

FINANCIAL STATEMENTS
For
LAKESHORE ARENA CORPORATION
For year ended
DECEMBER 31, 2017

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, 2017 and the statements of operations, changes 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, 2017 and the results of its operations and cash flows for the year then ended in accordance with Canadian public sector accounting standards.



Chartered Professional Accountants
Licensed Public Accountants

Toronto, Ontario
April 30, 2018.

LAKESHORE ARENA CORPORATION
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2017

	<u>2017</u>	<u>2016</u>
FINANCIAL ASSETS		
Cash	\$ 251,451	\$ 242,785
Accounts receivable	<u>407,122</u>	<u>586,876</u>
	<u>658,573</u>	<u>829,661</u>
FINANCIAL LIABILITIES		
Accounts payable and accrued liabilities	397,656	296,245
Line of credit (note 4)	-	125,000
Deferred revenue	81,758	54,385
Loans payable (note 6)	31,169,250	31,758,503
Due to City of Toronto (note 8)	<u>338,440</u>	<u>-</u>
	<u>31,987,104</u>	<u>32,234,133</u>
NET DEBT	<u>(31,328,531)</u>	<u>(31,404,472)</u>
NON-FINANCIAL ASSETS		
Tangible capital assets (note 3)	34,537,705	35,373,652
Inventory	<u>16,249</u>	<u>13,363</u>
	<u>34,553,954</u>	<u>35,387,015</u>
ACCUMULATED SURPLUS (note 8)	<u>\$ 3,225,423</u>	<u>\$ 3,982,543</u>

Approved on behalf of the Board:

..... Director

..... Director

(See accompanying notes)

LAKESHORE ARENA CORPORATION

STATEMENT OF OPERATIONS

YEAR ENDED DECEMBER 31, 2017

	Budget <u>2017</u> (unaudited)	<u>2017</u>	<u>2016</u>
Revenue			
Ice rentals	\$ 3,178,620	\$ 3,317,665	\$ 3,048,013
Tenancy rentals	1,022,001	1,047,404	980,048
Licensing	346,914	354,709	316,738
Utility recovery	205,305	204,088	199,991
Snack bar, net (Schedule A)	88,134	80,658	49,570
Other	<u>31,009</u>	<u>46,464</u>	<u>25,589</u>
	<u>4,871,983</u>	<u>5,050,988</u>	<u>4,619,949</u>
Expenses			
Interest on loans payable (note 5)	1,464,273	1,299,003	1,368,384
Utilities	1,237,108	1,268,589	1,333,679
Amortization of tangible capital assets	977,976	977,940	977,976
Salaries and benefits	795,338	839,877	831,551
Building and equipment maintenance	584,722	769,591	678,371
Legal and audit	12,000	17,429	12,682
Insurance (note 5)	50,652	54,178	50,597
Interest and bank charges	32,155	51,404	30,902
Bad debts	6,000	20,869	13,442
Office and cleaning	40,306	19,389	40,247
Telephone	12,332	13,432	12,553
Other	5,100	11,105	6,980
Marketing and Promotions	<u>4,955</u>	<u>9,241</u>	<u>5,320</u>
	<u>5,222,917</u>	<u>5,352,047</u>	<u>5,362,684</u>
Operating deficit	<u>\$ (350,934)</u>	(301,059)	(742,735)
Accumulated surplus (deficit), beginning of year		3,982,543	(3,374,722)
Contributed capital (note 8)		-	8,100,000
Distribution (note 8)		<u>(456,061)</u>	<u>-</u>
Accumulated surplus, end of year		<u>\$ 3,225,423</u>	<u>\$ 3,982,543</u>

(See accompanying notes)

LAKESHORE ARENA CORPORATION
STATEMENT OF CHANGES IN NET DEBT
YEAR ENDED DECEMBER 31, 2017

	<u>2017</u>	<u>2016</u>
Operating deficit	\$ (301,059)	\$ (742,735)
Acquisition of tangible capital assets	(141,993)	(1,498)
Utilization of inventories	(2,886)	5,785
Amortization of tangible capital assets	977,940	977,976
Distribution to City of Toronto (note 8)	(456,061)	-
Contributed capital by City of Toronto (note 8)	<u>-</u>	<u>8,100,000</u>
Changes in net debt	75,941	8,339,528
Net debt, beginning of year	<u>(31,404,472)</u>	<u>(39,744,000)</u>
Net debt, end of year	<u>\$ (31,328,531)</u>	<u>\$ (31,404,472)</u>

(See accompanying notes)

LAKESHORE ARENA CORPORATION

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2017

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating deficit	\$ (301,059)	\$ (742,735)
Item not affecting cash		
Amortization of tangible capital assets	<u>977,940</u>	<u>977,976</u>
	676,881	235,241
Non-cash changes to operations		
Accounts receivable	179,754	(39,002)
Accounts payable and accrued liabilities	101,411	(48,402)
Deferred revenue	27,373	15,377
Inventory	(2,886)	5,785
Due to City of Toronto	<u>338,440</u>	<u>-</u>
Cash flows from operating activities	<u>1,320,973</u>	<u>168,999</u>
INVESTING ACTIVITIES		
Purchase of tangible capital assets	<u>(141,993)</u>	<u>(1,498)</u>
Cash flows used in investing activities	<u>(141,993)</u>	<u>(1,498)</u>
FINANCING ACTIVITIES		
Advances from (repayments of) line of credit	(125,000)	125,000
Proceeds from loans payable	26,812,775	207,468
Principal repayments of loans payable	(27,319,386)	(443,897)
Capitalized transaction costs	(82,642)	-
Distribution to City of Toronto	<u>(456,061)</u>	<u>-</u>
Cash flows used in financing activities	<u>(1,170,314)</u>	<u>(111,429)</u>
INCREASE IN CASH	8,666	56,072
CASH, BEGINNING OF YEAR	<u>242,785</u>	<u>186,713</u>
CASH, END OF YEAR	<u>\$ 251,451</u>	<u>\$ 242,785</u>
<hr/>		
Non-cash transactions:		
Conversion of loan payable to contributed capital (note 8)	\$ -	\$ 8,100,000

(See accompanying notes)

LAKESHORE ARENA CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017

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).

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.

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 line of credit. Loans payable are initially measured at fair value, net of transaction costs. It is subsequently measured at amortized cost. Transaction costs are amortized on a straight-line basis.

LAKESHORE ARENA CORPORATION
NOTES TO THE FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED DECEMBER 31, 2017

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

Contributed services

Services provided without charge by the City 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**

	2017		2016	
	<u>Cost</u>	<u>Accumulated amortization</u>	<u>Net book value</u>	<u>Net book value</u>
Building	\$ 39,540,509	\$ 5,359,649	\$ 34,180,860	\$ 34,898,745
Computer equipment	44,852	39,625	5,227	5,227
Furniture and fixtures	574,949	419,739	155,210	223,829
Zamboni	373,452	177,044	196,408	245,851
	<u>\$ 40,533,762</u>	<u>\$ 5,996,057</u>	<u>\$ 34,537,705</u>	<u>\$ 35,373,652</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. As of the year end, \$nil (2016 - \$125,000) has been drawn upon.

5. **RELATED PARTY TRANSACTIONS**

Insurance

The City of Toronto provides for facility insurance for the Corporation. The Corporation paid \$54,178 (2016 - \$50,597) to the City for the current year premiums.

Interest

The Corporation incurred interest of \$299,069 (2016 - \$359,5742) on outstanding debt to the City of Toronto and the amount is recorded in interest on loans payable.

Leased Land

The Corporation has signed a sub lease agreement with the City of Toronto 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.

LAKESHORE ARENA CORPORATION
NOTES TO THE FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED DECEMBER 31, 2017

6. LOANS PAYABLE

	<u>2017</u>	<u>2016</u>
(a) Infrastructure Ontario	\$ 26,700,239	\$ -
(b) Versabank Facility #2	-	19,258,566
(c) City of Toronto - General	4,047,660	11,792,469
(d) City of Toronto - Sustainable Energy Plan	103,993	207,468
(e) City of Toronto - Toronto Energy Conservation Fund	400,000	500,000
Less unamortized transaction costs	<u>(82,642)</u>	<u>-</u>
	<u>\$ 31,169,250</u>	<u>\$ 31,758,503</u>

Principal repayments are due as follows:

	<u>City of Toronto</u>	<u>Infrastructure Ontario</u>
2018	\$ 203,993	\$ 689,087
2019	100,000	713,443
2020	4,147,660	738,671
2021	100,000	764,791
2022	-	791,834
Thereafter	<u>-</u>	<u>23,002,413</u>
	<u>\$ 4,551,653</u>	<u>\$ 26,700,239</u>

(a) In April 2017, the Corporation obtained two credit facilities from Ontario Infrastructure and Lands Corporation ("Infrastructure Ontario"). The maximum aggregate principal amount which maybe outstanding at anytime cannot exceed \$30,860,435. The credit facilities are secured by a mortgage over the property, a general security agreement, and assignment of rents and leases. The City of Toronto has provided a guarantee of the principal amount. The credit facilities contain a number of restrictive covenants that requires the Corporation to be in compliance with a financial ratio and non-financial criteria.

On October 31, 2017, a total of \$26,812,775 was drawn against the credit facilities, bearing interest at 3.48% and are repayable in equal monthly blended installments of \$133,944 commencing November 30, 2017, maturing on October 31, 2042.

(b) The Versabank (formerly Pacific & Western Bank of Canada) Facility #2 was fully repaid during the year.

(c) The City of Toronto general loan is unsecured and bears interest at 3.0% compounded semi-annually with interest only payments due. The loan was partially repaid during the year, with remaining balance maturing on October 30, 2020.

LAKESHORE ARENA CORPORATION
NOTES TO THE FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED DECEMBER 31, 2017

6. LOANS PAYABLE - Cont'd.

(d) In July 2016, the Corporation obtained a loan from the City of Toronto for the implementation of energy efficient projects under in the amount of \$207,468. The loan bears interest at 0.5% and matures on October, 1 2018. The loan is repayable in equal quarterly blended installments of \$26,080 commencing January 1, 2017.

(e) In January 2012, the Corporation obtained a loan from the City of Toronto under the Toronto Energy Conservation Fund in the amount of \$1,000,000. The loan is repayable in equal quarterly installments of \$25,000 commencing January 1, 2012. The loan is interest-free until October 1, 2021, at which time any outstanding balance will accrue interest at RBC's prime rate on a daily basis.

7. FINANCIAL INSTRUMENTS

Transactions in financial instruments may result in an entity assuming or transferring to another party one or more of the financial risks described below. The following disclosures provide information to assist users of the financial statements in assessing the extent of risk related to the Corporation's financial instruments:

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 and loans payable.

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 significant changes in the Corporation's risk exposures from the prior year.

LAKESHORE ARENA CORPORATION
NOTES TO THE FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED DECEMBER 31, 2017

8. ACCUMULATED SURPLUS (DEFICIT)

The accumulated surplus (deficit) is made up as follows:

	<u>2017</u>	<u>2016</u>
Accumulated surplus (deficit), beginning of year	\$ 3,982,543	\$ (3,374,722)
Capital contribution from City of Toronto	-	8,100,000
Distribution to City of Toronto	(456,061)	-
Current year operating deficit	<u>(301,059)</u>	<u>(742,735)</u>
Accumulated surplus, end of year	<u>\$ 3,225,423</u>	<u>\$ 3,982,543</u>

In January 2016, the City of Toronto wrote-off \$8,100,000 of the loan receivable from the Corporation and converted it as a capital contribution to the Corporation. As part of the transaction, the Corporation agreed to make an annual distribution to the City equal to 50% of net operating income before amortization of tangible capital assets. The annual distribution would continue until the full \$8,100,000 of the capital contribution has been returned. As at December 31, 2017, a total of \$456,060 (2016 - \$nil) had been recorded as distributions to date, of which \$338,440 (2016 - \$nil) is outstanding and included in due to City of Toronto. The balance outstanding is non-interest bearing with no fixed repayment terms.

9. 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, 2017
SNACK BAR OPERATIONS

	<u>2017</u>	<u>2016</u>
Sales		
Snack bar	\$ 451,224	\$ 399,357
Catering income	<u>90,587</u>	<u>69,402</u>
	541,811	468,759
Cost of goods sold	221,556	206,894
Direct wages	<u>239,597</u>	<u>212,295</u>
Gross profit	<u>\$ 80,658</u>	<u>\$ 49,570</u>