SUBJECT: Mohawk 4 Ice Centre Annual Report (CS06037) (Ward 6)

RECOMMENDATION:

(a) That the Mohawk 4 Ice Centre 2005 Audited Financial Statements be received as information.

(b) That the Mohawk 4 Ice Centre Operating and Maintenance Amending Agreement (attached as Appendix B to Report CS06037), be approved.

(c) That the Mayor and City Clerk be authorized and directed to execute the Mohawk 4 Ice Centre Operating and Maintenance Amending Agreement (attached as Appendix B to Report CS06037) as prepared by the City Solicitor.

Joe-Anne Priel
General Manager
Community Services Department

EXECUTIVE SUMMARY:

As per Council’s direction, staff are to report on an annual basis as to the operation of the Mohawk 4 Ice Centre. The Audited Financial Report, attached as Appendix A to Report CS06037, details the financial operation of the facility. The net operating loss for the Center is $186K. This amount is approximately $100K less than the amount reported to Council in November of 2005, largely due to the delay of debt repayments as a result of the delay in the opening of the arena. Also, no material weaknesses in the internal control audit were reported as per Appendix C attached to Report CS06037. As outlined in the Operating Agreement, any future surpluses will be used to pay-off this deficit, prior to any surplus sharing.
After the first year of operation, staff and Hamilton Arena Partners (HAP) undertook a review of the Operational Agreement. As a result, a number of amendments were proposed as per Appendix B attached to Report CS06037. These amendments have been agreed to by the Facility Management Review Team (FMRT) and are forwarded to Council for approval. Two significant changes have to do with the amount of cash maintained by HAP, which will be no greater than $150K. Any amounts exceeding $150K will be transferred to the City’s bank accounts. (The City has, in its possession, a Letter of Credit from HAP in the amount of $250K.) The other major change has to do with the accounting treatment of the Sales Taxes. The City has accepted responsibility to ensure PST and GST remittances are made instead of HAP. This was decided by the City’s auditor, after a detailed review of who should be making the remittances. Upon approval of Report CS06037, Legal Services will prepare all appropriate documentation for execution.

BACKGROUND:

In January, 2005, the Mohawk 4 Ice Centre was officially opened to the public. This facility was a public/private partnership between the City of Hamilton and Hamilton Arena Partners Inc (HAP).

Development Agreements were in place for the construction of the facility and an Operational Maintenance Agreement was approved as to the day-to-day operations of the centre. Nustadia Recreation Inc. is responsible for this part of the agreement.

As per the agreement, a FMRT was formed to oversee the operation of the facility. The FMRT consists of three representatives from the City of Hamilton and two representatives from Nustadia Recreation Inc. The FMRT meet on a monthly basis.

The FMRT is to report to Council on an annual basis on the operating and maintenance of this facility. Report CS06037 is the initial report of the FMRT and provides the 2005 Audited Financial Statements as well as recommended amendments to the Operating Agreement with HAP as per Appendices A and B attached to Report CS06037.

ANALYSIS/RATIONALE:

In November of 2005, staff presented Report CS05027 with respect to the Financial Update of the Mohawk 4 Ice Centre. Staff had advised Committee that the deficit in the first 14-months of operation was estimated at approximately $280K and that this deficit would be recovered through future surpluses prior to any surplus sharing with the operator as outlined in the Operating Agreement with Hamilton Arena Partners.

The City’s External Auditors (Grant Thornton) have completed the audit which is attached as Appendix A to Report CS06037.

The actual deficit for the first 14-months is $186,227. As outlined in Report CS05027, the deficit was largely a result of one-time start-up costs and an unanticipated four-
month delay in opening the arena due to some construction issues (i.e. Mason Strike). The reduction from $280K to $186K was due to the delay in the Debt Replacement Schedule by two-months, as a result of the late opening of the arena.

Attached as Appendix C to Report CS06037, is a copy of the Management Letter issued by the Auditors. As part of the audit the External Auditor is required to review and comment on any internal control weaknesses. The Management Letter states that the auditors noted “no material weaknesses in documenting internal controls for the Mohawk 4 Ice Centre. However, the letter does identify two areas of concern: (1) the segregation of duties in the processing of transactions; and, (2) the preparation of interim statements. Management has responded to both of these concerns and these are outlined in the Management Letter.

**ALTERNATIVES FOR CONSIDERATION:**

Not applicable.

**FINANCIAL/STAFFING/LEGAL IMPLICATIONS:**

**Financial**
The Audited Financial Report, attached as Appendix A to Report CS06037, outlines the Financial Operation of the Quad pad for the calendar year 2005. There are no budget implications as the deficit will be made up through future surpluses. As well, the 2006 budget for the Quad-pad has been determined to breakeven.

**Staffing**
There are no staffing implications associated with Report CS06037.

**Legal**
Legal Services Department has reviewed and provided comment on Report CS06037, as per Appendix B to Report CS06037.

**POLICIES AFFECTING PROPOSAL:**

Operating and Maintenance Agreement between the City of Hamilton and Hamilton Arena Partners Inc.

**RELEVANT CONSULTATION:**

Budgets and Finance Division
Community Services Department
Legal Services Department
Hamilton Arena Partners
CITY STRATEGIC COMMITMENT:

By evaluating the “Triple Bottom Line”, (community, environment, economic implications) we can make choices that create value across all three bottom lines, moving us closer to our vision for a sustainable community, and Provincial interests.

Evaluate the implications of your recommendations by indicating and completing the sections below. Consider both short-term and long-term implications.

Community Well-Being is enhanced. ☑ Yes □ No
Public services and programs are delivered in an equitable manner, coordinated, efficient, effective and easily accessible to all citizens.

Environmental Well-Being is enhanced. ☑ Yes □ No
Human health and safety are protected.

Economic Well-Being is enhanced. ☑ Yes □ No
Investment in Hamilton is enhanced and supported.

Does the option you are recommending create value across all three bottom lines? ☑ Yes □ No

Do the options you are recommending make Hamilton a City of choice for high performance public servants? ☑ Yes □ No
Life-long learning is supported.
Mohawk 4Ice Centre
Financial Statements
December 31, 2005

Grant Thornton
## Contents

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<th>Page</th>
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</tr>
</tbody>
</table>
AUDITORS’ REPORT

To the Members of Council, Inhabitants and Ratepayers
of the City of Hamilton

We have audited the statement of financial position of the Mohawk 4Ice Centre as at December 31, 2005 and the statement of financial activities for the year then ended. These financial statements are the responsibility of the Centre’s management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the over-all financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Centre as at December 31, 2005 and the results of its operations for the year then ended in accordance with Canadian generally accepted accounting principles.

Budget figures are provided for comparative purposes and have not been subject to audit procedures. Accordingly, we do not express any opinion regarding the budget figures.

Hamilton, Ontario
March 3, 2006

Grant Thornton LLP
Chartered Accountants
Mohawk 4Ice Centre
Statement of Financial Position
Year Ended December 31 2005

<table>
<thead>
<tr>
<th>Assets</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Current assets:</td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$164,378</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>305,833</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>2,624</td>
</tr>
<tr>
<td></td>
<td>$472,835</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Current liabilities:</td>
<td></td>
</tr>
<tr>
<td>Accounts payable and accrued liabilities</td>
<td>$135,929</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>192,157</td>
</tr>
<tr>
<td>Due to City of Hamilton</td>
<td>330,976</td>
</tr>
<tr>
<td></td>
<td>659,062</td>
</tr>
<tr>
<td>Deficit</td>
<td>(186,227)</td>
</tr>
<tr>
<td></td>
<td>$472,835</td>
</tr>
</tbody>
</table>

See accompanying notes to the financial statements.
Mohawk 4Ice Centre
Statement of Financial Activities
For the Year Ended December 31, 2005

<table>
<thead>
<tr>
<th></th>
<th>Budget 2005</th>
<th>Actuals 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>(unaudited)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Revenue</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ice rentals (Note 3)</td>
<td>$2,169,173</td>
<td>$1,805,487</td>
</tr>
<tr>
<td>Food, beverage and concessions</td>
<td>116,584</td>
<td>113,690</td>
</tr>
<tr>
<td>Advertising</td>
<td>100,000</td>
<td>64,820</td>
</tr>
<tr>
<td>Other</td>
<td>7,333</td>
<td>12,699</td>
</tr>
<tr>
<td><strong>Total Revenue</strong></td>
<td>$2,393,090</td>
<td>$1,996,696</td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank charges and interest</td>
<td>11,028</td>
<td>6,865</td>
</tr>
<tr>
<td>Insurance</td>
<td>57,500</td>
<td>58,498</td>
</tr>
<tr>
<td>Management fees (Note 3)</td>
<td>172,392</td>
<td>167,825</td>
</tr>
<tr>
<td>Marketing and sales</td>
<td>2,956</td>
<td>17,723</td>
</tr>
<tr>
<td>Office</td>
<td>27,222</td>
<td>28,818</td>
</tr>
<tr>
<td>Professional fees</td>
<td>17,768</td>
<td>12,000</td>
</tr>
<tr>
<td>Repairs and maintenance</td>
<td>119,931</td>
<td>64,392</td>
</tr>
<tr>
<td>Salaries and benefits</td>
<td>605,903</td>
<td>564,535</td>
</tr>
<tr>
<td>Telephone</td>
<td>18,451</td>
<td>14,830</td>
</tr>
<tr>
<td>Travel</td>
<td>14,450</td>
<td>4,670</td>
</tr>
<tr>
<td>Training</td>
<td>3,750</td>
<td>9,298</td>
</tr>
<tr>
<td>Utilities</td>
<td>524,428</td>
<td>397,668</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td>$1,575,779</td>
<td>$1,347,122</td>
</tr>
<tr>
<td><strong>Excess of revenue over expenses</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>before transfer to reserve and debt repayment</td>
<td>817,311</td>
<td>649,574</td>
</tr>
<tr>
<td><strong>Transfer to Reserve for Capital Projects (Note 3)</strong></td>
<td>(68,750)</td>
<td>(68,750)</td>
</tr>
<tr>
<td><strong>Transfer to City of Hamilton for debt repayment</strong></td>
<td>(808,270)</td>
<td>(727,443)</td>
</tr>
<tr>
<td><strong>Excess of expenses over revenue</strong></td>
<td>($59,709)</td>
<td>($146,619)</td>
</tr>
<tr>
<td><strong>Deficit, beginning of the year</strong></td>
<td>($39,608)</td>
<td>($39,608)</td>
</tr>
<tr>
<td><strong>Excess of expenses over revenue</strong></td>
<td>($59,709)</td>
<td>($146,619)</td>
</tr>
<tr>
<td><strong>Deficit, end of the year</strong></td>
<td>($99,317)</td>
<td>($186,227)</td>
</tr>
</tbody>
</table>

See accompanying notes to the financial statements.
Mohawk 4Ice Centre
Notes to the Financial Statements
December 31, 2005

1. Nature of operations:

The Mohawk 4Ice Centre (Centre) is a four pad arena complex owned by The Corporation of the City of Hamilton (City of Hamilton). The City of Hamilton entered into a 10 year partnership agreement with Hamilton Arena Partners Inc. (HAP) to maintain and operate the Centre.

2. Significant accounting policies:

Basis of accounting

The Centre follows accounting principles for local governments, as recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants except that it does not present any operating, capital, reserves and reserve funds which are set aside by Council for use by the Centre on the statement of financial position or statement of financial activities. This basis of accounting is considered appropriate as the Centre’s financial information is included with the consolidated financial statements of the City of Hamilton for the Members of Council, Inhabitants and Ratepayers. These financial statements reflect the operating arrangement between the City and Centre, whereby the City owns the capital assets and arranges with Hamilton Arena Partner’s Inc. to operate the facilities on the City’s behalf.

The financial statements presented herewith are required under the operating agreement between the City of Hamilton and Hamilton Arena Partners. As these financial statements have not been prepared for general purposes, some users may require further information.

The significant accounting policies used are as follows:

Revenue Recognition

Revenues are reported on the accrual basis of accounting which recognizes revenues as they become available and measurable. Expenditures are reported on the accrual basis of accounting which recognizes expenditures as they are incurred and measurable as a result of a receipt of goods or services and the creation of a legal obligation to pay.

Capital assets

The land, buildings, and the original equipment of the Centre are owned by the City of Hamilton. A capital projects reserve fund has been established for the future purchase of capital assets and is maintained by the City of Hamilton on behalf of the Centre.
Mohawk 4Ice Centre
Notes to the Financial Statements
December 31, 2005

2. Significant accounting policies (continued):

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Financial Instruments

The Centre's financial instruments consist of cash, accounts receivable, bank indebtedness, accounts payable and accrued liabilities and amounts due from related parties. Unless otherwise noted, it is management's opinion that the corporation is not exposed to significant interest or credit risks arising from these financial instruments. The fair value of these financial instruments approximate their carrying values, unless otherwise noted.

3. Transactions with the City of Hamilton:

(a) Bank account

HAP has established a bank account in its own name pursuant to the operating agreement between the City and HAP. This bank account is to be a trust account for the benefit of the City of Hamilton. The City of Hamilton may at any time require that all monies held in the trust bank account be transferred to another separate account maintained by the City of Hamilton.

(b) Ice rentals

The City of Hamilton shall have available 3,620 hours of prime-time ice at the Centre. The City of Hamilton is responsible for scheduling, invoicing and collecting the revenue for this ice time. During the year, ice rental revenue in the amount of $324,400 with respect to City of Hamilton ice time was included in revenue for the year.

(c) Management fees

Pursuant to the agreement between the Centre and HAP, the City of Hamilton has agreed to pay HAP an annual management fee of $150,000 for managing the facility on behalf of the City of Hamilton. In addition HAP is entitled to an annual commission equal to 10% of the gross revenues from sponsorship, advertising, vending, leasing, and pouring and naming rights. During the year, the City of Hamilton paid HAP $167,825 with respect to these management fees.
Mohawk 4Ice Centre
Notes to the Financial Statements
December 31, 2005

3. Transactions and Balances with the City of Hamilton (continued):

(d) Reserves:

The City of Hamilton holds a capital fund reserve for the Centre in the amount of $68,750 to be used primarily to finance major capital repairs to the facility. The capital fund has not been included in the Centre’s Balance Sheet nor has its operations been included in the Statements of Revenue and Expenses and Cash Flows.

<table>
<thead>
<tr>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance, beginning of year</td>
</tr>
<tr>
<td>Funds transferred from current operations to fund future capital projects</td>
</tr>
<tr>
<td>Amounts owing at year end to fund future capital projects</td>
</tr>
<tr>
<td>Balance, end of year</td>
</tr>
</tbody>
</table>

(e) Operating Stabilization Account:

The City of Hamilton will establish and control a stabilization account to help offset the City of Hamilton’s cash requirements in dealing with future operating deficits of the Centre. The account is to be funded from the operating surplus to a maximum of $30,000 per year. Deposits to the account will continue until the account balance is $250,000. During the year, $0 was contributed to the operating stabilization account.

(f) Operating Deficits:

Subsequent to the first year of operation the City of Hamilton and HAP have agreed to each fund 50% of any operating deficit. HAP obligation to fund an operating deficit in any year is limited to the annual commission income for the year plus $30,000.

(g) Debt repayment:

The construction of the Mohawk 4Ice Centre was financed through development charges of $5 million and internal debt of $12 million. The internal debt charges bear interest at 5.245% and are repayable in blended monthly instalments of $30,828. The debt is held by the City of Hamilton and the Mohawk 4Ice Centre receives an internal debt charge allocation for its repayment.

4. Statement of Changes in Financial Position:

A separate statement of changes in financial position is not presented because cash flows from operating activities are readily apparent from the other financial statements.
THIS OPERATING AND MAINTENANCE AMENDING AGREEMENT made as of the ___ day of September, 2006.

BETWEEN:

CITY OF HAMILTON, a body corporate, under the Municipal Act, 2001 (Ontario)

("Hamilton")

("the City")

AND-

HAMILTON ARENA PARTNERS INC., a body corporate under the Business Corporations Act (Ontario).

("HAP")

WHEREAS Hamilton and HAP entered into an operating and maintenance agreement dated the 5th day of March, 2004 (the "OMA") wherein Hamilton appointed HAP as manager of the Facility and Facility Lands as described in the OMA and municipally known as 710 Mountain Brow Blvd., Hamilton, Ontario (the “Mohawk 4 Ice Centre within the Mohawk Sports Park”) upon the terms and conditions set out therein for an initial term of ten (10) years commencing on the 5th day of March, 2004 and expiring on the 4th day of March, 2014;

AND WHEREAS Hamilton and HAP have agreed to amend the terms of the OMA as hereinafter provided;

NOW THEREFORE THIS AGREEMENT WITNESSETH that in consideration of the sum of TWO DOLLARS ($2.00) now paid by each party to the other and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged by each of the parties, each of Hamilton and HAP covenant and agree as follows:

1. The OMA is deemed to have been executed by the parties on the 5th day of March, 2004.

2. Commencing as of and from the 5th day of March, 2004, the Term of the OMA be and it is hereby deemed to start.

3. Section 4.2 of the OMA is hereby deemed to be amended by inserting the following proviso at the end of the last sentence of Section 4.2:

   “Should the balance of funds in the Bank Account exceed $150,000.00 (less any outstanding cash advance) (the “Excess Amounts”) at any time, HAP shall transfer the Excess Amounts to the City’s bank account”.

4. Section 4.3 of the OMA is hereby deemed to be amended by deleting the following proviso from Section 4.3:

   “HAP will forward to the City any fees received from a single payee in a lump sum payment in excess of twenty thousand dollars ($20,000.00) collected three months or more in advance of the period for which the fee is applicable together with a schedule indicating the periods for which the fees apply. Under no circumstances shall HAP be obliged to forward to the City any amounts on account of fees collected less than three months in advance of the period to which such fees apply. For greater certainty, however, where HAP receives fees from a single payee in a lump sum in excess of twenty thousand dollars ($20,000.00) and only part of the lump sum represents payment three months or more in advance of the period to which the fee applies, then if and only if
that part of the lump sum representing payment three months or more in advance is greater than twenty thousand dollars ($20,000.00) shall HAP be obliged to forward any amount to the City. Said fees will be deposited into a special trust account that will be administered by the City. In accordance with the aforementioned schedule, the City will transfer the prepaid fees to HAP’s Bank Account one month prior to the period for which the fees apply. Notwithstanding anything else in this Agreement, however, HAP shall not be obliged to forward any amounts to the City hereunder if doing so would have the effect of reducing the Bank Account below an amount determined by FMRT to represent the amount required to pay Operating Expenses”.

5. Section 4.6 of the OMA is hereby deemed to be amended by inserting the following proviso to Section 4.6:

“f)

i) All non subsidized Ice and other receipts will be deposited to the Bank Account that is “In trust” for Hamilton.

ii) All costs for the Mohawk 4 Ice Centre within the Mohawk Sports Park will be paid out of the Bank Account that is “In trust” for Hamilton.

iii) At the end of each month, a journal entry will be provided to Hamilton summarizing the activity of the Mohawk 4 Ice Centre within the Mohawk Sports Park.

iv) At no time shall the Bank Account exceed $150,000.00 (less any outstanding advances).

v) Arrangements should be made to transfer funds from the Bank Account to Hamilton's bank account weekly to ensure balances do not exceed the amount in section iv above.

vi) Hamilton will create a Due to/From “Mohawk 4 Ice Centre within the Mohawk Sports Park” receivable account which will be used as a clearing account for all transactions occurring between the Mohawk 4 Ice Centre within the Mohawk Sports Park and Hamilton.

vii) Hamilton is responsible to report and submit GST and PST required filings for the Mohawk 4 Ice Centre within the Mohawk Sports Park along with any payment, if required. Support for the monthly filings of the Mohawk 4 Ice Centre within the Mohawk Sports Park will be provided to Hamilton, by HAP, on a timely basis to allow for Hamilton reporting to meet governmental deadlines. Support for the returns will include a detailed general ledger print out that will provide a listing of all customer and vendor charges. Source documents for all transactions will be kept at the Mohawk 4 Ice Centre within the Mohawk Sports Park and maintained in an organized fashion that will allow for review by Hamilton at its discretion. The Mohawk 4 Ice Centre within the Mohawk Sports Park will transfer funds to reimburse Hamilton for any payments required.

viii) HAP will maintain a separate set of accounting books for the Mohawk 4 Ice Centre within the Mohawk Sports Park. The revenues and expense of the Mohawk 4 Ice Centre within the Mohawk Sports Park are those of Hamilton and not those of HAP. HAP will charge the Mohawk 4 Ice Centre within the Mohawk Sports Park a monthly management fee as well as any payroll costs related to the arena.
ix) Mohawk 4 Ice Centre within the Mohawk Sports Park’s year end Statements will be audited by an external accounting firm chosen by Hamilton at its sole discretion by April 15th of each year. Year one is from March 5th, 2004 to December 31st 2005.

6. Except as otherwise specifically amended by this Operating and Maintenance Amending Agreement, all terms, covenants and conditions contained in the OMA shall apply to this Operating and Maintenance Amending Agreement and shall remain unchanged and shall remain in full force and effect and the OMA and this Operating and Maintenance Amending Agreement shall hereinafter be read together and shall have effect so far as practicable as though the provisions thereof and hereof are contained in one (1) agreement.

IN WITNESS WHEREOF the parties have executed this Agreement as of the day and year first above written.

CITY OF HAMILTON

Per: __________________________
Name: Larry Di Ianni
Title: Mayor

Per: __________________________
Name: Kevin C. Christenson
Title: City Clerk

HAMILTON ARENA PARTNERS INC.

PER: __________________________
Name: 
Title:

PER: __________________________
Name: 
Title:

“I/we have authority to bind the corporation.”
March 20, 2006

Mohawk 4Ice Centre
c/o City of Hamilton
71 Main Street West, 1st Floor
Hamilton, Ontario
L8P 4Y5

Dear Sir/Madam:

RE: Internal Control Findings from the 2005 Audit

Receiving observations and findings on your financial reporting processes and controls is one of the benefits of an annual financial statement audit. Grant Thornton LLP continued to incorporate processes and technology to address the changing standards of conducting a financial statement audit. This approach includes an increased emphasis on internal control. Our procedures identified a few items that we need to bring to your attention.

Our audit is planned and conducted to enable us to express an audit opinion on the annual financial statements. The matters dealt with in this letter came to our attention during the conduct of our normal examination, and as a result, this letter does not necessarily include all matters that would be uncovered through a more extensive or special engagement.

The standards of the public accounting profession require us to report annually to you our findings on certain weaknesses and deficiencies in your internal controls. We have categorized our findings as follows:

- Material weaknesses (individual or aggregated deficiencies that could result in a material misstatement in the financial statements due to fraud or error)
- Significant deficiencies
- Other deficiencies and advisory comments

Material weaknesses:

We noted no material weaknesses in documenting internal controls for the Mohawk 4Ice Centre.
**Significant deficiencies:**

**Segregation of duties**

Segregation of duties is a key control designed to prevent employees from both being able to commit and conceal errors or irregularities in the normal course of their duties. Supervision acts as a compensating control in some cases where, because of the size of the organization, complete segregation of duties is not possible. However, supervision will only detect an error; it will not prevent it from occurring.

The Mohawk 4Ice Centre has a small accounting department, with one employee having primary responsibility for most of the bookkeeping, in conjunction with services provided by Nustadia Recreation staff at another site. We realize that it is often difficult to have an appropriate segregation of duties in these circumstances.

Notwithstanding the size of the accounting department, we noted an area where there was an opportunity to have more effective segregation of duties.

In documenting our understanding of processes and controls, we noted that the accounting clerk is responsible for invoicing, receiving funds, preparing, summarizing and making the deposit, as well as posting deposits. In addition, the same employee has signing authority on cheques. The duties are not ideally segregated; therefore, an error could be made that would go undetected.

There are two signatures required on cheques and a second person prepares monthly bank reconciliations. These are good controls to have in place to detect any potential errors. However, it is important to have controls in place earlier in the process to reduce the risk of error.

**Management Response**

*All monies taken into the custody of the arena are no longer initially handled by the Office Administrator. A detailed list of all monies received is prepared by the front desk attendant and compared, by the GM, to the deposit prepared by the Office Administrator. Given the size of the staff, this control is deemed sufficient by management to address any segregation of duties concerns.*

**Other deficiencies and advisory comments:**

**Reliance on external accountant**

The preparation of the year end financial statements is done by the external auditor through summarization of information provided by management and generation of appropriate note disclosures to apply generally accepted accounting principles (GAAP).

The external audit provides:
- appropriate summarization of accounts for financial statement presentation;
- a continuing evaluation of the appropriateness of accounting policies;
- preparation of financial statements in accordance with GAAP.
While the audit process itself provides management with a level of assurance regarding the above, this only occurs at year end. Any internal information utilized during the year may not be in accordance with GAAP.

We recommend that management assume the responsibility of the preparation of financial statements in accordance with GAAP, as well as the related notes. We would be happy to provide a template, as a starting point for management, in their efforts to prepare annual financial statements in accordance with GAAP.

It is management’s responsibility to weigh the costs of implementing controls against the benefits that the controls will achieve. The purpose of this letter is to provide you with the information related to the identified risks so that you can make the necessary decisions.

The matters discussed herein are those that have been noted as of March 20, 2006, and we have not updated our procedures regarding these matters to the current date. In addition, this communication is prepared solely for the information of management and is not intended for any other purposes; we accept no responsibility to a third party who uses this communication.

Thank you for the opportunity to contribute to the present and future success of the Mohawk 4Ice Centre.

Yours truly,

GRANT THORNTON LLP

Evan McDade, CA, CBV
Partner