

EX34.12

FINANCIAL STATEMENTS
For
TORONTO PAN AM SPORTS CENTRE INC.
For year ended
DECEMBER 31, 2017

INDEPENDENT AUDITOR'S REPORT

To the shareholders of

TORONTO PAN AM SPORTS CENTRE INC.

We have audited the accompanying financial statements of the Toronto Pan Am Sports Centre Inc., which comprise the statement of financial position as at December 31, 2017 and the statements of operations, change 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 entity'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 entity'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, the financial statements present fairly, in all material respects, the financial position of the Toronto Pan Am Sports Centre Inc. as at December 31, 2017 and the results of its operations, changes in net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.



Chartered Professional Accountants
Licensed Public Accountants

Toronto, Ontario
March 15, 2018.

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TORONTO PAN AM SPORTS CENTRE INC.

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2017

	<u>2017</u>	<u>2016</u>
FINANCIAL ASSETS		
Undesignated cash	\$ 2,999,126	\$ 2,826,856
Cash - reserve fund (note 3)	1,534,542	1,513,531
Portfolio investments - reserve fund (note 3)	9,387,641	6,019,457
Accounts receivable (note 8)	239,194	264,642
Government remittances receivable	<u>18,766</u>	<u>6,980</u>
	<u>14,179,269</u>	<u>10,631,466</u>
FINANCIAL LIABILITIES		
Accounts payable and accrued liabilities (note 8)	1,848,492	1,673,509
Deferred revenue	<u>528,393</u>	<u>418,790</u>
	<u>2,376,885</u>	<u>2,092,299</u>
NET FINANCIAL ASSETS	<u>11,802,384</u>	<u>8,539,167</u>
NON-FINANCIAL ASSETS		
Prepaid expenses	205,982	170,258
Inventory	22,964	13,562
Tangible capital assets (note 5)	<u>817,149</u>	<u>591,841</u>
	<u>1,046,095</u>	<u>775,661</u>
ACCUMULATED SURPLUS (note 7)	<u>\$ 12,848,479</u>	<u>\$ 9,314,828</u>

Approved by the Board:


..... Director


..... Director

(See accompanying notes)

TORONTO PAN AM SPORTS CENTRE INC.

STATEMENT OF OPERATIONS

YEAR ENDED DECEMBER 31, 2017

	<u>Budget</u> (unaudited)	<u>Actual</u>	
		<u>2017</u>	<u>2016</u>
Revenue (note 8)			
Space cost recoveries (note 8)	\$ 944,974	\$ 984,814	\$ 997,010
Field of play recoveries (note 8)	6,243,806	6,084,118	5,925,096
Rental income	1,175,439	1,354,481	964,800
Fitness centre income	1,608,936	1,626,226	1,287,173
Food and beverage	1,141,321	1,423,210	1,041,047
Ancillary and other revenue	<u>662,391</u>	<u>664,482</u>	<u>591,141</u>
	<u>11,776,867</u>	<u>12,137,331</u>	<u>10,806,267</u>
Expenses (Schedule A)			
Aquatics	1,250,008	1,416,644	1,309,946
License fees (note 8)	750,000	750,000	750,000
Field house	763,345	804,938	809,071
Central administration	2,224,630	2,092,431	2,139,205
Building operations	4,762,489	4,784,587	4,607,083
Fitness centre	1,163,888	1,232,458	1,122,055
Food and beverage	<u>1,097,321</u>	<u>1,289,536</u>	<u>1,110,388</u>
	<u>12,011,681</u>	<u>12,370,594</u>	<u>11,847,748</u>
Operating deficit	<u>\$ (234,814)</u>	(233,263)	(1,041,481)
Capital reserve fund			
Interest income		187,330	120,897
Management fees		(36,079)	(14,867)
Major repairs and replacements		<u>(562,537)</u>	<u>(24,739)</u>
		(411,286)	81,291
Accumulated surplus, beginning of year		<u>9,314,828</u>	<u>6,198,725</u>
		8,670,279	5,238,535
Capital stock issued		<u>4,178,200</u>	<u>4,076,293</u>
Accumulated surplus, end of year		<u>\$ 12,848,479</u>	<u>\$ 9,314,828</u>

(See accompanying notes)

TORONTO PAN AM SPORTS CENTRE INC.
STATEMENT OF CHANGE IN NET FINANCIAL ASSETS
YEAR ENDED DECEMBER 31, 2017

	<u>2017</u>	<u>2016</u>
Operating deficit	\$ (233,263)	\$ (1,041,481)
Reserve fund surplus (deficit)	(411,286)	81,291
Acquisition of tangible capital assets	(350,021)	(356,823)
Amortization of tangible capital assets	124,713	50,078
Acquisition of prepaid expenses	(35,724)	(9,500)
Acquisition of inventory	(9,402)	(13,562)
Capital stock issued	<u>4,178,200</u>	<u>4,076,293</u>
Change in net financial assets	3,263,217	2,786,296
Net financial assets, beginning of period	<u>8,539,167</u>	<u>5,752,871</u>
Net financial assets, end of period	<u>\$ 11,802,384</u>	<u>\$ 8,539,167</u>

(See accompanying notes)

TORONTO PAN AM SPORTS CENTRE INC.

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2017

	<u>2017</u>	<u>2016</u>
CASH FLOWS USED IN OPERATING ACTIVITIES		
Operating deficit	\$ (233,263)	\$ (1,041,481)
Reserve fund surplus (deficit)	(411,286)	81,291
Items not involving cash:		
Amortization of tangible capital assets	124,713	50,078
Investment proceeds reinvested	<u>(129,255)</u>	<u>(76,710)</u>
	(649,091)	(986,822)
Changes in:		
Accounts receivable	25,448	(5,237)
Government remittances receivable	(11,786)	65,074
Accounts payable and accrued liabilities	174,983	(94,186)
Deferred revenue	109,603	(141,566)
Inventory	(9,402)	(13,562)
Prepaid expense	<u>(35,724)</u>	<u>(9,500)</u>
	<u>(395,969)</u>	<u>(1,185,799)</u>
CASH FLOWS USED IN CAPITAL TRANSACTIONS		
Acquisition of tangible capital assets	<u>(350,021)</u>	<u>(356,823)</u>
CASH FLOWS USED IN INVESTING ACTIVITIES		
Purchase of investments	<u>(3,238,929)</u>	<u>(5,942,747)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of capital stock	<u>4,178,200</u>	<u>4,076,293</u>
INCREASE (DECREASE) IN CASH	193,281	(3,409,076)
CASH AT BEGINNING OF YEAR	<u>4,340,387</u>	<u>7,749,463</u>
CASH AT END OF YEAR	<u>\$ 4,533,668</u>	<u>\$ 4,340,387</u>
Cash is comprised of:		
Cash - reserve fund (note 3)	\$ 1,534,542	\$ 1,513,531
Undesignated cash	<u>2,999,126</u>	<u>2,826,856</u>
	<u>\$ 4,533,668</u>	<u>\$ 4,340,387</u>

(See accompanying notes)

TORONTO PAN AM SPORTS CENTRE INC.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

1. NATURE OF OPERATIONS

The Toronto Pan Am Sports Centre Inc. (hereafter referred to as the "Centre") is incorporated under the Business Corporations Act of the Province of Ontario. The Centre is owned in equal share by the City of Toronto (the "City") and the University of Toronto (the "University"). The Centre's principal business activity is the management of the Toronto Pan Am Sports Centre. The Centre maintains its head office in Scarborough, Ontario.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

These financial statements are prepared in accordance with Canadian generally accepted accounting principles (GAAP) established by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada.

Revenue recognition

The Centre recognizes revenue when it is realized or realizable and earned. The Centre considers revenue realized or realizable and earned when it has persuasive evidence of an arrangement, the product has been delivered or the service has been provided to the customer, the sales price is fixed or determinable and collectability is reasonably assured.

Space cost recoveries and field of play recoveries are recognized as revenues in accordance with individual user agreements and when performance is provided.

Rental and similar revenues are recognized on the date of the performance.

Fitness centre membership revenues are recognized on a monthly basis or when service has been provided.

Food and beverage revenues are recognized as earned, upon performance of the service. Revenues related to catering events are recognized on the date of the event.

Rental and membership revenues paid in advance are recorded as deferred revenue.

Investment income comprises interest from cash and fixed income securities. Interest on fixed income securities is recognized over the term of those investments using the effective interest method.

Financial instruments

The Centre initially measures its financial assets and financial liabilities at fair value.

The Centre subsequently measures all its financial assets and financial liabilities at amortized cost.

Financial assets measured at amortized cost include cash, accounts receivable and portfolio investments.

Financial liabilities measured at amortized cost include accounts payable and accrued liabilities.

TORONTO PAN AM SPORTS CENTRE INC.
NOTES TO THE FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED DECEMBER 31, 2017

2. SIGNIFICANT ACCOUNTING POLICIES - Cont'd.

Tangible capital assets

Tangible capital assets are stated at acquisition cost and amortized as follows:

Computer hardware and software	- 4 years straight line
Furniture and equipment	- 10 years straight line
Food court capital improvements	- 10 years straight line

Income taxes

The Centre uses the future income taxes method of accounting for taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. Future income tax assets and liabilities are recognized for temporary differences between tax and accounting basis of assets and liabilities.

Use of estimates

The preparation of financial statements in conformity with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management makes accounting estimates when determining the useful life of its tangible capital assets, and significant accrued liabilities. Actual results could differ from those estimates, the impact of which would be recorded in future periods.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

3. RESERVE CASH AND INVESTMENTS

The Centre has designated funds to be used for the sole purpose of funding major maintenance and capital requirements. There is an annual amount of \$1,500,000 committed for this purpose from the Legacy funding, in accordance with the funding agreement dated December 18, 2014, and the balance is to be funded by amounts received from the Shareholders and/or operating surplus.

Reserve portfolio investments consist of the following:

	<u>Cost</u>	<u>Fair Market Value</u>
Short-term investments	\$ 945,843	\$ 935,780
Fixed income securities	8,433,733	8,170,571
Accrued interest	<u>8,065</u>	<u>-</u>
	<u>\$ 9,387,641</u>	<u>\$ 9,106,351</u>

TORONTO PAN AM SPORTS CENTRE INC.
NOTES TO THE FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED DECEMBER 31, 2017

3. RESERVE CASH AND INVESTMENTS - Cont'd.

Fixed income securities consist of government and commercial bonds and GICs. The fixed income securities have effective interest rates ranging from 1.33% to 3.50% with maturity dates ranging from 5 months to 10 years.

	<u>2017</u>	<u>2016</u>
Reserve fund balance, beginning of year	\$ 7,532,988	\$ 5,927,004
Reserve fund surplus (deficit)	(411,286)	81,291
Contributions during the year	<u>3,800,481</u>	<u>1,524,693</u>
Reserve fund balance, end of year	<u>\$ 10,922,183</u>	<u>\$ 7,532,988</u>
Reserve fund balance is comprised of:		
Cash	\$ 1,534,542	\$ 1,513,531
Portfolio investments	<u>9,387,641</u>	<u>6,019,457</u>
	<u>\$ 10,922,183</u>	<u>\$ 7,532,988</u>

4. FINANCIAL INSTRUMENTS

The Centre's financial instruments are subject to the following risks:

Credit risk

The Centre is exposed to credit risk resulting from the possibility that parties may default on their financial obligations. The Centre's maximum exposure to credit risk represents the sum of the carrying value of its cash, portfolio investments and accounts receivable. The Centre's cash is deposited with a Canadian chartered bank and the portfolio investments are held in high credit rated Canadian government bonds, commercial bonds and GICs. As a result management believes the risk of loss on these items to be remote. The Centre provides credit to its customers in the normal course of operations. It carries out, on a continuing basis, credit checks on its clients, a review of outstanding amounts and maintains provisions for estimated uncollectible accounts. Consequently, the Centre believes that its exposure to credit risk on these items is remote.

Liquidity risk

Liquidity risk refers to the adverse consequence that the Centre will encounter difficulty in meeting obligations associated with its financial liabilities. The Centre manages liquidity risk through its budget process and by monitoring its cash flow requirements on a regular basis. The Centre believes its overall liquidity risk to be minimal.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is comprised of currency risk, interest rate risk and other price risk.

i) *Currency risk*

Currency risk is the risk that the fair value of instruments or future cash flows associated with instruments will fluctuate relative to the Canadian dollar due to changes in foreign exchange rates. The Centre's financial instruments are all denominated in Canadian dollars and it transacts primarily in Canadian dollars. As a result management does not believe it is exposed to significant currency risk.

TORONTO PAN AM SPORTS CENTRE INC.
NOTES TO THE FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED DECEMBER 31, 2017

4. FINANCIAL INSTRUMENTS - Cont'd.

Market risk - Cont'd.

ii) *Interest rate risk*

Interest rate risk refers to the risk that the fair value of financial instruments will fluctuate due to changes in market interest rates. The Centre's exposure to interest rate risk arises from its portfolio investments. The Centre manages this risk by having prudent investment policies and by ensuring bonds and GICs mature on a staggered basis over the next ten years.

ii) *Other price risk*

Other price risk refers to the risk that the fair value of financial instruments or future cash flows associated with the instruments will fluctuate because of changes in market prices (other than those arising from currency risk or interest rate risk), whether those changes are caused by factors specific to the individual instruments or its issuer or factors affecting all similar instruments traded in the market. The Centre's exposure to other price risk arises from its portfolio investments. The Centre manages this risk by having prudent investment policies and holding bonds and GICs until maturity.

There have been no significant changes to the Centre's risk exposure from the prior period.

5. TANGIBLE CAPITAL ASSETS

Tangible capital assets consist of the following:

	2017		2016	
	<u>Cost</u>	<u>Accumulated amortization</u>	<u>Cost</u>	<u>Accumulated amortization</u>
Computer hardware and software	\$ 286,222	\$ 138,013	\$ 197,619	\$ 80,103
Furniture and equipment	649,056	107,681	403,179	54,703
Food court capital improvements	<u>145,498</u>	<u>17,933</u>	<u>129,957</u>	<u>4,108</u>
	<u>1,080,776</u>	<u>\$ 263,627</u>	<u>730,755</u>	<u>\$ 138,914</u>
Accumulated amortization	<u>263,627</u>		<u>138,914</u>	
	<u>\$ 817,149</u>		<u>\$ 591,841</u>	

6. INCOME TAXES

The Centre has unused non-capital losses of approximately \$2,985,530 which may be carried forward and applied to reduce taxable income of future years. The losses are available for a limited time only and expire as follows.

2034	\$ 365,576
2035	1,518,762
2036	992,642
2037	108,550

The Centre has not recognized the future tax benefit of these losses.

TORONTO PAN AM SPORTS CENTRE INC.
NOTES TO THE FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED DECEMBER 31, 2017

7. ACCUMULATED SURPLUS

The accumulated surplus is made up as follows:

	<u>2017</u>	<u>2016</u>
Accumulated operating deficit	\$ (3,244,088)	\$ (3,010,825)
Accumulated capital reserve surplus (deficit)	(314,514)	96,772
Common shares - 39,994 (2016 - 29,996) shares	<u>16,407,081</u>	<u>12,228,881</u>
Accumulated surplus, end of year	<u>\$ 12,848,479</u>	<u>\$ 9,314,828</u>

The Centre is authorized to issue an unlimited number of voting common shares. In 2017, 9,998 (2016 - 9,998) common shares were issued for proceeds of \$4,178,200 (2016 - \$4,076,293).

8. RELATED PARTY TRANSACTIONS

The Centre is owned equally by the City of Toronto and the University of Toronto.

The following related party transactions occurred in the normal course of business and have been recorded at their exchange amount which is the amount agreed upon by the related parties. The balances due to and from related parties are non-interest bearing and have no specified terms of repayments.

- (a) Included in the accounts payable balance and license fees is \$750,000 (2016 - \$750,000) payable to the shareholders.
- (b) The Centre received \$3,755,910 (2016 - \$3,669,091) from the City of Toronto and \$1,925,019 (2016 - \$1,867,954) from the University of Toronto for space cost and field of play recoveries.
- (c) Included in the accounts receivable balance at year end is \$40,572 (2016 - \$55,411) due from the University of Toronto and \$8,339 (2016 - \$nil) from the City of Toronto.

9. COMMITMENTS

The Centre has entered into an operating agreement with related parties which requires the Centre to pay a licensing fee of \$750,000 a year for use of the facility.

10. BUDGETED FIGURES

Budgeted figures have been provided for comparison purposes and are based on the operating budget approved by the Board of Directors.

11. COMPARATIVE FIGURES

Comparative figures have been reclassified where necessary to conform to the presentation adopted in the current year.

TORONTO PAN AM SPORTS CENTRE INC.

STATEMENT OF EXPENSES

YEAR ENDED DECEMBER 31, 2017

	Budget	Actual	
	(Unaudited)	<u>2017</u>	<u>2016</u>
Expenses			
Salaries, wages and benefits	\$ 6,575,761	\$ 6,838,458	\$ 6,024,118
Utilities	1,406,349	1,620,333	1,602,339
Contracted services	1,256,480	1,229,131	1,303,756
License fees	750,000	753,592	754,649
Direct food and beverage expenses	508,370	631,736	981,055
Insurance	235,731	206,880	234,257
Repairs and maintenance	233,500	172,996	91,930
Services	158,200	135,201	150,318
Amortization	118,500	124,713	50,078
Supplies	152,700	123,239	136,248
Telecommunications	65,490	68,625	60,643
Office expenses	54,250	64,953	41,353
Professional fees	62,700	50,294	32,379
Consulting fees	55,000	13,004	28,995
Other operating expenses	<u>378,650</u>	<u>337,439</u>	<u>355,630</u>
	<u>\$ 12,011,681</u>	<u>\$ 12,370,594</u>	<u>\$ 11,847,748</u>