

The following report was reviewed by the Finance & Audit Committee at its meeting of April 19, 2002 and is referred the Board of Governors for INFORMATION.

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April 16, 2002

EXHIBITION PLACE

To: Finance Committee
Executive Committee
Canadian National Exhibition Association

From: Dianne Young
General Manager & CEO

Subject: **2001 Financial Statements**
Canadian National Exhibition Association

Recommendation:

It is recommended that the draft audited financial statements pertaining to the operations of Canadian National Exhibition Association for the twelve-month period ending December 31, 2001 be approved.

Background/Discussion:

The Finance Division of Exhibition Place is responsible for the preparation of the annual financial statements for the Canadian National Exhibition Association. These financial statements reflect the financial position of the Association as of December 31, 2001 and also the results of operations for the twelve month period ending December 31, 2001.

The auditor of record for the Canadian National Exhibition Association, 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 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.

New Format for 2001

In 2000 and prior years summary financial statements were prepared for the Canadian National Exhibition Association consisting of only a statement of operations (income statement) and limited notes to the financial statements were prepared.

For 2001, since the Canadian National Exhibition Association is a corporation it was decided by the auditor that it would be more appropriate to prepare a complete set of financial statements consisting of:

- Auditors' Report
- Balance Sheet
- Statement of Operations
- Statement of Cash Flows
- Comprehensive Notes to the Financial Statements

Operating Results for 2001

The Statement of Operations indicates net income for the twelve month period ending December 31, 2001 of \$241,065.

This calculation of net income includes charges for future employee benefit liabilities and reductions in expenses with respect to fixed assets that were acquired throughout the year in keeping with the accounting standards that were adopted in 2000 for municipal governments and related organizations such as Exhibition Place and the Canadian National Exhibition Association.

Exhibition Place pays the City of Toronto its net income exclusive of these employee benefit and fixed asset items and settles with it on a "cash" basis. Accordingly the Canadian National Exhibition Association will settle with Exhibition Place on a cash basis as follows:

Reported 2001 Net Income	\$241,065
Subtract Employee Benefit & Fixed Asset Adjustments	<u>27,037</u>
Payment to Exhibition Place (on a "Cash" basis)	\$214,028

Since the 2001 budget for the Canadian National Exhibition Association was \$3,576 on a cash basis, the Association exceeded its income target or budget by \$210,452.

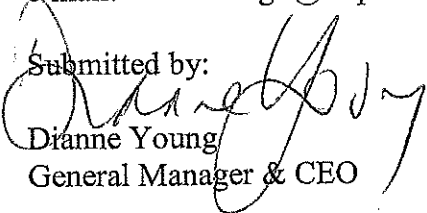
Conclusion

This report submits the draft audited financial statements for the Canadian National Exhibition Association for the twelve-month period ending December 31, 2001.

Contact:

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Submitted by:


 Dianne Young
 General Manager & CEO

Financial Statements

Canadian National Exhibition Association

December 31, 2001

April 18, 2002 4:27 PM

DRAFT FOR DISCUSSION

AUDITORS' REPORT

To the Members of the
Canadian National Exhibition Association

We have audited the balance sheet of the **Canadian National Exhibition Association** as at December 31, 2001 and the statements of operations and cash flows for the year then ended. These financial statements are the responsibility of the Association'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 financial statements present fairly, in all material respects, the financial position of the Association as at December 31, 2001 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,
April 9, 2002.

Chartered Accountants

April 18, 2002 4:27 PM

DRAFT FOR DISCUSSION

Canadian National Exhibition Association

BALANCE SHEET

As at December 31

	2001 \$	2000 \$
ASSETS		
Current		
Cash	—	189,148
Trade accounts receivable	510,518	265,845
Inventories	21,718	15,955
Total current assets	532,236	470,948
Receivable from the Board of Governors of Exhibition Place <i>[note 1]</i>	2,366,190	2,607,255
Capital assets, net <i>[note 3]</i>	18,811	50,000
	2,917,237	3,128,203
LIABILITIES		
Current		
Bank indebtedness	176,849	—
Accounts payable and accrued liabilities		
Trade	800,696	799,974
Employee benefits <i>[note 4]</i>	25,131	35,533
City of Toronto	50,748	256,262
Payable to the Board of Governors of Exhibition Place <i>[note 1]</i>	1,732,637	1,932,434
Deferred revenue <i>[note 5]</i>	75,000	—
Obligation under capital lease <i>[note 6]</i>	—	50,000
Total current liabilities	2,861,061	3,074,203
Employee benefits payable <i>[note 4]</i>	56,176	54,000
Total liabilities	2,917,237	3,128,203

See accompanying notes

Canadian National Exhibition Association

STATEMENT OF OPERATIONS

Year ended December 31

	2001	2000
	\$	\$
REVENUE		
Midway, concessions and casino	5,801,578	5,866,742
Ground admissions	5,790,817	5,113,343
Exhibit rentals	2,915,465	3,311,090
Parking	933,938	991,871
Sponsorships	521,569	422,600
Agriculture and sports	82,975	175,865
	16,046,342	15,881,511
EXPENSES		
Operations	7,890,587	7,618,442
Attractions and casino	6,070,719	6,368,955
Marketing	1,671,195	1,713,540
Parking attendants' wages and sundry costs	117,548	75,721
Amortization of capital assets	55,228	50,000
	15,805,277	15,826,658
Net income before the following	241,065	54,853
Transfer to the Board of Governors of Exhibition Place [note 1]	(241,065)	(54,853)
Net income for the year	—	—

See accompanying notes

Canadian National Exhibition Association

STATEMENT OF CASH FLOWS

Year ended December 31

	2001 \$	2000 \$
OPERATING ACTIVITIES		
Net income for the year	—	—
Add non-cash item		
Amortization of capital assets	55,228	50,000
	55,228	50,000
Changes in non-cash working capital balances related to operations		
Trade accounts receivable	(244,673)	(290,711)
Inventories	(5,763)	(6,414)
Prepaid expenses	—	72,345
Trade accounts payable	722	808,735
Employee benefits payable	(8,226)	(2,374)
Payable to the City of Toronto	(205,514)	223,644
Payable to the Board of Governors of Exhibition Place	(199,797)	(918,349)
Deferred revenue	75,000	(48,530)
Obligation under capital lease	(50,000)	50,000
Cash used in operating activities	(583,023)	(61,654)
INVESTING AND FINANCING ACTIVITIES		
Purchase of capital assets	(24,039)	(100,000)
Decrease in receivable from the Board of Governors of Exhibition Place	241,065	221,947
Cash provided by investing and financing activities	217,026	121,947
Net increase (decrease) in cash during the year	(365,997)	60,293
Cash, beginning of year	189,148	128,855
Cash (bank indebtedness), end of year	(176,849)	189,148

See accompanying notes

Canadian National Exhibition Association

NOTES TO FINANCIAL STATEMENTS

December 31, 2001

1. OPERATIONS OF CANADIAN NATIONAL EXHIBITION ASSOCIATION AND RELATIONSHIP WITH THE BOARD OF GOVERNORS OF EXHIBITION PLACE

The Canadian National Exhibition Association ["CNEA"] is a corporation without share capital incorporated by a special Act by the Legislature of Ontario.

Pursuant to the City of Toronto Act, 1997, the Board of Governors of Exhibition Place ["Board"] has the authority to enter into an agreement with the CNEA for the use of Exhibition Place for an annual fair. At its meetings of October 29, 1999 and November 15, 1999, respectively, the Board and the CNEA approved entering into a Memorandum of Understanding ["MOU"] on the terms and conditions set out in the MOU for a period of two years. The Board and CNEA are currently negotiating a new MOU. Under this agreement the Canadian National Exhibition Association manages and operates an annual exhibition [the "Canadian National Exhibition"].

As defined within the City of Toronto Act, 1997 the City is entitled to any surplus resulting from Board's activities and is responsible for any deficit the Board incurs. Since the CNEA is consolidated with the Board the CNEA's cumulative net losses of \$2,366,190 [2000 - \$2,607,255] have been recorded as a long-term receivable from the Board.

In addition to the above, the CNEA has ongoing trade transactions with the Board that are conducted at arm's length under normal terms and conditions. The balance as at December 31 is \$1,732,637 [2000 - \$1,932,434].

The CNEA is not subject to income taxes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These 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.

Canadian National Exhibition Association

NOTES TO FINANCIAL STATEMENTS

December 31, 2001

Use of estimates

The preparation of the 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 statement of operations depend on certain actuarial and economic assumptions and on certain information available to the Association. These amounts may change significantly upon the next actuarial valuation.

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. Amortization is calculated on a straight-line basis over the estimated useful lives of the assets. Equipment and furniture have an estimated useful life between 3 and 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 Canadian National Exhibition 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 CNEA has adopted the following policies with respect to employee benefit plans:

- the CNEA'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 CNEA 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;

Canadian National Exhibition Association

NOTES TO FINANCIAL STATEMENTS

December 31, 2001

- 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;
- 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 for plan assets is amortized on a straight-line basis over the average remaining service period of active employees.

3. CAPITAL ASSETS

Capital assets consist of the following:

	2001			2000		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
	\$	\$	\$	\$	\$	\$
Equipment and furniture	24,039	5,228	18,811	100,000	50,000	50,000

Canadian National Exhibition Association

NOTES TO FINANCIAL STATEMENTS

December 31, 2001

4. EMPLOYEE BENEFITS

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

	2001 \$	2000 \$
Sick leave	56,176	54,000
Vacation pay	25,131	35,533
	81,307	89,533
Current portion	25,131	35,533
	56,176	54,000

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

	2001 \$	2000 \$
Accrued benefit obligations		
Balance, beginning of year	54,000	54,000
Current service cost	3,850	3,500
Interest cost	3,700	4,200
Expected benefits paid	(5,374)	(7,700)
Balance, end of year	56,176	54,000
Vacation pay	25,131	35,533
Total obligations	81,307	89,533
Components of expense		
Current service cost	3,850	3,500
Interest cost	3,700	4,200
Decrease in vacation pay	(10,402)	(1,927)
Total expense (income)	(2,852)	5,773

The sick leave benefit plan is unfunded; however, the CNEA participates in reserve funds established by the City. The amounts contributed to reserve funds during the year were \$35,730 [2000 - \$26,984] and are included as an expense on the statement of operations.

Canadian National Exhibition Association

NOTES TO FINANCIAL STATEMENTS

December 31, 2001

In addition to the above noted plans, the CNEA 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 has 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 2001 and 2000. The amount accrued for past service for the year ended December 31, 2001 was \$21,000 [2000 - \$19,504] and is included as an expense in the statement of operations.

The significant actuarial assumptions adopted in measuring the CNEA's accrued benefit obligations for sick leave is as follows:

	2001 %	2000 %
Discount rate	6.5	6.5
Rate of compensation increase	3.0	3.0

5. DEFERRED REVENUE

Deferred revenue consists of the CNEA's portion of sponsorship revenue paid in advance.

6. OBLIGATION UNDER CAPITAL LEASE

The CNEA entered into a capital lease in 2000 for casino equipment. This lease expired in September 2001.

7. CONTINGENT LIABILITIES

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

Canadian National Exhibition Association

NOTES TO FINANCIAL STATEMENTS

December 31, 2001

8. COMPARATIVE FINANCIAL STATEMENTS

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2001 financial statements. Previously, a balance sheet and statement of cash flows were not presented. These statements provide meaningful information and have therefore been prepared on a comparative basis.

