



CITY OF KINGSTON
INFORMATION REPORT TO COUNCIL

Report No.: 12-142

TO: Mayor and Members of Council

FROM: Denis Leger, Commissioner of Transportation, Properties & Emergency Services

DATE OF MEETING: May 1, 2012

SUBJECT: K-Rock Centre –Audited Financial Statements as at December 31, 2011

EXECUTIVE SUMMARY:

The purpose of this report is to provide Council with a copy of the Audited Financial Statements for the K-Rock Centre as at December 31, 2011. The audit was completed by Collins Blay LLP Chartered Accountants.

RECOMMENDATION:

This report is for information purposes only.

AUTHORIZING SIGNATURES:

ORIGINAL SIGNED BY COMMISSIONER
Denis Leger, Commissioner of Transportation, Properties & Emergency Services

ORIGINAL SIGNED BY CHIEF ADMINISTRATIVE OFFICER
Gerard Hunt, Chief Administrative Officer

CONSULTATION WITH THE FOLLOWING COMMISSIONERS:

| | |
|---|-----|
| Cynthia Beach, <i>Sustainability & Growth</i> | N/R |
| Lanie Hurdle, <i>Community Services</i> | N/R |
| Jim Keech, <i>President and CEO of Utilities</i> | N/R |

(N/R indicates consultation not required)

OPTIONS/DISCUSSION:***Background***

In accordance with the management agreement between the City and SMG the K-Rock Centre's operator, audited financial statements are to be provided by the operator for each fiscal year. Included as Exhibit "A" to this report is a document entitled *K-Rock Centre Financial Statements with Auditors' Report December 31, 2011*. The financial statements therein are as prepared by SMG and audited by Collins Blay LLP Chartered Accountants. As indicated in the Auditors' Report, the audit was conducted in accordance with generally accepted auditing standards. In the opinion of the auditors, these statements present fairly the financial position of the K-Rock Centre as at December 31, 2011.

2011 Financial Results

On March 6, 2012 staff submitted the K-Rock Centre 2012 Annual Operating Plan/Budget and 2011 Unaudited Operating Financial Statements which presented the unaudited net income from operations for the 12 months ending December 31, 2011 at \$318,773. The audited financial statements report the annual surplus at \$414,028 before the capital contribution. After allowing for the \$100,000 capital contribution to the City's Capital Reserve for the K-Rock Centre, the surplus position reported in the audited statement is \$314,028. The difference of \$4,745 from the amount previously reported is as a result of accounting adjustments that were made in preparation for and during the audit.

EXISTING POLICY/BY LAW: N/A

NOTICE PROVISIONS: N/A

ACCESSIBILITY CONSIDERATIONS: N/A

FINANCIAL CONSIDERATIONS:

The \$385,972 difference between budgeted net income from operations of \$700,000 and the actual of \$314,028 will come from operating surpluses of other municipal services.

CONTACTS:

Denis Leger, Commissioner

613-546-4291, Ext. 1328

OTHER CITY OF KINGSTON STAFF CONSULTED: N/A

EXHIBITS ATTACHED:

Exhibit "A" – Audited Financial Statements as at December 31, 2011

K-ROCK CENTRE
FINANCIAL STATEMENTS
WITH AUDITORS' REPORT
DECEMBER 31, 2011





INDEPENDENT AUDITORS' REPORT

To: SMG Canada ULC, the Management of the K-Rock Centre

We have audited the accompanying financial statements of the K-Rock Centre, which comprise the statement of financial position as at December 31, 2011 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 generally accepting accounting principles for local governments as recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants 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.

Auditors' 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 auditors' 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 auditors consider internal controls 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 controls. 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, the financial statements present fairly, in all material respects, the financial position of the K-Rock Centre as at December 31, 2011, its financial performance and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Kingston, Ontario
March 21, 2012

Collins Blay LLP
Chartered Accountants
Licensed Public Accountants

K-ROCK CENTRE
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2011

| | <u>2011</u> | <u>2010</u> |
|---------------------------------|---------------------|---------------------|
| FINANCIAL ASSETS | | |
| Cash - Note 2 | \$ 2,672,788 | \$ 1,947,491 |
| Accounts receivable | <u>478,084</u> | <u>283,823</u> |
| | <u>\$ 3,150,872</u> | <u>\$ 2,231,314</u> |
| LIABILITIES | | |
| Accounts payable | \$ 215,878 | \$ 322,166 |
| Accrued liabilities | 71,101 | 175,958 |
| Deferred revenue - Note 4 | 543,594 | 622,288 |
| Security deposits | 66,000 | 77,025 |
| Advance ticket sales | <u>2,119,222</u> | <u>905,954</u> |
| | <u>3,015,795</u> | <u>2,103,391</u> |
| Net financial assets | <u>\$ 135,077</u> | <u>\$ 127,923</u> |
| NON-FINANCIAL ASSETS | | |
| Prepaid expenses | <u>15,515</u> | <u>24,276</u> |
| Accumulated surplus | <u>\$ 150,592</u> | <u>\$ 152,199</u> |
| Contingent liabilities - Note 9 | | |



K-ROCK CENTRE
STATEMENT OF CHANGES IN NET FINANCIAL ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2011

| | 2011 | 2010 |
|--|-------------------|-------------------|
| Net financial assets - beginning of the year | \$ <u>127,923</u> | \$ <u>74,350</u> |
| Annual surplus | 414,028 | 511,114 |
| Net change in non-financial assets | 8,761 | (9,308) |
| Transfers to the City of Kingston | <u>(415,635)</u> | <u>(448,233)</u> |
| Increase in net financial assets | <u>7,154</u> | <u>53,573</u> |
| Net financial assets - end of the year | \$ <u>135,077</u> | \$ <u>127,923</u> |



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

K-ROCK CENTRE
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2011

| | <u>2011</u> | <u>2010</u> |
|---|-------------------|--------------------|
| Direct event revenues | | |
| Event rental fees | \$ 294,341 | \$ 388,141 |
| Event services billed | 801,406 | 1,194,406 |
| Facility fee surcharges | 246,229 | 357,010 |
| Ticket surcharges | 103,082 | 244,530 |
| Suite tickets | 53,413 | 144,072 |
| Event service costs | <u>(812,198)</u> | <u>(1,159,465)</u> |
| Net direct event revenue | <u>686,273</u> | <u>1,168,694</u> |
| Other facility revenues | | |
| Advertising and naming rights | 409,226 | 316,369 |
| Food service commissions | 185,144 | 232,972 |
| Suite leases | 473,552 | 496,640 |
| Club seat leases | 191,827 | 184,286 |
| Other revenues | 30,658 | 55,345 |
| Ice rentals | <u>166,173</u> | <u>150,850</u> |
| | <u>1,456,580</u> | <u>1,436,462</u> |
| Total revenues | <u>2,142,853</u> | <u>2,605,156</u> |
| Operating expenditures | | |
| Advertising | 20,406 | 34,196 |
| Facility management fee | 132,374 | 129,917 |
| General and administrative | 49,071 | 89,145 |
| Insurance | 28,508 | 26,955 |
| Operational supplies | 118,106 | 157,485 |
| Professional fees | 21,660 | 24,500 |
| Repairs and maintenance | 129,651 | 121,761 |
| Security and cleaning | 34,576 | 33,014 |
| Travel and meals | 21,189 | 15,131 |
| Utilities | 401,220 | 457,164 |
| Wages and benefits | <u>865,814</u> | <u>911,024</u> |
| Total operating expenditures before other expense | 1,822,575 | 2,000,292 |
| Other (recovery) expense - Note 9 | <u>(93,750)</u> | <u>93,750</u> |
| Total operating expenditures | <u>1,728,825</u> | <u>2,094,042</u> |
| Annual surplus | \$ 414,028 | \$ 511,114 |
| Accumulated surplus - beginning of the year | 152,199 | 89,318 |
| Less - Transfers to City of Kingston | <u>(415,635)</u> | <u>(448,233)</u> |
| Accumulated surplus - end of the year | <u>\$ 150,592</u> | <u>\$ 152,199</u> |



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

K-ROCK CENTRE
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2011

| | <u>2011</u> | <u>2010</u> |
|---|---------------------|---------------------|
| Annual surplus | \$ <u>414,028</u> | \$ <u>511,114</u> |
| Sources (uses) of cash: | | |
| (Increase) decrease in accounts receivable | (194,261) | 198,734 |
| Decrease (increase) in prepaid expenses | 8,761 | (9,308) |
| (Decrease) increase in accounts payable | (106,288) | 187,042 |
| (Decrease) increase in accrued liabilities | (104,857) | 123,945 |
| (Decrease) increase in deferred revenue | (78,694) | 31,648 |
| (Decrease) increase in security deposits | (11,025) | 3,325 |
| Increase (decrease) in advance ticket sales | <u>1,213,268</u> | <u>(114,599)</u> |
| | <u>726,904</u> | <u>420,787</u> |
| Net change in cash from operations | 1,140,932 | 931,901 |
| Transfers to the City of Kingston | <u>(415,635)</u> | <u>(448,233)</u> |
| Net increase in cash for the year | 725,297 | 483,668 |
| Cash at the beginning of the year | <u>1,947,491</u> | <u>1,463,823</u> |
| Cash at the end of the year - Note 2 | <u>\$ 2,672,788</u> | <u>\$ 1,947,491</u> |



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

K-ROCK CENTRE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

The 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, 2012.

These financial statements include financial and non-financial assets, liabilities and results from operations of the 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 generally accepting accounting principles for local governments as recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants, 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 K-Rock Centre.

c) Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles 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.



K-ROCK CENTRE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

2. Restricted assets

Cash in the amount of \$2,119,222 (2010 - \$905,954), 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, 2011 is \$151,133 (2010 - \$84,275) due from the City of Kingston.

During the year, the facility charged \$166,173 (2010 - \$150,850) 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 accounts payable is \$30,794 (2010 - \$38,628) owing to Utilities Kingston. During the year, the facility was billed \$339,846 (2010 - \$378,978) 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 \$16,692 (2010 - \$15,813) by the City of Kingston for policing and other services.

Included in accounts receivable at December 31, 2011 is \$36,642 (2010 - \$32,598) 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 \$240,844 (2010 - \$294,583) from SMG Canada ULC. The amount recognized in the financial statements for food service commissions earned by the facility is \$185,144 (2010 - \$232,972) which differs from the gross amounts received, due to revenue sharing under the terms of an agreement with Kingston Frontenac Hockey Ltd.

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 exchanged amount of consideration established and agreed to by the related parties, being fair market value.

4. Deferred revenue

The balance of deferred revenue is comprised of:

| | 2011 | 2010 |
|------------------------|------------|------------|
| Advertising | \$ 108,829 | \$ 123,190 |
| Facility naming rights | 44,553 | 49,614 |
| Club seat licences | 125,912 | 125,800 |
| Suite licences | 253,780 | 316,664 |
| Advance deposits | 10,520 | 7,020 |
| | \$ 543,594 | \$ 622,288 |



K-ROCK CENTRE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

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, 2011, approximately 29% (2010 - 22%) 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. Kingston Frontenac Hockey Ltd. has a 20 year license agreement with the City of Kingston for use of the facility which expires in February, 2028.

7. Financial instruments

a) Credit risk

At December 31, 2011, approximately 15% (2010 - 26%) of the facility's accounts receivable is due from OLG Casino Thousand Islands. 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.

Cash is held at a major Canadian financial institution.

b) Fair value

The fair values of cash, accounts receivable, accounts payable and accrued liabilities are approximately equal to their carrying values due to their short-term maturity dates.

8. Commitments

a) Management fee agreement

Under the terms of the facility management agreement, SMG Canada ULC is paid an annual management fee to be adjusted upwards in accordance with the Canadian Consumer Price Index ("CPI"). The facility management agreement expires in December, 2012. Management's estimate of future payments under this agreement using an annual CPI increase of 2.3% are as follows:

| | |
|------|------------|
| 2012 | \$ 135,419 |
|------|------------|



**K-ROCK CENTRE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

8. Commitments (continued)

b) Service and maintenance agreements

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:

| | |
|------|------------|
| 2012 | \$ 117,632 |
| 2013 | 24,885 |

c) Naming rights agreement provision

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 \$23,361 (2010 - \$37,178) in tickets for these events. The net cost to the facility for these tickets was \$1,908 (2010 - \$3,636) 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. Contingent liabilities

The facility's naming rights agreement with Rogers Broadcasting contains contingency clauses relating to an annual attendance benchmark. The attendance benchmark is to be calculated based on a two year rolling average. Management has indicated that the attendance benchmark has not been attained for the 2 year period ending December 31, 2011. The financial impact, if any, relating to the contingency clauses in the naming rights agreement is not determinable by management at this time. Management will continue to monitor this matter through the course of normal operations.

During the prior year, the facility was subject to an investigation regarding a labour incident. Management obtained legal counsel and an estimate of the most likely outcome of the situation was accrued in the 2010 financial statements. The amount was based on the advice and experience of legal counsel in dealing with similar matters. During the current year, the accrual was reversed, as SMG Canada ULC assumed costs relating to this matter, resulting in no net cost to the facility.

10. Comparative amounts

Certain comparative amounts have been reclassified in order to conform with the financial statement presentation adopted in the current year.

