

## **Lakeshore Arena Corporation - Annual General Meeting and 2020 Audited Financial Statements**

**Date:** June 21, 2020

**To:** Executive Committee

**From:** City Manager and Chief Financial Officer and Treasurer

**Wards:** All

### **SUMMARY**

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This report transmits materials submitted by the Board of Directors of Lakeshore Arena Corporation (LAC) to the City and recommends actions necessary to comply with the requirements of the Business Corporations Act, Ontario (OBCA) for holding the Annual General Meeting of the Shareholder of LAC, including receipt of its Annual Report and Audited Financial Statements (Statements) for 2020 and appointment of the auditor for 2021. Limited review and analysis was performed by City staff.

LAC's 2020 Statements were audited by Welch LPP and received an unqualified opinion stating that the financial statements present fairly, in all material respects, the financial position of the LAC as at December 31, 2020, and its results of operations for the year then ended in accordance with Canadian public sector accounting standards. However, the Shareholder is directed to Note 2 of the Statements, indicating that LAC had a net debt of \$30.5M at 2020 year end, along with recognizing an operating deficit of \$1.3M and negative operating cash flows of \$0.5M for year-end 2020, not being in compliance with certain financial and non-financial covenants on its debt obligations and not meeting its debt obligation subsequent to year end; although the auditor's opinion was not modified, management has indicated that material uncertainty exists regarding LAC as a going concern, given its dependency on the City of Toronto for continued cash-flow support.

This report contains recommendations for receipt at the Annual General Meeting of the Shareholder of information disclosing the individual compensation of executive officers employed by LAC in 2020.

The report also responds to City Council's request to report the impact of COVID-19 on the 2020 financial statements as well as any modifications to programs and initiatives to address the pandemic.

## RECOMMENDATIONS

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The City Manager and Chief Financial Officer and Treasurer recommend that:

1. City Council treat that portion of the City Council meeting at which this Report is considered as the Annual General Meeting of the Shareholder for Lakeshore by:
  - a. receiving the "Lakeshore Arena Corporation 2020 Annual Report", and the "Lakeshore Arena Corporation 2020 Audited Financial Statements", forming Attachments 1 and 2 to this Report.
  - b. appointing Welch LPP as the Auditor of Lakeshore Arena Corporation for fiscal year 2021, and authorizing the Board of Directors of Lakeshore to fix the remuneration of the Auditor;
  - c. receiving the "Lakeshore Arena Corporation Executive Compensation Disclosure 2020", forming Attachment 3 to this Report; and,
  - d. receiving the "Lakeshore Arena - 2020 Financial Impacts of COVID-19", forming Attachment 4 to this Report.
2. City Council direct the City Clerk to forward a copy of the "Lakeshore Arena Corporation 2020 Audited Financial Statements", forming Attachment 2 to this Report, to the Audit Committee for information.

## FINANCIAL IMPACT

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The Shareholder is directed to Note 2 of the Statements regarding material uncertainty of LAC as a going concern. Given the impacts of COVID-19 on LAC's revenue streams, there is uncertainty as to whether the corporation will have the ability to meet its debt obligations. LAC's ability to continue as a going concern is dependent on the continued cash flow support from the City.

Lakeshore's 2020 Statements recognize a net operating deficit of \$1.3 million (a decrease of \$1.4 million from 2019), total assets of \$32.4 million (a decrease of \$1.3 million from 2019), and total liabilities of \$30.9 million (a decrease of \$0.1 million over 2019). The accumulated surplus decreased by \$1.3 million in 2020 to \$1.5 million, and the value of LAC's non-financial and capital assets decreased by \$0.9 million to \$32 million.

The City of Toronto has provided LAC with \$0.400 million in emergency funding in 2020 and \$0.200 million in January 2021 to sustain operations. Emergency funding to City corporations forms part of the City's COVID-19 response plan. The City has also deferred loan payments of \$0.129 million due in 2020 for six months. The line of credit with the City of Toronto for \$1 million at 3% per annum, to cover periodic operating cash flow shortfalls, has been fully drawn as at December 31, 2020. The line of credit is unsecured and there are no specific terms for repayment.

LAC has also received loan payment deferrals from Infrastructure Ontario (IO) to July 31, 2021. The City has guaranteed the IO loan for LAC. At year end, the IO capital loan was \$24.6 million with required monthly payments of \$0.134 million. An obligatory payment of \$0.938 million is required at the end of the deferral period; as the guarantor, the City may be required to assume the monthly IO principle and interest payments. The details of the loans outstanding are found in Note 7 in the Notes to the Financial Statements.

Lakeshore contributes 50% of its net operating income before amortization to a reserve fund set up for Lakeshore's Capital needs - Lakeshore Arena Capital Reserve Fund (XR3035) and are reflected as return of capital contributions to a limit of \$8.1 million. Due to the ongoing closure of the facility, the 2019 distribution is outstanding and due to the City of Toronto. There is no obligation to provide a 2020 distribution to the City as a contribution to the capital reserve fund as a result of the operating deficit of \$1.3 million.

Emergency funding to LAC forms part of the City's COVID-19 response plan. These supports will continue as needed in 2021 until operations resume and become sustainable through their normal revenue streams.

## **DECISION HISTORY**

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On July 12, 2011, City Council adopted *EX7.1 Restructuring of Relationship with Lakeshore Lions Arena Incorporated* authorized a line of credit to the Corporation in an amount not to exceed \$1,000,000, with interest at the rate of 3% annually calculated monthly, for the purpose of covering periodic operating working capital cash shortfalls, to be repaid in full, and to be funded from the City's own working capital.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2011.EX7.1>

On July 11, 2012, City Council approved a requirement that Shareholder Directions for all wholly-owned City corporations be amended to require public disclosure to the extent permitted by law of individual executive compensation as part of the annual reporting to the Shareholder and where required obtain consent from executives.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2012.EX21.19>

In November 2015, Council adopted recommendations to partially write-down a loan to an arena (Lakeshore Arena Corporation), as recovery of the loans was considered unlikely and further, to set those entities on a more sustainable footing for future operations. That report can be viewed at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2015.EX9.10>

At its meeting on July 28, 2020, City Council approved the renewal of the capital loan issued by the City on behalf of the Lakeshore Arena Corporation in the amount of \$4,047,660 (interest payments only) be renewed for a one-year period commencing on November 1, 2020 and ending October 31, 2021.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2020.EX15.9>

On September 30, 2020, that portion of the City Council meeting where *EX16.16 Lakeshore Arena Corporation - Annual General Meeting and 2019 Audited Financial Statements* was approved by Council, was considered the previous Annual General Meeting of the Shareholder for Lakeshore Arena Corporation.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2020.EX16.16>

At its meeting on February 18, 2021, City Council adopted EX21.2 Capital and Operating Budgets and requested the Board of Directors of Lakeshore, in consultation with the City of Toronto's Chief Financial Officer and Treasurer, to provide the final 2020 financial impacts of COVID-19 on their 2020 Operating and Capital Budgets and operations, detailing any modifications to their programs and initiatives to address COVID-19 at their 2020 Annual General Meetings.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2021.EX21.2>

## **ISSUE BACKGROUND**

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City Council authorized the establishment of Lakeshore Arena Corporation on July 12th, 2011 pursuant to Section 148 of the City of Toronto Act, 2006, and Ontario Regulation 609/06. Lakeshore Arena Corporation was incorporated under the Business Corporations Act (Ontario) (OBCA) on July 19, 2011. The City is the sole shareholder.

Subsection 94(1) requires that the directors of Lakeshore Arena Corporation call an annual meeting of its Shareholder by no later than fifteen months after holding the last preceding annual meeting. The last annual meeting was held by City Council on September 30, 2020. Subsection 154(1) of the OBCA requires that the Shareholder receive Lakeshore audited financial statements and the Auditor's Report at the annual meeting of the Shareholder.

Section 149(2) of the OBCA requires that the Lakeshore Shareholder, at each annual meeting, appoint one or more auditors to hold office until the close of the next annual meeting, and allows the Shareholder to authorize the directors to fix the auditor's remuneration.

Section 5 of the Shareholder Declaration to Lakeshore Arena Corporation requires Lakeshore to provide an annual update to City Council, in addition to the requirement of the OBCA to hold an annual general meeting.

## **COMMENTS**

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### **1. Appointment of Auditor**

Under the OBCA, the auditor must be appointed annually by the Shareholder at the Annual General Meeting of the corporation. The auditor so appointed holds office until the close of the next Annual General Meeting of the Shareholder, or until a successor is appointed.

The Board of Directors of Lakeshore has recommended that Welch LLP be appointed as the Auditor for Lakeshore Arena for fiscal year 2021. The Board will fix the annual remuneration of the Auditor.

## **2. Key Lakeshore Arena Corporation Achievements in 2020**

The Letter to the Shareholder from Lakeshore Arena Corporation, Chair of the Board of Directors transmits the 2020 Annual Review and additional information (Attachment 1), which highlights key Lakeshore Arena Corporation achievements in 2020.

## **3. Summary – Lakeshore Arena 2020 Audited Financial Statements**

### **Highlights of 2020 Financial Results**

Lakeshore Arena Corporation's financial results can be summarized as follows:

- Operating deficit of \$1.3 million driven primarily by the closure of the facility for the majority of the year due to the provincial closure orders, resulting in decreased revenue streams of \$2.5 million that were partially offset by emergency funding of \$0.4 million provided by the City and lower operating costs of \$0.5 million.
- Lakeshore Arena Corporation drew down \$1.0 million from its operating line of credit with the City of Toronto to cover the loan payments due in 2020 required to meet debt covenants. However, LAC is not in compliance with certain financial and non-financial covenants on its debt obligations.
- Due to the 2020 operating deficit, there is no obligation to provide a distribution to the City of Toronto as a contribution to the capital reserve fund in 2020. The 2019 distribution of \$0.529 million remains a liability.
- Government assistance of \$0.1 million was received for commercial rent assistance for 50% of rental income shortfall.
- The City provided \$0.4 million in emergency funding.
- Management has indicated a potential going concern consideration, in light of 2020 operating results and the balance and status of loan balances, but this has not impacted the current year audit opinion provided by Welch LLP.

The auditor's opinion remains unmodified for fiscal 2020. However, Lakeshore Arena's diminishing financial position and health is highlighted in the audit opinion, with reference to Note 2 to the Statements, to indicate that the entity's ability to operate may need to be monitored in future fiscal periods.

An observation that an organization is experiencing difficulties is not necessarily an indication of insolvency or imminent failure. As part of the City's 2020 COVID-19 response plan, the City provided Lakeshore Arena with financial assistance totalling \$1.4 million, comprised of a line of credit of \$1.0 million and \$0.400 million in emergency funding. An additional \$0.200 million in emergency funding was provided at the beginning of 2021. A repayment schedule has not been created in regards to the \$1.0 million line of credit. Therefore, no interest has been calculated or accumulated.

A repayment schedule will be created when LAC's operations resume and the City is able to review their long-term business plan.

Details of the loans outstanding are found in Note 7 to the Statements. Together with this report, Executive Committee will consider a report titled "Annual Report on City's Loan and Loan Guarantee Portfolios" and recommendations from the Chief Financial Officer and Treasurer recommending that the capital loan issued by the City on behalf of the Lakeshore Arena Corporation in the amount of \$4,047,660 (interest payments only) be renewed for a further one-year period commencing on November 1, 2021 and ending October 31, 2022.

In addition to the City loans, LAC's has an outstanding loan with Infrastructure Ontario (IO), which has been guaranteed by the City. As year-end, the loan outstanding was \$24.6 million, repayable in equal monthly blended installments of \$0.134 million. IO has deferred loan repayments to July 31, 2021 with no option for extension, at which time, an obligatory payment of \$0.938 million is required. The City may be required to continue the monthly payments to IO on behalf of LAC.

The City will continue to provide cash-flow support in order to meet debt obligations and working capital needs until normal operations resume.

## Statement of Financial Position

The following table summarizes the Statement of Financial Position for Lakeshore Arena Corporation as at December 31, 2020 with comparative figures for 2019.

	<b>2020</b>	<b>2019</b>	<b>Increase / (Decrease)</b>	<b>%</b>
<b>Financial assets</b>				
Cash	129,129	502,125	(372,996)	-74%
Accounts receivable	99,796	113,566	(13,770)	-12%
Accrued Revenue - Naming Rights	79,034	75,434	3,600	5%
Sub-total	307,959	691,125	(383,166)	-55%
<b>Financial liabilities</b>				
Accounts payable and accruals	374,434	302,531	71,903	24%
HST payable	236	32,220	(31,984)	-99%
Line of Credit	1,000,000	-	1,000,000	-
Deferred revenue	75,157	105,554	(30,397)	-29%
Loans payable	28,684,931	29,537,804	(852,873)	-3%
Due to the City of Toronto	529,113	711,448	(182,335)	-26%
Obligations under capital lease	191,918	238,272	(46,354)	-19%
Sub-total	30,855,789	30,927,829	(72,040)	0%
<b>Net Debt</b>	<b>(30,547,830)</b>	<b>(30,236,704)</b>	<b>(311,126)</b>	<b>1%</b>
<b>Non-financial assets</b>				
Tangible capital assets	32,040,053	32,971,949	(980,907)	-3%
Inventory	-	13,953	(13,953)	-100%

<b>Table 1 - Lakeshore Arena Corporation</b>				
<b>Statement of Financial Position as at December 31, 2020 (\$)</b>				
Prepaid expense	8,375	8,375	-	0%
Sub-total	32,048,428	32,994,277	(945,849)	-3%
<b>Accumulated Surplus</b>	<b>1,500,598</b>	<b>2,757,573</b>	<b>(1,256,975)</b>	<b>-46%</b>

Lakeshore's total assets decreased by 4% when compared to the prior year, representing a decrease of \$1.3 million from \$33.7 million to \$32.4 million, which resulted mainly from changes to:

- Financial assets: decreased by \$0.4 million, which is reflected in lower cash from lower revenue streams from the facility closure.
- Tangible capital assets: the net value has decreased by \$1.0 million as a result of the annual depreciation for building and equipment (\$0.9 million) and the amortization of leased assets (\$0.1 million).

Lakeshore's total liabilities were \$30.9 million, with no significant change from prior years, however, there has been a shift from long term liabilities to short term liabilities as follows:

- Line of Credit: increased by \$1.0 million to meet obligations for the lease and loans payable.
- Loans payable: decreased by \$0.9 million largely due to the Lakeshore Arena Corporation's repayment of its loan with Infrastructure Ontario; and
- Due to the City of Toronto: decreased by \$0.2 million as Lakeshore Arena Corporation made the final payment for the 2018 distribution. The 2019 distribution of \$0.5 million remains outstanding.

The long-term credit facilities contain a number of restrictive covenants that require Lakeshore to be in compliance with financial ratios and non-financial criteria. By accessing the Line of Credit, Lakeshore was able to make some payments but continues not to be in compliance with these requirements subsequent to year-end. Loan payments due in 2020 have been deferred to the end of July, 2021. Additional information on the loans payable can be found in Note 7 in the Notes to the Financial Statements.

The Accumulated Surplus has decreased by \$1.3 million directly as a result of the 2020 operating deficit.

## **Statement of Operations**

The table below summarizes and compares the operating results for the year ended December 31, 2020, with comparative figures for 2019.

**Table 2 - Lakeshore Arena Corporation  
Statement of Operations and Accumulated Surplus for Year Ended  
December 31, 2020 (\$)**

	<b>2020</b>	<b>2019</b>	<b>Increase / (Decrease)</b>	<b>%</b>
<b>Revenue</b>				
Ice rentals	1,626,371	3,681,578	(2,055,207)	-56%
Tenancy rentals	915,028	1,108,640	(193,612)	-17%
Emergency Funding - City of Toronto	400,000	-	400,000	-
Licensing	157,553	271,086	(113,533)	-42%
Utility Recovery	176,375	194,646	(18,271)	-9%
Government Assistance	113,428	-	113,428	-
Snack bar (net of expenses)	(34,807)	19,861	(54,668)	-275%
Other	13,705	36,814	(23,109)	-63%
<b>Sub-total</b>	<b>3,367,653</b>	<b>5,312,625</b>	<b>(1,944,972)</b>	<b>-37%</b>
<b>Expenses</b>				
Utilities	1,066,854	1,130,614	(63,760)	-6%
Salaries and benefits	808,016	1,051,250	(243,234)	-23%
Interest	990,108	1,020,321	(30,213)	-3%
Amortization of capital assets	931,896	954,804	(22,908)	-2%
Building and equipment maintenance	646,802	803,766	(156,964)	-20%
Office and cleaning	45,810	37,752	8,058	21%
Bank and credit card charges	24,054	61,492	(37,438)	-61%
Insurance	61,690	55,519	6,171	11%
Legal and audit	17,577	36,693	(19,116)	-52%
Marketing and promotions	2,039	24,392	(22,353)	-92%
Telephone	15,508	15,398	110	1%
Other	8,300	13,677	(5,377)	-39%
Amortization of loan transaction cost	3,327	3,328	(1)	0%
Bad debts	2,647	199	2,448	1,230%
<b>Sub-total</b>	<b>4,624,628</b>	<b>5,209,205</b>	<b>(548,577)</b>	<b>-11%</b>
<b>Operating surplus</b>	<b>(1,256,975)</b>	<b>103,421</b>	<b>(1,360,395)</b>	<b>-1,460%</b>
<b>Accumulated surplus, beginning of year</b>	<b>2,757,573</b>	<b>2,818,007</b>		
Draw from City of Toronto capital reserve fund	-	365,259	(365,259)	-100%
Distribution to City of Toronto	-	(529,113)	529,113	-100%
<b>Accumulated surplus, end of year</b>	<b>1,500,598</b>	<b>2,757,573</b>	<b>(1,196,541)</b>	<b>-43%</b>

Total revenues in 2020 were \$3.4 million, a decrease of \$1.9 million (or 37%) from the previous year mainly due:

- Ice Rentals: a decrease in ice rentals of \$2.1 million or 56% lower due to the facility closure as a result of the provincial orders.
- Tenancy rentals: a decrease of \$0.2 million or 17% lower due to the non-renewal/termination of leases due COVID-19 impacts.



- Licensing: a decrease of \$0.1 million or 42% lower due to a contractual reduction as a result of the closure.
- Snack Bar: a net loss of \$0.1 million or 275% lower due to the closure of the facility.

The City of Toronto provided \$0.4 million in emergency funding to offset these lower revenue streams and address working capital shortages. Government assistance of \$0.1 million was received for commercial rent assistance for 50% of rental income shortfall.

Total expenses in 2020 were \$4.6 million, a decrease of \$0.6 million (or 11%) from the previous year resulting from:

- Salaries and benefits: a decrease of \$0.2 million or 23% lower from the layoff of 12 staff related to the closure of the building to the general public.
- Building and Equipment: a decrease of \$0.2 million or 20% lower due to lower operating costs of a result of the facility closure to the public.
- Utilities: a decrease of \$0.1 million or 6% lower due to decreased ice maintenance.

#### **4. 2020 Executive Compensation**

Lakeshore Arena Corporation has disclosed executive compensation information for senior management as requested by City Council in Attachment 3 to this Report. The compensation paid to the corporation's executive officers is required to be disclosed pursuant to the Province of Ontario's public disclosure of the salary and benefits paid in respect of employment in the public sector under the Public Sector Salary Disclosure Act, 1996.

#### **5. Impact of COVID-19**

As part of the City of Toronto 2021 Budget process, City Council requested the Board of Directors of Lakeshore Arena Corporation, in consultation with the City of Toronto's Chief Financial Officer and Treasurer, to provide the final 2020 financial impacts of COVID-19 on their 2020 Operating and Capital Budgets and operations, detailing any modifications to their programs and initiatives to address COVID-19 at their 2020 Annual General Meeting. Lakeshore Arena Corporation provided this information in Attachment 4.

#### **6. Other Information**

Staff are currently exploring opportunities to streamline the reporting requirements and the annual general meetings of all City corporations in future years.

## **CONTACT**

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## **SIGNATURE**

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Heather Taylor  
Chief Financial Officer and Treasurer

Chris Murray  
City Manager

## **ATTACHMENTS**

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Attachment 1: Lakeshore Arena Corporation 2020 Annual Report  
Attachment 2: Lakeshore Arena Corporation 2020 Audited Annual Financial Statements  
Attachment 3: Lakeshore Arena Corporation Executive Compensation Disclosure 2020  
Attachment 4: Lakeshore Arena Corporation - 2020 Financial Impacts of COVID-19