

# RE:EX16.8 Attachment 2

**FINANCIAL STATEMENTS**  
**For**  
**LAKESHORE ARENA CORPORATION**  
**For year ended**  
**DECEMBER 31, 2015**

**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors of

**LAKESHORE ARENA CORPORATION**

We have audited the accompanying financial statements of the Lakeshore Arena Corporation, which comprise the statement of financial position as at December 31, 2015 and the statements of operations, change in net debt 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, these financial statements present fairly, in all material respects, the financial position of Lakeshore Arena Corporation 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.

*Other Matter*

The financial statements of Lakeshore Arena Corporation for the year ended December 31, 2014, were audited by another auditor who expressed an unmodified opinion on those statements on April 7, 2015.



Chartered Professional Accountants  
Licensed Public Accountants

Toronto, Ontario  
April 27, 2016.

**LAKESHORE ARENA CORPORATION**  
**STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2015**

	<u>2015</u>	<u>2014</u>
<b>FINANCIAL ASSETS</b>		
Cash	\$ 186,713	\$ 348,374
Accounts receivable	<u>547,874</u>	<u>747,105</u>
	<u>734,587</u>	<u>1,095,479</u>
<b>FINANCIAL LIABILITIES</b>		
Accounts payable and accrued liabilities (note 6)	344,647	499,608
Long-term debt (note 5)	40,094,932	40,524,277
Deferred revenue	<u>39,008</u>	<u>45,756</u>
	<u>40,478,587</u>	<u>41,069,641</u>
<b>NET FINANCIAL LIABILITIES</b>	<u>(39,744,000)</u>	<u>(39,974,162)</u>
<b>NON-FINANCIAL ASSETS</b>		
Franchise fee	-	2,500
Tangible capital assets (note 3)	36,350,130	37,038,474
Inventory	19,148	17,917
Prepaid expense	<u>-</u>	<u>7,400</u>
	<u>36,369,278</u>	<u>37,066,291</u>
<b>ACCUMULATED (DEFICIT)</b>	<u>\$ (3,374,722)</u>	<u>\$ (2,907,871)</u>

Approved on behalf of the Board:

*Ana Glasof* ..... Director  
*Bill Bennett* ..... Director

(See accompanying notes)

LAKESHORE ARENA CORPORATION

STATEMENT OF OPERATIONS

YEAR ENDED DECEMBER 31, 2015

	Budget <u>2015</u>	<u>2015</u>	<u>2014</u>
<b>Revenue</b>			
Ice rentals	\$ 3,085,565	\$ 3,167,473	\$ 3,104,504
Tenancy rentals	949,449	965,827	934,502
Snack bar revenue (Schedule A)	293,436	331,296	284,935
Licensing	202,622	287,625	234,575
Utility recovery	176,145	221,326	169,370
Other	<u>6,996</u>	<u>46,553</u>	<u>48,805</u>
	<u>4,714,213</u>	<u>5,020,100</u>	<u>4,776,691</u>
<b>Expenses</b>			
Interest on long-term debt	1,272,097	1,621,454	1,520,609
Utilities	1,101,420	1,231,399	1,117,103
Amortization of capital assets	961,488	967,081	866,398
Salaries and benefits	877,465	953,406	942,642
Building and equipment maintenance	472,083	503,466	469,984
Office and cleaning	59,127	76,849	58,198
Insurance	50,002	50,646	50,646
Interest and bank charges	37,103	39,151	36,519
Legal and audit	30,078	26,300	18,200
Telephone	9,791	9,808	9,637
Other	151	4,839	19,570
Bad debts	<u>-</u>	<u>2,552</u>	<u>4,457</u>
	<u>4,870,805</u>	<u>5,486,951</u>	<u>5,113,963</u>
<b>Operating deficit</b>	<u>\$ (156,592)</u>	(466,851)	(337,272)
<b>Accumulated deficit, beginning of year</b>		<u>(2,907,871)</u>	<u>(2,570,599)</u>
<b>Accumulated deficit, end of year</b>		<u>\$ (3,374,722)</u>	<u>\$ (2,907,871)</u>

(See accompanying notes)

**LAKESHORE ARENA CORPORATION**  
**STATEMENT OF CHANGE IN NET DEBT**  
**YEAR ENDED DECEMBER 31, 2015**

	<u>2015</u>	<u>2014</u>
<b>Operating deficit</b>	\$ (466,851)	\$ (337,272)
Acquisition of tangible capital assets	(278,737)	-
Utilization of inventories, prepaid expenses and franchise fee	8,669	2,739
Amortization of tangible capital assets	<u>967,081</u>	<u>866,398</u>
<b>Change in net debt</b>	230,162	531,865
<b>Net financial liabilities, beginning of year</b>	<u>(39,974,162)</u>	<u>(40,506,027)</u>
<b>Net financial liabilities, end of year</b>	<u>\$ (39,744,000)</u>	<u>\$ (39,974,162)</u>

(See accompanying notes)

LAKESHORE ARENA CORPORATION

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2015

	<u>2015</u>	<u>2014</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Operating deficit	\$ (466,851)	\$ (337,272)
Item not affecting cash		
Amortization of tangible capital assets	967,081	866,398
Franchise fee expensed in year	<u>2,500</u>	<u>2,500</u>
	502,730	531,626
Non-cash changes to operations		
Accounts receivable	199,231	(90,412)
Accounts payable and accrued liabilities	(154,961)	127,498
Deferred revenue	(6,748)	-
Inventory	(1,231)	239
Prepaid expenses	<u>7,400</u>	<u>-</u>
Cash flows from operating activities	<u>546,421</u>	<u>568,951</u>
<b>INVESTING ACTIVITIES</b>		
Purchase of tangible capital assets	<u>(278,737)</u>	<u>-</u>
Cash flows from investing activities	<u>(278,737)</u>	<u>-</u>
<b>FINANCING ACTIVITIES</b>		
Principal repayments of long-term debt	<u>(429,345)</u>	<u>(412,772)</u>
Cash flows from financing activities	<u>(429,345)</u>	<u>(412,772)</u>
<b>INCREASE (DECREASE) IN CASH</b>	(161,661)	156,179
<b>CASH, BEGINNING OF YEAR</b>	<u>348,374</u>	<u>192,195</u>
<b>CASH, END OF YEAR</b>	<u>\$ 186,713</u>	<u>\$ 348,374</u>

(See accompanying notes)

**LAKESHORE ARENA CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2015**

**1. NATURE OF 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**

Basis of accounting

These financial statements have been prepared in accordance with Canadian public sector accounting standards as issued by the Public Sector Accounting Board (PSAB).

*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.

*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 respective agreements. Utilities recovery is recognized on a monthly basis based on usage. Snack bar sales are recognized at the time of sale. Ice rental fees paid in advance are recorded as deferred revenues.

*Inventories*

Inventories held for resale are initially recorded at cost and subsequently measured at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis.

*Tangible capital assets*

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

Building	46 years
Computer equipment	5 years
Furniture and fixtures	10 years
Zamboni	8 years

Property and equipment are 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/or equipment to its fair value. Any impairment of property and/or equipment is charged to income in the period in which the impairment is determined.

**LAKESHORE ARENA CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS - Cont'd.**  
**YEAR ENDED DECEMBER 31, 2015**

**2. SIGNIFICANT ACCOUNTING POLICIES - Cont'd.**

*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.

*Contributed services*

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

*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 at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Management makes accounting estimates when determining the useful life of its tangible capital assets, significant accrued liabilities and the related costs charged to the statement of operations.

Actual results could differ from those estimates, the impact of which would be recorded in future periods.

**3. TANGIBLE CAPITAL ASSETS**

	2015			2014		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Building	\$ 39,398,517	\$ 3,639,895	\$ 35,758,622	\$ 39,398,517	\$ 2,780,017	\$ 36,618,500
Computer equipment	43,354	39,589	3,765	42,321	37,320	5,001
Furniture and fixtures	574,949	282,501	292,448	574,949	209,654	365,295
Zamboni	<u>373,452</u>	<u>78,157</u>	<u>295,295</u>	<u>95,748</u>	<u>46,070</u>	<u>49,678</u>
	<u>\$ 40,390,272</u>	<u>\$ 4,040,142</u>	<u>\$ 36,350,130</u>	<u>\$ 40,111,535</u>	<u>\$ 3,073,061</u>	<u>\$ 37,038,474</u>

**4. LINE OF CREDIT**

The Corporation has available a line of credit with the City of Toronto 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. The line of credit was not drawn upon as of December 31, 2015, during the year or during the prior year.



**LAKESHORE ARENA CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS - Cont'd.**  
**YEAR ENDED DECEMBER 31, 2015**

**5. LONG-TERM DEBT**

	<u>2015</u>	<u>2014</u>
Pacific & Western Bank of Canada Facility #2	\$ 19,602,463	\$ 19,931,808
City of Toronto	19,892,469	19,892,469
City of Toronto - Energy Retrofit Loan	<u>600,000</u>	<u>700,000</u>
	<u>\$ 40,094,932</u>	<u>\$ 40,524,277</u>

Principal repayments are due as follows:

	<u>City of Toronto</u>	<u>Pacific and Western</u>
2016	\$ 100,000	\$ 343,897
2017	19,992,469	19,258,566
2018	100,000	-
2019	100,000	-
2020 and thereafter	<u>200,000</u>	<u>-</u>
	<u>\$ 20,492,469</u>	<u>\$ 19,602,463</u>

The Pacific & Western Bank of Canada Facility #2 is secured by a registered leasehold second mortgage of \$19,984,578. Additionally, rental income, lease income and insurance proceeds from all other properties, are also assigned under a general security agreement. The City has provided a guarantee and postponement of claim agreement in the amount of \$29,000,000 plus accrued and capitalized interest on Facility #2. 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.

The City of Toronto loan is unsecured and bears interest at 3.0% compounded semi-annually. Interest only is payable quarterly and the loan maturity date is September 30, 2017. During 2015 the City authorized a reduction in the loan in the amount of \$8.1 million to be considered as a capital contribution. The reduction was subject to two conditions which had not been met as of the financial statements date. As such the reduction is not reflected in these financial statements.

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, 2012. The principal amount is non-interest bearing unless the funds remain outstanding past October 1, 2021 at which time interest will accrue at RBC's prime rate on a daily basis.

**6. RELATED PARTY TRANSACTIONS**

*Insurance*

The City of Toronto provides for facility insurance for the Corporation. The Corporation paid \$50,646 (2014 - \$50,646) to the City for the current year premiums.

*Interest*

The Corporation incurred interest of \$598,092 (2014 - \$169,633) on outstanding debt to the City and the amount is recorded in interest on long-term debt. Of this amount, \$nil (2014 - \$142,106) is recorded in accounts payable and accrued liabilities.

**LAKESHORE ARENA CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS - Cont'd.**  
**YEAR ENDED DECEMBER 31, 2015**

**6. RELATED PARTY TRANSACTIONS - Cont'd.**

*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 1<sup>st</sup> to September 30<sup>th</sup>, 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 400 hours in 2011, 500 hours in 2012, 600 hours in 2013, 700 hours in 2014, and 800 hours in 2015.

**7. FINANCIAL INSTRUMENTS**

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

*Credit risk*

The Corporation is exposed to credit risk resulting from the possibility that parties may default on their financial obligations. The Corporation's maximum exposure to credit risk represents the sum of the carrying value of its cash and accounts receivable. The Corporation's cash is with a Canadian chartered bank and as a result management believes the risk of loss on this item to be remote.

Management believes that the Corporation's credit risk with respect to accounts receivable is limited. The Corporation manages its credit risk by reviewing accounts receivable aging and following up on outstanding amounts.

*Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Corporation's exposure to interest rate risk arises from its line of credit and long-term debt, both of which bear interest at fixed interest rates. Consequently, the Corporation's exposure to interest rate risk is negligible.

*Liquidity risk*

Liquidity risk refers to the adverse consequence that the Corporation will encounter difficulty in meeting obligations associated with financial liabilities, which are comprised of accounts payable and accrued liabilities.

The Corporation manages liquidity risk by monitoring its cash flow requirements on a regular basis. The Corporation believes its overall liquidity risk to be minimal.

*Changes in risk*

There have been no changes in the Corporation's risk exposures from the prior year.

**8. COMPARATIVE FIGURES**

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

**LAKESHORE ARENA CORPORATION**  
**YEAR ENDED DECEMBER 31, 2015**  
**SNACK BAR OPERATIONS**

	<u>2015</u>	<u>2014</u>
<b>Sales</b>		
Snack bar	\$ 438,833	\$ 427,988
Catering income	<u>129,724</u>	<u>102,399</u>
	568,557	530,387
<b>Cost of goods sold</b>	<u>237,261</u>	<u>245,453</u>
<b>Gross profit</b>	<u>\$ 331,296</u>	<u>\$ 284,935</u>