



**City of Kingston
Information Report to Council
Report Number 16-204**

To: Mayor and Members of Council
From: Denis Leger, Commissioner of Transportation, Facilities and
Emergency Services
Date of Meeting: June 21, 2016
Subject: Rogers K-Rock Centre, Audited Financial Statements as at
December 31, 2015

Executive Summary:

The purpose of this report is to provide Council with a copy of the Audited Financial Statements for the Rogers K-Rock Centre as at December 31, 2015. The audit was completed by Collins Blay & Co. Chartered Professional Accountants. Preliminary results were presented by the City Treasurer on April 19, 2016, in Report 16-109, Fourth Quarter Operating Budget Report for 2015.

Recommendation:

This report is for information purposes only.

June 21, 2016

Page 2 of 4

Authorizing Signatures:

ORIGINAL SIGNED BY COMMISSIONER

**Denis Leger, Commissioner,
Transportation, Facilities &
Emergency Services**

ORIGINAL SIGNED BY CHIEF ADMINISTRATIVE OFFICER

Gerard Hunt, Chief Administrative Officer

Consultation with the following Members of the Corporate Management Team:

Lanie Hurdle, Community Services	Not required
Jim Keech, President and CEO, Utilities Kingston	Not required
Desiree Kennedy, Chief Financial Officer & City Treasurer	Not required

June 21, 2016

Page 3 of 4

Options/Discussion:**Background:**

In accordance with the Rogers K-Rock Centre operator agreement between the City and SMG, audited financial statements are to be provided by the operator for each fiscal year. Included as Exhibit "A" to this report are the *Rogers K-Rock Centre Financial Statements with Auditor's Report December 31, 2015*. These financial statements are as prepared by SMG and audited by Collins Blay & Co. Chartered Professional Accountants. As indicated in the Independent Auditors' Report, the audit was conducted in accordance with Canadian generally accepted auditing standards. In the opinion of the auditors, these statements present fairly the financial position of the Rogers K-Rock Centre as at December 31, 2015.

2015 Financial Results:

On April 19, 2015, the City Treasurer presented the Fourth Quarter Operating Budget Report for 2015 (Report 16-109) to Council. The report included the Rogers K-Rock Centre quarterly statement of operations, key performance indicators and the qualitative performance measures for the twelve months ending December 31, 2015. The financial information contained therein was based on unaudited financial information which estimated Net Income from Operations at \$551,000. The audited financial statements show the Net Income from Operations at a slightly higher amount at \$563,978 post year-end accounting adjustments. This is identified on page 5 of the audited financial statements as annual surplus from operations (Exhibit A).

The financial statements include an expenditure amount of \$25,000 representing the maximum amount that the operator can earn for achieving the qualitative performance measures that were identified and as provided for in the Rogers K-Rock Centre operator agreement. The operator has earned \$25,000, the full qualitative incentive fee as it has achieved greater than the minimum 80% overall rating.

In addition, the terms of the new management agreement (2013-2017) includes a \$700,000 Net Income from Operations financial guarantee from the operator. For the calendar year ending December 31, 2015, the facility did not generate the \$700,000 that is backed by the financial guarantee from the operator. SMG Canada ULC has acknowledged that the amount of \$136,022 represents the difference between the financial guarantee and the net income from operations (\$700,000 less \$563,978) and will be remitting this amount to the City of Kingston.

June 21, 2016

Page 4 of 4

Existing Policy/By-Law:

Not applicable

Notice Provisions:

Not applicable

Accessibility Considerations:

Not applicable

Financial Considerations:

The net income from operations of the Rogers K-Rock Centre for the year ending December 31, 2015 was \$563,978. SMG Canada ULC, the operator of the facility will be forwarding an amount of \$136,022, representing the difference to the annual financial guarantee.

Contacts:

Denis Leger, Commissioner,
Transportation, Facilities & Emergency Services

613-546-4291, ext.1328

Other City of Kingston Staff Consulted:

Not applicable

Exhibits Attached:

Exhibit "A" – Audited Financial Statements as at December 31, 2015

ROGERS K-ROCK CENTRE

**FINANCIAL STATEMENTS
WITH AUDITOR'S REPORT**

DECEMBER 31, 2015





INDEPENDENT AUDITOR'S REPORT

To: Rogers K-Rock Centre

We have audited the accompanying financial statements of the Rogers K-Rock Centre, which comprise the statement of financial position as at December 31, 2015 and the statements of operations, changes in net financial assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the Financial Statements

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

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization's preparation and fair presentation of the financial statements 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 organization's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Rogers K-Rock Centre as at December 31, 2015, and the results of its operations and cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Collins Blay LLP

**Chartered Professional Accountants
Licensed Public Accountants**

Kingston, Ontario
May 11, 2016

ROGERS K-ROCK CENTRE

(Incorporated as a private company under the laws of the province of Ontario)

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2015

	<u>2015</u>	<u>2014</u>
FINANCIAL ASSETS		
Cash - Note 2	\$ 2,057,215	\$ 2,492,839
Accounts receivable	<u>431,206</u>	<u>655,346</u>
	<u>\$ 2,488,421</u>	<u>\$ 3,148,185</u>
LIABILITIES		
Accounts payable	\$ 207,721	\$ 401,909
Accrued liabilities	139,089	105,285
Deferred revenue - Note 4	662,789	693,615
Security and other deposits	73,000	73,625
Advance ticket sales	<u>1,292,838</u>	<u>1,723,326</u>
	<u>2,375,437</u>	<u>2,997,760</u>
Net financial assets	<u>\$ 112,984</u>	<u>\$ 150,425</u>
NON-FINANCIAL ASSETS		
Prepaid expenses	<u>10,038</u>	<u>18,756</u>
Accumulated surplus	<u>\$ 123,022</u>	<u>\$ 169,181</u>

The accompanying notes are an integral part of these financial statements.



ROGERS K-ROCK CENTRE
STATEMENT OF CHANGES IN NET FINANCIAL ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>2015</u>	<u>2014</u>
Net financial assets - beginning of the year	\$ <u>150,425</u>	\$ <u>99,545</u>
Annual surplus	457,445	585,382
Net change in non-financial assets	8,718	(1,729)
Transfers to the City of Kingston	(610,137)	(532,773)
Paid by the City of Kingston - Note 10	<u>106,533</u>	<u>-</u>
(Decrease) increase in net financial assets	<u>(37,441)</u>	<u>50,880</u>
Net financial assets - end of the year	\$ <u>112,984</u>	\$ <u>150,425</u>

The accompanying notes are an integral part of these financial statements.



ROGERS K-ROCK CENTRE
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>2015</u>	<u>2014</u>
Direct event revenues		
Event rental fees	\$ 292,098	\$ 410,880
Event services billed	1,096,242	1,271,279
Facility fee surcharges	329,804	354,212
Ticket surcharges	133,962	140,689
Suite tickets	22,650	15,092
Event service costs	<u>(1,116,138)</u>	<u>(1,270,628)</u>
Net direct event revenue	<u>758,618</u>	<u>921,524</u>
Other facility revenues		
Advertising and naming rights	462,275	423,779
Food service commissions	304,537	292,479
Suite leases	634,397	553,021
Club seat leases	198,495	203,562
Other revenues	30,805	62,583
Ice rentals	<u>165,484</u>	<u>171,046</u>
	<u>1,795,993</u>	<u>1,706,470</u>
Total revenues	<u>2,554,611</u>	<u>2,627,994</u>
Operating expenditures		
Advertising	23,931	24,480
General and administrative	64,128	65,992
Insurance	39,063	45,911
Operational supplies	93,768	132,457
Professional fees	32,711	35,479
Qualitative incentive fee - Note 9	25,000	25,000
Repairs and maintenance	125,542	120,888
Security and cleaning	33,544	33,297
Travel and meals	14,363	27,066
Utilities	545,749	495,623
Wages and benefits	<u>992,834</u>	<u>1,036,419</u>
Total operating expenditures	<u>1,990,633</u>	<u>2,042,612</u>
Annual surplus from operations	563,978	585,382
Less - one-time matter - Note 10	<u>(106,533)</u>	<u>-</u>
Annual surplus	457,445	585,382
Accumulated surplus - beginning of the year	169,181	116,572
Add - paid by the City of Kingston - Note 10	106,533	-
Less - transfers to the City of Kingston	<u>(610,137)</u>	<u>(532,773)</u>
Accumulated surplus - end of the year	<u>\$ 123,022</u>	<u>\$ 169,181</u>

The accompanying notes are an integral part of these financial statements.



ROGERS K-ROCK CENTRE
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>2015</u>	<u>2014</u>
Annual surplus	\$ 457,445	\$ 585,382
Items not requiring an outlay of cash		
One-time matter - Note 10	<u>106,533</u>	<u>-</u>
	<u>563,978</u>	<u>585,382</u>
Sources (uses) of cash:		
Decrease (increase) in accounts receivable	224,140	(52,217)
Decrease (increase) in prepaid expenses	8,718	(1,729)
(Decrease) increase in accounts payable	(194,188)	151,532
Increase (decrease) in accrued liabilities	33,804	(28,949)
(Decrease) increase in deferred revenue	(30,826)	74,267
Decrease in security deposits	(625)	(4,400)
Decrease in advance ticket sales	<u>(430,488)</u>	<u>(46,933)</u>
	<u>(389,465)</u>	<u>91,571</u>
Net change in cash from operations	174,513	676,953
Transfers to the City of Kingston	<u>(610,137)</u>	<u>(532,773)</u>
Net (decrease) increase in cash for the year	(435,624)	144,180
Cash at the beginning of the year	<u>2,492,839</u>	<u>2,348,659</u>
Cash at the end of the year - Note 2	<u>\$ 2,057,215</u>	<u>\$ 2,492,839</u>

The accompanying notes are an integral part of these financial statements.



ROGERS K-ROCK CENTRE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

The Rogers K-Rock Centre (the "facility") is a multi-purpose sports and entertainment facility located in Kingston, Ontario, which opened on February 22, 2008. The facility is owned by the City of Kingston and operated by SMG Canada ULC ("management") under the terms of a management agreement expiring December 31, 2017.

These financial statements include financial and non-financial assets, liabilities and results from operations of the Rogers K-Rock Centre. The construction cost of the facility and all other capital assets have been recorded as tangible capital assets in the City of Kingston's financial statements.

1. Significant accounting policies

These financial statements have been prepared by management in accordance with Canadian public sector accounting standards, consistent with accounting requirements of the City of Kingston. Significant accounting policies of the facility are as follows:

a) Revenue recognition

Event revenues, including event rental fees, event services, suite tickets, ticket surcharges, facility fee surcharges and ice rentals are recognized at the time of the event.

Food service commissions are recognized as earned under the terms of an agreement with the facility's food service operator.

Suite and club seat leases, advertising and naming rights revenues are recognized on a monthly basis over the terms of the agreements in place.

Other revenues are recognized as services are provided and when collection of the resulting receivable is reasonably assured.

b) Advance ticket sales

Funds received for ticket sales prior to an event are shown as a liability on the statement of financial position. These funds are the property of the various event promoters and are held in trust by the facility.

c) Use of estimates

The preparation of financial statements in accordance with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenditures during the reported year. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the year in which they become known. Significant estimates included in these financial statements relate to the valuation of accounts receivable.



ROGERS K-ROCK CENTRE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

2. Restricted assets

Cash in the amount of \$1,292,838 (2014 - \$1,723,326), representing the balance of advance ticket sales, is restricted as these funds are held in trust by the facility on behalf of external event promoters.

3. Related party transactions

Included in accounts receivable at December 31, 2015 is \$30,605 (2014 - \$107,996) due from the City of Kingston.

During the year, the facility charged \$163,449 (2014 - \$171,046) to the City of Kingston for use of the facility, including third party ice rentals booked through the City's Parks and Recreation department.

Included in accrued liabilities is \$51,007 (2014 - \$41,369) owing to Utilities Kingston. During the year, the facility was billed \$485,610 (2014 - \$443,638) by Utilities Kingston for utility charges. Utilities Kingston is a local utility provider controlled by the City of Kingston.

During the year, the facility was billed \$13,798 (2014 - \$22,682) by the City of Kingston for policing and other services.

Included in accounts receivable at December 31, 2015 is \$43,678 (2014 - \$124,332) due from a separate division of SMG Canada ULC, the facility's food and beverage concession operator. During the year, the facility received food and beverage commission revenue totaling \$397,233 (2014 - \$384,374) from SMG Canada ULC. The amount recognized in the financial statements for food service commissions earned by the facility is \$304,537 (2014 - \$292,479) which differs from the gross amounts received, due to revenue sharing under the terms of an agreement with Kingston Frontenac Hockey Ltd.

Included in accounts receivable at year end is \$30,809 (2014 - \$28,186) due from SMG Canada ULC relating to the reimbursement of a portion of the facility's event costs.

These transactions were conducted in the normal course of operations and on terms similar to those with arm's length parties. The transactions have been measured at the exchange amount of consideration established and agreed to by the related parties, being fair market value.



ROGERS K-ROCK CENTRE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2015

4. Deferred revenue

The balance of deferred revenue is comprised of:

	2015	2014
Advertising	\$ 127,984	\$ 115,729
Facility naming rights	25,155	54,172
Club seat licences	129,711	120,611
Suite licences	347,488	340,916
Advance deposits	31,119	14,000
Advance deposits SMG Capital	1,332	48,187
	\$ 662,789	\$ 693,615

5. Contributed services

Under the terms of the facility's naming rights agreement, Rogers Broadcasting promotes events at the facility at no cost to the facility. The value of this promotion has not been included in these financial statements as the fair value is not readily determinable.

6. Economic dependence

For the year ending December 31, 2015, approximately 39% (2014 - 33%) of the facility's net direct event revenue, food service commissions and advertising revenues were derived from Kingston Frontenacs hockey games. This calculation does not include the effect that the Kingston Frontenacs have on suite or club seat lease revenues at the facility as this value is not readily determinable. Suite and club seat lessees are required to purchase Kingston Frontenacs season tickets. The Kingston Frontenacs have a 20 year license agreement with the City of Kingston for use of the facility which expires in February, 2028.

7. Financial instruments risk

The facility is exposed to the following risk relating to its financial instruments. The facility monitors this risk on an on-going basis through normal operations.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The facility's main credit risks relate to its accounts receivable. The facility provides credit to its clients in the normal course of its operations. At December 31, 2015, approximately 14% (2014 - 11%) of the facility's accounts receivable is due from one customer, which has been collected subsequent to year end. Other than this amount, the facility does not have significant exposure to any individual customer or counter party. Management reviews a new customer's credit history before extending credit and monitors its existing customers' credit performance. The facility has a large customer base that is not concentrated in any particular industry; however, customers are concentrated in the Kingston, Ontario area.

Cash is held at a major Canadian financial institution.



ROGERS K-ROCK CENTRE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2015

8. Commitments

The facility has signed various agreements with communications, service and maintenance companies. Minimum annual payments required under the terms of these agreements are as follows:

2016	\$ 88,656
2017	76,074
2018	2,746

Under the terms of the facility naming rights agreement, Rogers Broadcasting is entitled to 24 complimentary tickets to all events at the facility other than Kingston Frontenacs hockey games. During the year, the facility provided Rogers Broadcasting with \$23,763 (2014 - \$29,689) in tickets for these events. The net cost to the facility for these tickets was nil (2014 - nil) and is included in event service costs. As events at the facility are booked on a continuous basis in the normal course of operations, management is unable to estimate the future commitment of this provision.

9. Management fee agreement

Under the terms of the original facility management agreement in place from 2008 to 2012, SMG Canada ULC was paid an annual management fee to be adjusted upwards in accordance with the Canadian Consumer Price Index. The extended original facility management agreement expired in December, 2012 and was replaced by a new agreement expiring December 31, 2017. Under the terms of this new agreement, SMG Canada ULC may earn a qualitative incentive fee to a maximum of \$25,000 annually which has been recorded as an operating expense.

Under the terms of the facility's management agreement, SMG Canada ULC is paid 37.5% of the annual surplus in excess of \$700,000 up to \$900,000, and 30% in excess of \$900,000. The amount recognized in the financial statements for the year ending December 31, 2015 is nil (2014 - nil).

10. One-time matter

The facility's naming rights agreement with Rogers Broadcasting contains contingency clauses relating to attaining an annual attendance benchmark which is calculated based on a two year rolling average of facility attendance. Since the facility's initial year of operations in 2008, neither management nor the City of Kingston had received any communication from Rogers Broadcasting regarding intentions to exercise this contingency clause. During the year, a review of the facility's attendance benchmarks was conducted by the parties to the naming rights agreement and determined that certain periods of attendance benchmarks during the years from 2010 to 2015 were not attained. As a result, a net refund of naming rights revenues in the amount of \$82,450 was paid directly by the City of Kingston.

In addition, a further \$24,083 has been accrued to reflect the portion of the naming rights rebate relating to the 2015 year that will be due to Rogers Broadcasting for the facility not having attained the attendance benchmarks in the naming rights agreement for the period February 19, 2015 to February 18, 2016. Consistent with the above \$82,450, this amount will be payable directly by the City of Kingston to Rogers Broadcasting.

