Fredericton Convention Centre Inc.

Financial statements

December 31, 2023

Building a better working world

Independent auditor's report

To the Shareholder of
Fredericton Convention Centre Inc.

Opinion

We have audited the financial statements of **Fredericton Convention Centre Inc.** [the "Company"], which comprise the statement of financial position as at December 31, 2023, and the statement of income and comprehensive income, statement of changes in shareholder's equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2023 and its results of operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards ["IFRS"].

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with IFRSs and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young LLP

Chartered Professional Accountants

Saint John, Canada
March 19, 2024

Fredericton Convention Centre Inc.

Statement of financial position

As at December 31

	2023	2022
	$	$
Assets		
Current		
Cash and cash equivalents	**1,081,083**	618,734
Accounts receivable *[note 8]*	**488,939**	381,292
Due from City of Fredericton	**1**	1
Prepaid expenses	**26,457**	25,800
Total current assets	**1,596,480**	1,025,827
Property, equipment and intangible assets, net *[schedule 1]*	**89,526**	79,963
Investments *[note 7]*	**3,231,057**	3,155,056
	4,917,063	4,260,846
Liabilities and shareholder's equity		
Current		
Accounts payable and accrued liabilities *[note 8]*	**174,011**	228,580
Unearned revenue	**205,555**	125,177
Total current liabilities	**379,566**	353,757
Shareholder's equity		
Capital replacement reserve *[note 6]*	**4,004,001**	3,436,634
Share capital		
Authorized		
Unlimited number of common shares		
Issued		
1 common share	**1**	1
Retained earnings	**410,908**	373,868
Accumulated other comprehensive income	**122,587**	96,586
Total shareholder's equity	**4,537,497**	3,907,089
	4,917,063	4,260,846

See accompanying notes

On behalf of the Board:

Director

Fredericton Convention Centre Inc.

Statement of income and comprehensive income

Year ended December 31

	2023	2022
	$	$
Event revenue	**3,192,569**	1,582,444
Direct expenses	**2,760,771**	1,409,926
Gross profit	**431,798**	172,518
Other income (expenses)		
Grant income *[notes 5 and 8]*	**997,500**	950,000
Rental income	**561,733**	351,586
Hardest hit business recovery program	**—**	68,416
Other income	**63,006**	6,127
Salaries and payroll	**(703,039)**	(612,848)
Building maintenance	**(476,821)**	(406,309)
General and administrative	**(227,995)**	(219,604)
Amortization	**(38,314)**	(29,005)
Advertising, marketing and promotion	**(198,243)**	(108,040)
Total other income (expenses)	**(22,173)**	323
Income before the under denoted items	**409,625**	172,841
Finance income	**194,782**	73,963
Net income for the year	**604,407**	246,804
Other comprehensive income (loss)		
Net unrealized (loss) gain on investments	**26,001**	(31,351)
Comprehensive income for the year	**630,408**	215,453

See accompanying notes

Fredericton Convention Centre Inc.

Statement of changes in shareholder's equity

Year ended December 31

	2023	2022
	$	$
Retained earnings, beginning of year	**373,868**	320,972
Net income for the year	**604,407**	246,804
Transfer to capital replacement reserve *[note 6]*	**(567,367)**	(193,908)
Retained earnings, end of year	**410,908**	373,868
Accumulated other comprehensive income, beginning of year	**96,586**	127,937
Net unrealized gain (loss) on investments	**26,001**	(31,351)
Accumulated other comprehensive income, end of year	**122,587**	96,586
Capital replacement reserve, beginning of year	**3,436,634**	3,242,726
Transfer from retained earnings *[note 6]*	**567,367**	193,908
Capital replacement reserve, end of year	**4,004,001**	3,436,634
Total shareholder's equity, beginning of year	**3,907,089**	3,691,636
Changes in shareholder's equity	**630,408**	215,453
Total shareholder's equity, end of year	**4,537,497**	3,907,089

See accompanying notes

Fredericton Convention Centre Inc.

Statement of cash flows

Year ended December 31

	2023	2022
	$	$
Operating activities		
Net income for the year	**604,407**	246,804
Add item not involving cash		
Amortization	**38,314**	29,005
Changes in non-cash working capital balances related to operations		
Accounts receivable	**(107,647)**	(355,804)
Prepaid expenses	**(657)**	(817)
Accounts payable and accrued liabilities	**(54,569)**	110,371
Unearned revenue	**80,378**	(17,380)
Cash provided by operating activities	**560,226**	12,179
Investing activities		
Purchase of investments	**(2,350,000)**	(2,300,000)
Proceeds from sale of investments	**2,300,000**	—
Purchase of property, equipment and intangible assets	**(47,877)**	(35,111)
Cash (used in) provided by investing activities	**(97,877)**	(2,335,111)
Net increase (decrease) in cash during the year	**462,349**	(2,322,932)
Cash and cash equivalents, beginning of year	**618,734**	2,941,666
Cash and cash equivalents, end of year	**1,081,083**	618,734

Schedule of property, equipment and intangible assets

Year ended December 31

	2023						2022
	Computer software	Computer hardware	Decor	Vehicle	Furniture and equipment	Total	Total
	$	$	$	$	$	$	$
Cost							
Balance, beginning of year	77,333	92,851	7,444	9,490	331,266	518,384	483,273
Net additions during the year	7,608	25,834	—	—	14,435	47,877	35,111
Balance, end of year	84,941	118,685	7,444	9,490	345,701	566,261	518,384
Accumulated amortization							
Balance, beginning of year	77,333	76,831	7,444	9,490	267,323	438,421	409,416
Amortization during the year	3,804	18,834	—	—	15,676	38,314	29,005
Balance, end of year	81,137	95,665	7,444	9,490	282,999	476,735	438,421
Net book value	3,804	23,020	—	—	62,702	89,526	79,963

During the year, the Company carried out a review of the recoverable amount of property, equipment and intangible assets and no impairment was identified [2022 – nil].

See accompanying notes

Notes to financial statements

December 31, 2023

1. Nature of operations

The Fredericton Convention Centre Inc. [the "Company"], a municipal corporation owned by the City of Fredericton, is incorporated under the *Business Corporations Act* (New Brunswick). Its principal business activities include managing and operating the Fredericton Convention Centre. The Company is defined as an other government organization as per Public Sector Accounting guidelines. Other government organizations are able to apply either Public Sector Accounting Standards or International Financial Reporting Standards ["IFRS"]. The Company has elected to apply IFRS as it best meets the users' needs, as the Company has commercial-type operations and substantially derives its revenue from these activities.

2. Summary of significant accounting polices

Statement of compliance

These financial statements for the year ended December 31, 2023 have been prepared in accordance with IFRS and interpretations adopted by the International Accounting Standards Board.

Basis of presentation

The financial statements for the Company for the year ended December 31,2023 were authorized for issue by the Board of Directors on March 13, 2024.

Functional and presentation currency

The financial statements are presented in Canadian dollars, which is the Company's functional currency.

Property, equipment and intangible assets

Property, equipment and intangible assets are recorded at cost, net of accumulated amortization and accumulated impairment losses, if any. Amortization is calculated using the declining balance method at the following annual rates:

Computer software	50%
Computer hardware	45%
Decor	30%
Vehicle	30%
Furniture and equipment	20%

The assets' residual values, useful lives and methods of amortization are reviewed annually and adjusted prospectively if appropriate.

Notes to financial statements

December 31, 2023

Grant income

Grant income is recognized where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognized as income in equal amounts over the expected useful life of the related asset.

Investments

Investments are stated at market value, which approximates fair value, using published market valuations, where applicable, or market-related determinations.

Bonds and equities are valued using published quotations at the measurement date.

Pooled fund investments are valued using the unit value supplied by the pooled fund administrator, which represents the Company's proportionate share of the underlying net assets at fair value determined using closing market prices at the measurement date.

Revenue recognition

Revenue from contracts with customers is recognized when the services are rendered at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those services. The Company recognizes revenue to depict the rendering of service to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those services by applying the following steps:

- Identify the contract with a customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations; and
- Recognize revenue when, or as, the Company satisfies a performance obligation.

When a single sales transaction requires the delivery of more than one service [separate performance obligations], the revenue recognition criteria are applied to the separately identifiable components. A component is considered to be separately identifiable if the service delivered has standalone value to that customer and the fair value associated with the product or service can be measured reliably. The amount recognized as revenue for each component is the fair value of the element in relation to the fair value of the arrangement as a whole.

The Company has concluded that revenue from rendering services should be recognized at the point in time when services are rendered to the customer, generally when the events have occurred.

Financial instruments

Initial recognition and classification

Financial instruments are recognized in the financial statements when the Company becomes a party to the contractual provisions of the instrument.

Notes to financial statements

Financial assets

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income ["FVTOCI"], or fair value through profit or loss ["FVTPL"]. All financial assets are initially measured at fair value plus, in the case of investments not at FVTPL, directly attributable transaction costs. The Company has no trade receivables that contain a significant financing component.

In order for a financial asset to be classified and measured at amortized cost or FVTOCI, it needs to give rise to cash flows that are solely payment of principal and interest on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

Financial liabilities

Financial liabilities are classified, at initial recognition, as financial liabilities at FVTPL, loans and borrowings, payables or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are initially measured at fair value minus, in the case of borrowings, directly attributable transaction costs.

The classification depends on the nature and the purpose of the financial instrument and is determined at the time of initial recognition. Subsequent measurement of financial instruments depends on their classification in the specified categories outlined above.

All financial assets held by the Company are classified as measured at amortized cost and all financial liabilities are classified as payables.

Subsequent measurement of financial assets and liabilities measured at amortized cost

Financial assets measured at amortized cost are assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, these financial assets, including interest-bearing loans and borrowings, are subsequently measured at amortized cost, less any impairment.

The amortized interest and any losses from impairment are recognized as an expense in the statement of income.

Loans and borrowings, after initial recognition, are subsequently measured at amortized cost using the effective interest rate ["EIR"] method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance costs in the statement of income and comprehensive income.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of income and comprehensive income.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount recognized on the statement of financial position only when there is a legally enforceable right to offset the amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

Impairment of financial assets

The Company recognizes an allowance for expected credit losses ["ECLs"] for all receivables. The Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The fair value of cash and cash equivalents, accounts receivable, due from City of Fredericton, accounts payable and accrued liabilities approximates their carrying amount largely due to the short-term maturities of these instruments.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash on hand and bank balances.

Short-term investments are primarily securities issued by Canadian chartered banks with maturities between one and three months. Short-term investments are valued at cost, which approximates their fair value given the short-term nature of these investments.

Unearned revenue

The Company bills customers for events in advance. This revenue is considered deferred until the events are held and revenue is considered earned.

3. Significant accounting estimates and assumptions

The preparation of the Company's financial statements requires management to make estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts recognized in the financial statements of the Company are discussed below.

Determination of useful lives for property, equipment and intangible assets

The Company has based the determination of the useful lives for its property, equipment and intangible assets on a detailed review of all empirical data for the different asset classes and also used the knowledge of the appropriate member of staff to conclude on the useful lives. Furthermore, the Company reassess, at least annually, whether the useful lives of the different asset classes are still considered valid. Any external or internal changes in the Company's environment may result in an impact on the expectation of the useful lives of certain assets and hence a triggering event to reconsider the expectation of the useful lives.

Impairment of financial assets

Impairment exists when the enterprise value of an asset exceeds its fair market value. Fair market value can be measured via recent market transactions or the discounted cash flow model. The cash flows are derived from the budget for the next five years. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash-generating unit ["CGU"] exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

4. Financial risk management

The Company has exposure to credit risk from its use of financial instruments. This note presents information about the Company's exposure to each of these risks and its objectives, policies and procedures for measuring and managing these risks.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework and policies. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in the market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Board of Directors oversees how management monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

Notes to financial statements

December 31, 2023

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is subject to credit risk with respect to accounts receivable from its customers.

This risk is managed through frequent collection of revenue and the Company's credit evaluation, approval and monitoring processes. A provision for potential credit losses is assessed on an ongoing basis. The Company is not materially exposed to any one individual customer and has applied standard credit practices, which limit the Company's exposure to credit risk. The maximum risk the Company would be exposed to is related to the accounts receivable trade of $370,482 [2023 - $327,900]. The average outstanding balance for any one customer is approximately $26,463 [2023 - $21,860]. There are no expected credit losses provided at year-end.

5. Grant income

Since the incorporation of the Company, the City of Fredericton has supported and continues to support the operations of the Company annually by providing financial resources in order to establish a customer base for the Company.

The City of Fredericton provided a grant in the amount of $997,500 to the Company during the year [2022 – $950,000].

6. Capital replacement reserve

Monies are set aside in an investment to fund future building, equipment, furniture and fixture capital replacement needs. The capital reserve allotment in 2023 amounts to $567,367 [2022 – $193,908]. The accumulated capital replacement reserve is $4,004,001 as at December 31, 2023 [2022 – $3,436,634].

7. Investments

Investments as at December 31 are as follows:

	2023		2022	
	Fair value	**Cost**	**Fair value**	**Cost**
	$	**$**	**$**	**$**
Cash equivalents	**2,888,443**	**2,538,443**	2,838,443	2,838,443
Canadian equities	**342,614**	**235,026**	316,613	235,026
	3,231,057	**2,773,469**	3,155,056	3,073,469

Notes to financial statements

December 31, 2023

Fair value disclosure

Investments are classified in a hierarchy of three levels depending on the inputs used to determine fair value. The hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs used in determining the fair value. If different levels of inputs are used to measure the fair value of an investment, the classification is based on the lowest level input used. The three levels of the fair value hierarchy are as follows:

Level 1 – Quoted prices [unadjusted] in active markets for identical assets or liabilities;
Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the assets or liabilities, either directly or indirectly; and
Level 3 – Inputs for the assets or liabilities that are not based on observable market data.

All the Company's investments are Level 1.

8. Related party transactions

The Company has a payable outstanding at year-end of $173 [2022 – $2,474] owed to the City of Fredericton for rendering of goods and services. The Company has a receivable outstanding at year-end for $4,957 [2022 – $1,716] from the City of Fredericton for the rendering of goods and services. Related party transactions are recorded at their exchange amount. Receivables and payables are non-interest bearing and due within 30 days.

The City of Fredericton provided a grant in the amount of $997,500 to the Company during the year [2022 – $950,000].