

# BACKGROUND



## Budget Background Notes

### Major Changes to Version 2 Budget Released in May 2007

#### 1. Contingency:

The project contingency in the Version 2 budget released in the May 2007 was \$100 million. VANOC's objective in managing the use of this contingency was to fund all revenue and expense challenges that arose in 2007 and 2008 and still have \$50 million of unused contingency available at January 1, 2009. This remaining \$50 million would then be available for any unfunded challenges that arise in the last year before the Games as well as at Games time in February and March, 2010.

As this update to the Version 2 budget was nearing completion in September 2008, this objective of funding known challenges and having an unused contingency of a minimum of \$50 million was achieved. By allocating \$50 million of contingency and generating additional savings within certain areas of the budget, challenges in areas such as transportation, accommodation and anti-doping were funded and over \$50 million of contingency remained.

When the economic downturn hit with major implications on the stock market and financial markets, the assumptions used in this budget update were reassessed. VANOC concluded that the risk to a variety of revenue streams had increased significantly and was no longer confident that the \$50 million of remaining contingency was sufficient. As a result, further reductions in the budget were made in order to create a revenue contingency of \$27 million to cover potential revenue shortfalls.

Thus, this budget contains a revenue contingency of \$27 million plus a project contingency of \$50 million for a total remaining contingency of \$77 million. In addition, expense challenges that have been identified to date have been funded.

#### 2. Revenue:

**IOC contribution** — *Increase of \$10.3 million*; change is due to fluctuations in exchange rates; there has been no change in the amount of \$US that will be received and the amount is hedged so there is no net gain or loss; gains here are offset by foreign exchange losses shown in expense sections of this budget.

#### **Sponsorship:**

- **IOC international sponsorship** — *Decrease of \$5.0 million*; change is due to exchange rate fluctuations; no change to core assumptions; still budgeting for revenue from 11 TOP partners, nine have currently signed with the IOC.
- **Domestic sponsorship** — *Decrease of \$3.2 million*; change is due to recognizing a small portion (under 1%) of value in kind will not be fully utilized for budget-relieving purposes.
- **Marketing royalties** — *Decrease of \$0.1 million*; recalculation of estimates based on revised revenue projections.

**VIK transfers to venues, net** — *Increase of \$11.8 million*; amount represents sponsor value in kind that was added into the venue budget (and publicly reported) over the past two years; represents support from VANOC sponsors for venue program and is value in kind that enhanced the facility legacy.

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**Ticketing** — *Increase of \$17.5 million*; reflects strong demand for tickets during initial public on-sale period; reflects more precise information with respect to venue capacities and final ticket prices that were not yet determined when Version 2 of the budget was completed.

**Licensing and Merchandising** — *Increase of \$7.8 million*; increase is due to strong sales to date, particularly related to the mascots; reflects strong acceptance of VANOC brands and high quality of licensed merchandise program.

**Paralympic revenue contributions** — No change; reflects commitments made during the bid for the Paralympic Winter Games by the Governments of BC and Canada.

**Other revenue** — *Increase of \$10.8 million*; plans and estimates for all components of other revenue have been advanced and re-assessed; includes a variety of programs including the contributing province program, the federal government contribution to Opening Ceremonies, asset disposal revenues, 2010 Club/VIP programs, auctions, collectibles, Friends of the Games and interest revenue.

**Revenue Contingency** — Reflects a contingency for possible revenue shortfalls in several revenue categories due to the economic downturn including domestic sponsorship, Friends of the Games, out-of-home advertising, 2010 Club/VIP programs and other miscellaneous revenue.

### **3. Expenses:**

**Revenue, Marketing and Communications** — *Decrease of \$5.1 million*; reduced human resources costs, sponsorship selling costs, ticketing advertising, printing and other publication costs.

**Sport and Games Operations** — *Increase of \$29.3 million*; incorporates advancement in planning and learning from completing venue construction, commencing operation of venues and conducting initial Sport Events.

Cost increases include Sport Event costs due to more spectators and international media than expected; greater anti-doping facility and operational costs; increased planned staffing levels at venues and higher venue operating costs including snow cat requirements; the addition of the Creekside chairlift to facilitate spectator and media travel to the viewing area.

**Services and Games Operations** — *Increase of \$31.5 million*; incorporates significant advancement in planning and procurement activity over past two years; many of the major increases relate to the transportation and accommodation challenges in the Sea to Sky corridor; many of the contracted services to be delivered in the mountains are more expensive than initially planned due to the accommodation requirements for the suppliers' and contractors' workforce.

The majority of the increase relates to higher costs for workforce accommodations in the Sea to Sky corridor, transportation, food service requirements at the Whistler venues including the athletes' village, snow removal and cleaning and waste.

**Technology** — *Decrease of \$6.6 million*; efficiencies and savings have been realized by working in close partnership with sponsors and suppliers; reductions achieved by advancing detailed planning and reviewing mode of delivery of technology services.

**Workforce and Sustainability** — *Decrease of \$12.9 million*; savings have been realized by reducing planned workforce numbers, delaying hiring times and reducing projected annual salary increases to conform with changing market conditions.

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**Finance** — Slight reductions to legal services and administration.

**Net foreign exchange loss** — *\$13.6 million*; arises from required method of accounting for foreign exchange transactions. The net impact of the foreign exchange gains and losses is negligible due to VANOC's policy of hedging known foreign exchange cash flows. Thus, this loss is offset by gains in other areas of this budget.

## **Generally Accepted Accounting Principle Adjustments (GAAP)**

In the Version 2 Business Plan, certain planned activities were not financially recorded in the revenue and expense budgets even though the activities were reflected in the Business Plan. There are three reasons for this:

- i) the activities had equal, offsetting amounts of revenue and expenses and therefore the net impact on the budget was nil. The bottom line was not impacted; and
- ii) the amount of revenue and offsetting expenses relating to these activities could not be accurately estimated at the time; and
- iii) In some cases, the form of transaction that is now occurring is different than what was earlier planned. This required a different accounting. An example of this is in medical services.

For this budget update, item ii) above no longer applies. Given the advanced stage of Games planning, procurement and revenue generation, the offsetting revenues and expenses from these activities can now be more accurately estimated. Thus, we have recorded the revenue and offsetting costs for these activities which is consistent with GAAP.

The amount of offsetting revenues and expenses related to these activities is \$127.4 million. As the amount of revenue and expenses is equal, there is no net impact on the bottom line. The total amount of revenue and expenses increase by the same amount, the budget remains balanced and there is no impact on contingency.

The majority of the items making up the \$127.4 million of offsetting revenues and expenses relate to products and services that VANOC will acquire and then sell or lease to a variety of Games stakeholders on a cost-recovery basis. VANOC is in effect playing the role of a middleman as a service to these Games stakeholders.

Following is a description of the items that make up the \$127.4 million in revenues and expenses:

### **Revenue: \$127.4 million**

#### **Ticketing — \$ 11.1 million**

This represents the estimated amount of service charges to be collected on sold tickets. It is offset mainly expenses related to the services being provided by VANOC's ticketing service provider. It is typical in the ticketing services industry for the costs of delivering the ticketing systems to be covered through service charges.

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**Other Revenue** — \$116.3 million – See explanations for changes under the offsetting expenditures below.

- i) Revenue, Marketing & Communications - \$38.0 million;
- ii) Sport and Games Operations - \$31.4 million;
- iii) Services and Games Operations - \$36.4 million; and
- iv) Finance - \$10.5 million.

## **Expenses: \$127.4 million**

**Revenue, Marketing Communications** -- \$49.1 million comprised of the following:

- i) Ticketing - Costs of ticketing services provider as discussed under ticket revenue above and VISA card fees - \$11.1 million;
- ii) Other - Out-of-home advertising (OOH) program. VANOC has committed to \$38 million of OOH advertising in the Bid phase as was required by the IOC and plans to sell the inventory on a cost recovery basis to sponsors and other partners.

**Sport and Games Operations** -- \$31.3 million comprised of the following:

- i) Games Operating Trust - \$12.0 million: These funds will be received from the Games Operating Trust and spent on the pre-Games time operations of the Whistler Olympic Park and the Whistler Sliding Centre, which VANOC is operating on behalf of the Whistler 2010 Sports Legacies;
- ii) Medical Services - \$12.8 million: These are the medical expenses to be paid by the Government of BC as committed in the Bid and as reported in BC's \$600 million Games budget. This amount will now be paid to VANOC by BC and VANOC will pay for the medical expenses directly;
- iii) Sport Events - \$6.5 million: VANOC expects to generate sport event revenue of \$6.5 million from the sale of tickets, broadcasting and sponsorship. This amount will be used to offset the costs of hosting the sport event.

**Services and Games Operations** – \$36.4 million comprised of the following:

- i) Transportation and media space - \$23.5 million: VANOC will acquire a variety of transportation and office related services for re-sale on a cost recovery basis for sponsor, media and other Games stakeholders. These services are part of the rate card program and include busses, vehicles, meeting space, furniture, equipment and related services;
- ii) Other - \$12.9 million: VANOC will provide a variety of other services to Olympic stakeholders that will be charged back on a cost recovery basis including accommodation for extra team officials, warehouse space and certain village services.

**Finance** -- Also part of the rate card program, \$10.5 million related to a variety of products and services that will be provided to Games stakeholders on a cost recovery basis including technology, printers, photocopiers and phones.