Attachment 1

LAKESHORE ARENA CORPORATION

FINANCIAL STATEMENTS

DECEMBER 31, 2013

HILBORN LLP

Independent Auditor's Report

To the Board of Directors of
Lakeshore Arena Corporation

We have audited the accompanying financial statements of Lakeshore Arena Corporation, which comprise the statement of financial position as at December 31, 2013 and the statements of operations and accumulated deficiency, statement of change in net debt and statement of 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 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, these financial statements present fairly in all material respects, the financial position of Lakeshore Arena Corporation as at December 31, 2013 and the results of its operations and cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Hilborn LLP

Toronto, Ontario
April 16, 2014

Chartered Professional Accountants
Licensed Public Accountants

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LAKESHORE ARENA CORPORATION

Statement of Financial Position

December 31

	2013 $	2012 $
FINANCIAL ASSETS		
Cash	192,195	132,715
Accounts receivable (note 3)	656,693	567,800
	848,888	700,515
LIABILITIES		
Accounts payable and accrued liabilities	417,866	385,386
Line of credit (note 5)	-	315,000
Long term debt (note 6)	40,937,049	41,334,084
	41,354,915	42,034,470
NET DEBT	(40,506,027)	(41,333,955)
NON-FINANCIAL ASSETS		
Franchise fee	3,000	3,500
Tangible capital assets (note 4)	37,904,372	38,835,826
Inventory and prepaid expenses	28,056	21,949
	37,935,428	38,861,275
ACCUMULATED DEFICIENCY	(2,570,599)	(2,472,680)

Approved on behalf of the Board:

Ann Ulusoy
Ann Ulusoy
Director

Mike St. Amant
Director

(The accompanying notes are an integral part of these financial statements)

LAKESHORE ARENA CORPORATION

Statement of Operations and Accumulated Deficiency

Year ended December 31

	2013 Budget $	2013 Budget $	2013 $	2013 $	2012 $	2012 $
Revenues						
Ice rentals		3,125,275		**3,213,460**		2,845,854
Tenancy rentals		806,259		**883,600**		810,554
Snack Bar sales	433,580		**483,391**		460,017	
Snack Bar purchases	211,464	222,116	**211,243**	**272,148**	(216,733)	243,284
Licensing		319,417		**278,854**		272,228
Utility recovery		295,165		**238,336**		171,007
Other		46,220		**260,061**		68,494
		4,814,452		**5,146,459**		4,411,421
Expenditures						
Salaries and benefits		925,112		**980,884**		995,098
Legal and audit		16,500		**18,250**		58,783
Insurance		50,000		**50,646**		49,760
Interest and bank charges		18,000		**25,858**		20,603
Building and equipment maintenance		407,136		**477,265**		402,136
Office and cleaning		42,048		**46,362**		47,983
Telephone		9,420		**11,231**		10,178
Utilities		938,244		**1,124,359**		937,327
Bad debts (recovery)		-		**36,856**		(36,552)
Interest on long term debt		1,502,930		**1,505,649**		1,529,494
Amortization of tangible capital assets		951,492		**951,993**		952,380
Other		-		**15,025**		22,253
		4,860,882		**5,244,378**		4,989,443
Deficiency for year		(46,430)		**(97,919)**		(578,022)
Accumulated deficiency, beginning of year				**(2,472,680)**		(1,894,658)
Accumulated deficiency, end of year				**(2,570,599)**		(2,472,680)

(The accompanying notes are an integral part of these financial statements)

LAKESHORE ARENA CORPORATION

Statement of Change in Net Debt

Year ended December 31

	Total 2013 $	Total 2012 $
Deficiency for year	**(97,919)**	(578,022)
Acquisition of tangible capital assets	**(20,039)**	(8,900)
Utilization (acquisition) of inventories and prepaid expenses	**(6,107)**	5,318
Amortization of tangible capital assets	**951,993**	952,380
	925,847	948,798
Decrease in net debt	**827,928**	370,776
Net debt, beginning of year	**(41,333,955)**	(41,704,731)
Net debt, end of year	**(40,506,027)**	(41,333,955)

(The accompanying notes are an integral part of these financial statements)

LAKESHORE ARENA CORPORATION

Statement of Cash Flows

Year ended December 31

	2013 $	2012 $
Cash provided by (used in):		
Cash flows from operating activities		
Deficiency for the year	(97,919)	(578,022)
Item not affecting cash		
Amortization of tangible capital assets	951,993	952,380
	854,074	374,358
Non-cash changes to operations		
Accounts receivable	(88,893)	(51,153)
Accounts payable and accrued liabilities	32,480	(363,332)
Inventory and prepaid expenses	(6,107)	5,318
	791,554	(34,809)
Investing activities		
Purchase of tangible capital assets	(20,039)	(8,900)
Financing activities		
Advances (repayments) line of credit	(315,000)	315,000
Principal repayments long-term debt	(397,035)	(412,674)
	(712,035)	(97,674)
Net increase (decrease) in cash	59,480	(141,383)
Cash, beginning of year	132,715	274,098
Cash, end of year	192,195	132,715

(The accompanying notes are an integral part of these financial statements)

December 31, 2013

1. **Establishment and Operations**

Lakeshore Arena Corporation ("the Corporation") was incorporated under the Ontario Business Corporations Act on July 19, 2011 to acquire the assets and assume certain liabilities of Lakeshore Lions Arena Incorporated and to continue to operate the Arena as a community recreation centre under the Community Recreation Centre Act, pursuant to Chapter 25 of the City of Toronto Municipal, Code, By-Law No. 21259, as amended. The Committee of Management operates and manages the arena facilities on behalf of the City of Toronto ('the City").

2. **Significant Accounting Policies**

These financial statements are the representation of management and have been prepared in accordance with Public Sector Accounting Standards which are the generally accepted accounting principles for local governments as prescribed by the Public Sector Accounting Board ("PSAB") of the Chartered Professional Accountants of Canada, the most significant of which are as follows:

(a) **Statement of Remeasurement Gains or Losses**

There are no remeasurement gains or losses as none of the Corporation's financial assets or financial liabilities are measured at fair value. A statement of remeasurement gains and losses has not been presented.

(b) **Revenue recognition**

Ice rental revenues are recognized on the event date. Tenancy rental and licensing revenues are recognized on a pro-rata basis over the term of the agreements. Utilities recovery is recognized on a monthly basis based on usage. Snack bar sales are recognized at the time of sale.

(c) **Tangible capital assets**

Purchased tangible capital assets are recorded at cost. Amortization is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Building	50 years
Computer equipment	5 years
Furniture and fixtures	10 years
Zamboni	8 years

Property and equipment is tested for impairment whenever events or changes in circumstances indicate that the reduction in future economic benefits is expected to be permanent. If any potential impairment is identified, then the amount of the impairment is quantified by comparing the carrying value of the property and equipment to its fair value. Any impairment of property and equipment is charged to income in the period in which the impairment is determined.

December 31, 2013

2. **Significant Accounting Policies (continued)**

(d) **Financial instruments**

Measurement of financial instruments

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

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

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

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

Financial assets measured at amortized cost are tested for impairment when there are indicators of possible impairment. When a significant adverse change has occurred during the period in the expected timing or amount of future cash flows from the financial asset or group of assets, a write-down is recognized in operations.

(e) **Future Accounting Changes**

PS 3450 provides guidance with respect to the recognition, derecognition, and measurement policies followed in the financial statements of government organizations. The application of this standard is prospective and will not require the restatement of financial statements of prior periods. Application of this standard will require the entity to:

- recognize all financial assets and financial liabilities on its statement of financial position;
- identify those financial assets and financial liabilities to be measured at fair value; and
- apply the measurement provisions of this Section prospectively. Any adjustment of the previous carrying amount is recognized as an adjustment to the accumulated remeasurement gains and losses at the beginning of the fiscal year in which this Section is initially applied.

The Corporation has applied PSAB accounting standards since incorporation and therefore, the requirements of this section apply to fiscal years beginning on or after April 1, 2016. The Corporation will apply the requirements of PS3450 beginning January 1, 2017.

The Corporation is in the process of assessing its financial instruments and the impact of the section on its financial statements.

(f) **Contributed services**

Services provided without charge by the City of Toronto and others are not recorded in these financial statements.

2. Significant Accounting Policies (continued)

(g) Management estimates

The preparation of financial statements in conformity with PSAB requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period.

Key areas where management has made estimates are the length of tangible capital asset useful lives and amortization rates of tangible capital assets. Actual results could differ from those estimates, the impact of which would be recorded in future periods.

3. Accounts Receivable

Accounts receivable are net of allowances for doubtful accounts of $41,334 (2012 - $17,643).

4. Tangible Capital Assets

	Cost $	Accumulated Amortization $	2013 Net book Value $
Building	39,398,517	1,992,047	37,406,470
Computer Equipment	42,321	28,855	13,466
Furniture and Fixtures	574,949	152,159	422,790
Zamboni	95,748	34,102	61,646
	40,111,535	2,207,163	37,904,372

	Cost $	Accumulated Amortization $	2012 Net book Value $
Building	39,398,517	1,132,170	38,266,347
Computer Equipment	42,321	17,696	24,625
Furniture and Fixtures	554,910	86,433	468,477
Zamboni	95,748	19,371	76,377
	40,091,496	1,255,670	38,835,826

5. Line of Credit

The Corporation has available a line of credit with the City for up to $1,000,000 at 3% per annum, to cover periodic operating cash flow shortfalls. The line of credit is unsecured and there are no specific terms for repayment.

December 31, 2013

6. Long-Term Debt

	2013 $	2012 $
Pacific & Western Bank of Canada Facility # 1	9,754,060	9,754,060
Pacific & Western Bank of Canada Facility # 2	20,244,580	20,541,615
Pacific & Western Bank of Canada Facility # 3	4,535,624	4,535,624
Pacific & Western Bank of Canada Facility # 4	4,402,785	4,402,785
City of Toronto	1,200,000	1,200,000
City of Toronto - Energy Retrofit Loan	800,000	900,000
	40,937,049	41,334,084

Principal repayments are due as follows:

	City of Toronto $	Pacific & Western $
2014	1,300,000	19,005,241
2015	100,000	329,345
2016	100,000	343,897
2017	100,000	19,258,566
2018 and thereafter	400,000	-
	2,000,000	38,937,049

The Pacific & Western Bank of Canada credit facilities are secured by a registered leasehold first mortgage, second mortgage, and a third mortgage of $4,650,000, $29,000,000 and $5,000,000 respectively. Additionally, rental income, lease income, and insurance proceeds from all other properties are also assigned under a general security agreement. The City has provided guarantee and postponement of claim agreements in the amounts of $10,000,000, $19,000,000 and $5,000,000 plus accrued and capitalized interest on facilities #1, #2, and #4 respectively.

Pacific & Western Bank of Canada Facility #1 bears interest at CIBC's prime less 1.4% per annum. Interest only is payable monthly and the loan maturity date is September 30, 2014.

Pacific & Western Bank of Canada Facility #2 bears interest at 5.23% per annum. The facility is payable in scheduled monthly payments of principal and interest and the loan maturity date is October 31, 2017.

Pacific & Western Bank of Canada Facility #3 bears interest at CIBC's prime rate less 1.4% per annum. Interest only is payable monthly and the loan maturity date is September 30, 2014.

Pacific & Western Bank of Canada Facility #4 bears interest at CIBC's prime rate plus 1.25% per annum. Interest only is payable monthly and the loan maturity date is September 30, 2014.

December 31, 2013

6. **Long-Term Debt** (continued)

Included in the Pacific & Western Bank of Canada credit facilities agreement is a provision for the Corporation to make mandatory principal repayments on Facilities #1, #3, and #4 from its Net Operating Surplus determined annually at June 30. Repayments for years 1 to 10 are at 75% of Net Operating Surplus, years 11 to 13 are at 80% of Net Operating Surplus, and, thereafter 85% of Net Operating Surplus until the loans are repaid in full. The Corporation paid additional principal repayments of $nil (2012 - $145,000).

The City has provided a loan of $1,200,000 at an interest rate of 3% per annum with interest only payable quarterly, enabling the Corporation to settle its past loans. This loan is repayable in full on September 12, 2014. In addition, the City has provided an energy retrofit loan in the amount of $1,000,000, repayable in quarterly installments of $25,000 commencing January 1, 2013. The principal amount is non-interest bearing unless the funds remain outstanding past the due date at which time interest will accrue at RBC's prime rate on a daily basis.

7. **Related Party Transactions**

Insurance

The City provides for facility insurance for the Corporation. The Corporation paid $50,646 (2012 - $50,000) to the City for the current year premiums.

Interest

The Corporation incurred interest of $36,270 (2012 - $38,820) on outstanding debt to the City and the amount is recorded in interest expense for the year.

Leased Land

The Corporation has signed a sub lease agreement with the City at no cost for the first 35 years and then 50% of the operating surplus for the balance of the term to October 27, 2057, for the land on which the arena facilities are located. In turn, the City has leased the land from The Toronto District School Board and the Corporation is required to provide 500 hours of no cost non-prime time ice time, to the Toronto District School Board, from October 1st to September 30th, each lease year.

Discounted Ice Time

As a continuation of an agreement with Lakeshore Lions Arena Corporation, the City receives exclusive prime time ice rental at an hourly rate equivalent to the average rate for adult ice time charged at arena facilities operated by the City from time to time. This agreement is for 600 hours in 2013 (2012 - 500 hours) and will increase to 700 hours in 2014 and 800 hours in 2015.

8. **Financial Instruments**

The estimated fair value of cash, accounts receivable, accounts payable and accrued liabilities approximate carrying value given the relatively short term nature of the instruments. The estimated value of long term debt approximates carrying value as the interest rates charged on the debt approximate current interest rates on similar facilities.

The Corporation is exposed to interest rate risk on the floating rate portion of long-term debt facilities #1, #3 and #4 due to Pacific and Western Bank of Canada. These three loans mature on September 30, 2014.