

FINANCIAL STATEMENTS
For
LAKESHORE ARENA CORPORATION
For year ended
DECEMBER 31, 2019

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of

LAKESHORE ARENA CORPORATION

Opinion

We have audited the accompanying financial statements of Lakeshore Arena Corporation, which comprise the statement of financial position as at December 31, 2019 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the statement of financial position of Lakeshore Arena Corporation as at December 31, 2019 and the results of its operations, changes in net debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of Lakeshore Arena Corporation in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing Lakeshore Arena Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the organization or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing Lakeshore Arena Corporation's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Lakeshore Arena Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Lakeshore Arena Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause Lakeshore Arena Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Chartered Professional Accountants
Licensed Public Accountants

Toronto, Ontario
July 22, 2020.

Welch LLP[®]

LAKESHORE ARENA CORPORATION
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2019

	<u>2019</u>	<u>2018</u>
FINANCIAL ASSETS		
Cash	\$ 502,125	\$ 381,141
Accounts receivable	113,566	304,038
Accrued revenue	<u>75,434</u>	<u>-</u>
	<u>691,125</u>	<u>685,179</u>
FINANCIAL LIABILITIES		
Accounts payable and accrued liabilities	302,531	357,939
HST payable	32,220	40,038
Deferred revenue	105,554	79,996
Loans payable (note 6)	29,537,804	30,279,507
Due to City of Toronto (note 9)	711,448	547,594
Obligations under capital lease (note 7)	<u>238,272</u>	<u>-</u>
	<u>30,927,829</u>	<u>31,305,074</u>
NET DEBT	<u>(30,236,704)</u>	<u>(30,619,895)</u>
NON-FINANCIAL ASSETS		
Tangible capital assets (note 3)	32,971,949	33,422,849
Inventory	13,953	15,053
Prepaid expense	<u>8,375</u>	<u>-</u>
	<u>32,994,277</u>	<u>33,437,902</u>
ACCUMULATED SURPLUS (note 9)	<u>\$ 2,757,573</u>	<u>\$ 2,818,007</u>

Approved on behalf of the Board:

Howie Dayton

..... Director

Andrew J. Flynn

..... Director

(See accompanying notes)

LAKESHORE ARENA CORPORATION

STATEMENT OF OPERATIONS

YEAR ENDED DECEMBER 31, 2019

	Budget 2019 (unaudited)	2019	2018
Revenue			
Ice rentals	\$ 3,609,557	\$ 3,681,578	\$ 3,605,009
Tenancy rentals	1,096,727	1,108,640	1,067,452
Licensing	249,341	271,086	351,053
Utility recovery	198,248	194,646	197,980
Snack bar, net (Schedule A)	51,468	19,861	50,003
Other	<u>28,650</u>	<u>36,814</u>	<u>67,831</u>
	<u>5,233,991</u>	<u>5,312,625</u>	<u>5,339,328</u>
Expenses			
Utilities	1,112,888	1,130,614	1,107,640
Salaries and benefits	1,015,698	1,051,250	930,147
Interest (note 5 and 7)	1,015,215	1,020,321	1,042,253
Amortization of tangible capital assets	913,934	954,804	955,010
Building and equipment maintenance	728,749	631,425	658,861
Office and cleaning	217,332	210,093	212,558
Bank and credit card charges	51,906	61,492	49,646
Insurance (note 5)	55,000	55,519	54,041
Legal and audit	28,000	36,693	30,090
Marketing and promotions	6,000	24,392	3,660
Telephone	15,306	15,398	14,368
Other	7,200	13,677	11,669
Amortization of loan transaction cost	-	3,328	3,328
Bad debts	6,000	199	6,534
Loss on sale of tangible capital assets (note 3)	<u>-</u>	<u>-</u>	<u>119,345</u>
	<u>5,173,228</u>	<u>5,209,205</u>	<u>5,199,150</u>
Operating surplus	<u>\$ 60,763</u>	103,420	140,178
Accumulated surplus, beginning of year		2,818,007	3,225,423
Draw from City of Toronto capital reserve fund (note 9)		365,259	-
Distribution to City of Toronto (note 9)		<u>(529,113)</u>	<u>(547,594)</u>
Accumulated surplus, end of year		<u>\$ 2,757,573</u>	<u>\$ 2,818,007</u>

(See accompanying notes)

LAKESHORE ARENA CORPORATION
STATEMENT OF CHANGES IN NET DEBT
YEAR ENDED DECEMBER 31, 2019

	<u>2019</u>	<u>2018</u>
Operating surplus	\$ 103,420	\$ 140,178
Acquisition of tangible capital assets	(503,904)	(9,499)
Utilization of inventories	1,100	1,196
Change in prepaid expenses	(8,375)	-
Amortization of tangible capital assets	954,804	955,010
Proceeds from sale of tangible capital assets	-	50,000
Loss on sale of tangible capital assets	-	119,345
Distribution to City of Toronto (note 9)	<u>(163,854)</u>	<u>(547,594)</u>
Changes in net debt	391,566	708,636
Net debt, beginning of year	<u>(30,619,895)</u>	<u>(31,328,531)</u>
Net debt, end of year	<u>\$ (30,236,704)</u>	<u>\$ (30,619,895)</u>

(See accompanying notes)

LAKESHORE ARENA CORPORATION

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2019

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating surplus	\$ 103,420	\$ 140,178
Items not affecting cash:		
Amortization of tangible capital assets	954,804	955,010
Amortization of loan transaction costs	3,328	3,328
Loss on sale of tangible capital assets	<u>-</u>	<u>119,345</u>
	1,061,552	1,217,861
Non-cash changes to operations		
Accounts receivable	190,472	103,084
Accrued revenue	(75,434)	-
Prepaid expense	(8,375)	-
Accounts payable and accrued liabilities	(55,408)	(2,650)
HST payable	(7,818)	2,971
Deferred revenue	25,558	(1,762)
Inventory	1,100	1,196
Due to City of Toronto	<u>163,854</u>	<u>209,154</u>
	<u>1,295,501</u>	<u>1,529,854</u>
INVESTING ACTIVITIES		
Proceeds from sale of tangible capital assets	-	50,000
Purchase of tangible capital assets	<u>(235,493)</u>	<u>(9,499)</u>
	<u>(235,493)</u>	<u>40,501</u>
FINANCING ACTIVITIES		
Principal repayments of loans payable	(745,031)	(893,071)
Distribution to City of Toronto	(163,854)	(547,594)
Repayments of obligation under capital lease	<u>(30,139)</u>	<u>-</u>
	<u>(939,024)</u>	<u>(1,440,665)</u>
INCREASE IN CASH	120,984	129,690
CASH, BEGINNING OF YEAR	<u>381,141</u>	<u>251,451</u>
CASH, END OF YEAR	<u>\$ 502,125</u>	<u>\$ 381,141</u>
Non-cash transactions:		
Tangible capital assets purchased under capital leases	\$ (268,411)	\$ -
Capital leases obtained	\$ 268,411	\$ -

(See accompanying notes)

LAKESHORE ARENA CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

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	5 years

Tangible capital assets 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 tangible capital assets to its fair value. Any impairment 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, capital lease 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.

Contributed services

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

LAKESHORE ARENA CORPORATION
NOTES TO THE FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED DECEMBER 31, 2019

2. SIGNIFICANT ACCOUNTING POLICIES - Cont'd.

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, 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

	2019		2018
	<u>Cost</u>	<u>Accumulated amortization</u>	<u>Net book value</u>
Building	\$ 39,726,934	\$ 7,084,310	\$ 32,642,624
Computer equipment	65,825	45,173	20,652
Furniture and fixtures	610,837	543,734	67,103
Zamboni	364,159	122,589	241,570
	<u>\$ 40,767,755</u>	<u>\$ 7,795,806</u>	<u>\$ 32,971,949</u>
			<u>\$ 33,422,849</u>

Included in Zamboni is equipment under capital lease of \$268,411 (2018 - \$nil) with related accumulated amortization of \$26,841 (2018 - \$nil).

In 2018, two zamboni machines with net book value of \$169,345 were sold for \$50,000. An impairment loss of \$119,345 was recognized as loss on sale of tangible capital assets.

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. No amounts has been drawn upon as at December 31, 2019 and 2018.

5. RELATED PARTY TRANSACTIONS

Insurance

The City of Toronto provides for facility insurance for the Corporation. The Corporation paid \$55,519 (2018 - \$54,041) to the City for the current year premiums.

Interest

The Corporation incurred interest of \$121,335 (2018 - \$123,681) on outstanding debt to the City of Toronto and the amount is recorded in interest, of which \$nil (2018 - \$31,171) is outstanding and included in accounts payable and accrued liabilities.

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, 2019

6. LOANS PAYABLE

	<u>2019</u>	<u>2018</u>
(a) Infrastructure Ontario	\$ 25,297,718	\$ 26,011,162
(b) City of Toronto - General	4,047,660	4,047,660
(c) City of Toronto - Sustainable Energy Plan	68,412	-
(d) City of Toronto - Toronto Energy Conservation Fund	<u>200,000</u>	<u>300,000</u>
	29,613,790	30,358,822
Less unamortized transaction costs	<u>(75,986)</u>	<u>(79,315)</u>
	<u>\$ 29,537,804</u>	<u>\$ 30,279,507</u>

Principal repayments are due as follows:

	<u>City of Toronto</u>	<u>Infrastructure Ontario</u>
2020	\$ 4,164,483	\$ 738,671
2021	134,204	764,791
2022	17,385	791,834
2023	-	819,834
2024	-	848,823
Thereafter	<u>-</u>	<u>21,333,765</u>
	<u>\$ 4,316,072</u>	<u>\$ 25,297,718</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 bearing interest at 3.48% and are repayable in equal monthly blended installments of \$133,944 which commenced on November 30, 2017 and matures on October 31, 2042. 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, and the Corporation is in compliance with these covenants as at December 31, 2019.

(b) The City of Toronto general loan is unsecured and bears interest at 3.0% compounded semi-annually with interest only payments due. The loan matures on October 31, 2020.

(c) In May 2019, the Corporation obtained a loan from the City of Toronto for the implementation of energy efficient projects in the amount of \$68,412, bearing interest at 2.2%. The loan is repayable commencing July 1, 2020 over quarterly principal payments of \$8,764 plus interest maturing on July 1, 2022.

(d) 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.

LAKESHORE ARENA CORPORATION
NOTES TO THE FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED DECEMBER 31, 2019

7. CAPITAL LEASE OBLIGATIONS

The Corporation has financed two Zambonis by entering into capital leasing arrangements. Capital lease repayments are due as follows:

2020	\$ 52,867
2021	52,867
2022	52,867
2023	52,867
2024	<u>44,848</u>
	256,316
Less amount representing deemed interest at 3%	<u>18,044</u>
Present value of net minimum capital lease payments	<u>\$ 238,272</u>

Interest of \$5,105 (2018 - \$nil) relating to capital lease obligations has been included in interest expense.

8. 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 line of credit and long-term debt 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, 2019

9. ACCUMULATED SURPLUS

The accumulated surplus is made up as follows:

	<u>2019</u>	<u>2018</u>
Accumulated surplus, beginning of year	\$ 2,818,007	\$ 3,225,423
Draw from capital reserve fund	365,259	-
Distribution to City of Toronto	(529,113)	(547,594)
Current year operating surplus	<u>103,420</u>	<u>140,178</u>
Accumulated surplus, end of year	<u>\$ 2,757,573</u>	<u>\$ 2,818,007</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. The Corporation is able to draw from the distributions made to the City for capital repair projects upon approval by the City of Toronto. As at December 31, 2019, a total of \$1,167,509 (2018 - \$1,003,655) had been recorded as distributions to date, of which \$711,448 (2018 - \$547,594) is outstanding and included in due to City of Toronto. The balance outstanding is non-interest bearing with no fixed repayment terms.

10. SUBSEQUENT EVENT

In Mid-March 2020, subsequent to the Arena's year-end, the province of Ontario declared a state of emergency in response to the public health concerns originating from the spread of the coronavirus disease.

On March 14, 2020, the Arena was closed in response to the quarantine measures implemented by the provincial government to stop the spread of the virus. The Arena does not currently have a scheduled reopening date.

A high degree of uncertainty persists surrounding the full economic impact of the situation. The unpredictable nature of the spread of the disease makes it difficult to determine the length of time that the Arena's operations will be impacted. Consequently, at the time of issuance of these financial statements, the effect that the abrupt decline in economic activity will have on the Arena's operations, assets, liabilities, revenues and expenses are not yet known.

11. 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, 2019
SNACK BAR OPERATIONS

	<u>2019</u>	<u>2018</u>
Sales		
Snack bar	\$ 410,752	\$ 423,059
Catering income	<u>37,331</u>	<u>63,747</u>
	<u>448,083</u>	<u>486,806</u>
Expenses		
Cost of goods sold	198,747	204,951
Direct wages	<u>229,475</u>	<u>231,852</u>
	<u>428,222</u>	<u>436,803</u>
Gross profit	<u>\$ 19,861</u>	<u>\$ 50,003</u>