
	<b>5,198,506</b>	<b>5,085,206</b>
Less current portion	663,506	779,206
	<b>4,535,000</b>	<b>4,306,000</b>

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

	2002 \$	2001 \$
<b>Accrued benefit obligations</b>		
Balance, beginning of year	4,647,000	4,335,000
Current service cost	352,000	401,000
Interest cost	307,000	318,000
Expected benefits paid	(419,000)	(407,000)
Balance, end of year	4,887,000	4,647,000
Vacation pay	311,506	438,206
<b>Total obligations</b>	<b>5,198,506</b>	<b>5,085,206</b>
<b>Components of expense</b>		
Current service cost	352,000	341,000
Interest cost	307,000	293,000
Decrease in vacation pay	(126,700)	(21,173)
<b>Total expense</b>	<b>532,300</b>	<b>612,827</b>

The benefit plans as noted above are all unfunded except for an accumulated provision for future WSIB costs; however, the Board participates in reserve funds established by the City. The amounts contributed to these reserves during the year were \$893,707 [2001 - \$640,572] and are included as an expense on the consolidated statement of operations. During the year, the Board changed the vacation carry-over policy from two years' entitlement to one years' entitlement. This policy change has resulted in a reduction in the associated employee benefit liability.

## Board of Governors of Exhibition Place

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002

Due to complexities in valuating the plans, actuarial valuations are conducted on a periodic basis. The liabilities reported in these consolidated financial statements are based on a valuation as of December 31, 1998. Many of the estimates and assumptions used in 1998 may change significantly with the next detailed evaluation. The significant actuarial assumptions adopted in measuring the Board's accrued benefit obligations for other retirement and post-employment benefits are as follows:

	2002 %	2001 %
Discount rate	6.0 - 6.5	6.0 - 6.5
Health care inflation	5.0	8.0
Rate of compensation increase	3.0	3.0

The health care rate is assumed to decrease gradually to 4% by 2003 and remain at that level thereafter.

In addition to the above noted plans, the Board makes contributions to the Ontario Municipal Employees Retirement Fund ["OMERS"], which is a multi-employer plan, on behalf of qualifying employees. OMERS 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. Due to significant surpluses, OMERS declared a temporary contribution holiday for all active employees and participating employers, effective August 1, 1998 through to December 31, 2002. As a result of this contribution holiday, no contributions were required on account of current service in 2002 and 2001. No amount was accrued for past service for the year ended December 31, 2002 [2001 - \$230,465].

#### 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, 2002

#### **7. RESERVE FUNDS**

The City established and maintains the Exhibition Place Capital Improvement Reserve Fund [the "Fund"]. The purpose of this Fund is to assist in the financing of major capital costs related to all of the buildings at Exhibition Place. The balance of the Fund at December 31, 2002 was \$813,200 [2001 - \$772,534]. There were no contributions to the Fund in 2002, other than interest income, and no expenditures were made from the Fund in 2002.

The City has also established and maintains the Stabilization 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, 2002 was \$1,403,069 [2001 - \$1,334,140]. The increase in the year is a result of interest earned on the Stabilization 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, 2002 is \$158,154 [2001 - \$158,693]. There were no contributions to the Prize Fund in 2002, other than interest income, and the only withdrawal was a transfer to the CNEA of \$8,155 [2001 - \$9,142].

#### **8. CONTINGENT LIABILITIES**

In the normal course of its operations, the Board is subject to various litigations 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.

**ANNUAL EXHIBITION  
SCHEDULE OF OPERATIONS**

Year ended December 31

	2002 \$	2001 \$
<b>REVENUE</b>		
Midway, concessions and casino	6,382,469	5,801,578
Ground admissions	6,106,444	5,790,817
Entry fees and exhibit rentals	3,131,106	2,998,440
Parking	1,208,095	933,938
Sponsorships	500,913	521,569
	<b>17,329,027</b>	<b>16,046,342</b>
<b>EXPENSES</b>		
Operations	8,151,007	7,890,587
Attractions and casino	5,793,074	6,070,719
Marketing	1,730,172	1,671,195
Parking attendants' wages and sundry costs	146,600	117,548
Amortization of capital assets	5,228	55,228
	<b>15,826,081</b>	<b>15,805,277</b>
<b>Net operating income for the year</b>	<b>1,502,946</b>	<b>241,065</b>



**EXHIBITION PLACE  
SCHEDULE OF OPERATIONS**

Year ended December 31

	2002 \$	2001 \$
<b>REVENUE</b>		
Building rentals and concessions	1,844,036	1,687,050
Sale of services	4,332,792	3,214,106
Parking	4,448,331	3,641,401
Discounts, commission and realty tax recoveries	1,164,414	694,792
	<b>11,789,573</b>	<b>9,237,349</b>
<b>EXPENSES</b>		
Maintenance, cleaning and security	3,888,134	3,354,553
Administration	3,123,496	2,490,705
Cost of sale of services	2,987,971	2,035,065
Utilities	1,675,833	1,430,804
Parking attendants' wages and sundry costs	951,358	823,321
City of Toronto vehicle reserve <i>[note 1]</i>	292,937	297,844
Amortization of capital assets	85,968	82,417
	<b>13,005,697</b>	<b>10,514,709</b>
<b>Net operating loss for the year</b>	<b>(1,216,124)</b>	<b>(1,277,360)</b>

**THE NATIONAL TRADE CENTRE  
SCHEDULE OF OPERATIONS**

Year ended December 31

	2002 \$	2001 \$
<b>REVENUE</b>		
Building rentals	7,076,031	5,939,487
Sale of services	4,977,491	4,269,083
Catering commissions	1,319,061	1,213,591
Advertising, sponsorship, interest and recoveries	1,202,851	1,104,942
	<u>14,575,434</u>	<u>12,527,103</u>
<b>EXPENSES</b>		
Maintenance, cleaning and security	3,221,171	2,696,961
Administration	3,983,790	3,634,184
Cost of sale of services	2,765,129	2,266,583
Utilities	2,212,551	2,045,589
Amortization of capital assets	64,772	64,183
Employee benefits	(42,339)	7,694
	<u>12,205,074</u>	<u>10,715,194</u>
<b>Net operating income for the year</b>	<u>2,370,360</u>	<u>1,811,909</u>