SUBJECT: Mohawk 4 Ice Centre Annual Report (ECS07046) (Ward 6)

RECOMMENDATION:

(a) That the Auditor's Report, prepared by Grant Thornton, respecting the Mohawk 4 Ice Centre’s 2006 Audited Financial Statements, as of December 31, 2006, (attached as Appendix A to Report ECS07046) be received as information.

(b) That the correspondence, dated March 19, 2007, from Grant Thornton respecting the Internal Control Findings from the 2006 Audit, of the Mohawk 4 Ice Centre (attached as Appendix B to Report ECS07046), be received for information.

Joe-Anne Priel
General Manager,
Community Services Department

EXECUTIVE SUMMARY:

As per Council 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 ECS07046, details the financial operations of the facility. The overall operation of the Mohawk 4 Ice Centre finished the year with a $41,000 deficit.

The Auditor's comments, attached as Appendix B to Report ECS07046, outline the Internal Control findings. You will note that there were no material deficiencies. The two sight issues; the segregation of duties and reliance on the External Auditor, are currently under review by City staff and the Operations Staff at the Mohawk 4 Ice Center.
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 the Operational Maintenance Agreement.

As per the Operational Maintenance Agreement, a Facility Management Review Team (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. This FMRT meets on a monthly basis.

The FMRT is to report to Council on an annual basis regarding the operating and maintenance of this facility. Report CS06037 was the initial report of the FMRT. Report ECS07046 is the second such report and includes the 2006 Audited Financial Statements (attached as Appendix A to Report ECS07046).

The City’s External Auditor noted two issues (listed below) that are currently being reviewed by staff:

1. Segregation of duties is not possible because of the size of the organization. There is only one employee that has prime responsibility for most of the bookkeeping. The Accounting Clerk is responsible for invoicing, summarizing, making deposits as well as the signing authority for cheques. Since only one person is involved, an error could be made that would go undetected. It was suggested that Mohawk 4 Ice Centre have more effective segregation of duties.

2. The other issue stated that the financial statements may not be prepared in accordance with Generally Accepted Accounting Principles (GAAP). It was suggested, by the External Auditor, that management assume the responsibility of the preparation of financial statements, in accordance with GAAP. The External Auditor was also willing to provide a template for management’s use.

A report will be forward to the Emergency & Community Services Committee once complete.

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 operations 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. The letter is attached as Appendix B to Report ECS07046. There were no material deficiencies; however, the report does cite two issues, the segregation of duties and reliance on the External Auditor. These issues are currently under review with the Mohawk 4 Ice FMRT. A report regarding the resolution of these issues will be brought forward to the Emergency & Community Services Committee at a future meeting.

**ALTERNATIVES FOR CONSIDERATION:**

There are no alternatives for consideration.

**FINANCIAL/STAFFING/LEGAL IMPLICATIONS:**

**Financial:**


The Operational Maintenance Agreement, with Mohawk 4 Ice Centre, was negotiated with the agreement that the arena would break even. The only way the City could receive revenues was in the event of an overall surplus, in which case the revenues would be shared between the City and the Operator. Conversely, if the arena operated a deficit in any year, the deficit would also be shared between the City and the Operator.

The overall operation of the Mohawk 4 Ice Center finished the year with a $41 K deficit. As per the Operational Maintenance Agreement, deficits are to be shared 50/50 with the Operator. As a result, the City funded its share of the deficit in the amount $20,650 through other 2006 operating surpluses.

The Operators have identified a number of areas of improvement to eliminate this deficit in future years. Although efforts to-date have not been successful, increased focus to attract a sponsor will be made this year in an effort to secure naming rights for the facility. It is hoped that this can generate up to $50K in additional revenues. In addition, the Operators will be working closer with City staff in renting excess ice time.

As well, an internal audit of the operation of the Mohawk 4 Ice Center is currently underway and will be reported on in the coming months.

**Staffing:**

There are no staffing implications associated with Report ECS07046.
Legal:

There are no legal implications associated with Report ECS07046

POLICIES AFFECTING PROPOSAL:

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

RELEVANT CONSULTATION:

- Bill Fenwick, Director, Culture and Recreation Division
- Tony Tollis, Director, Budgets and Finance Division
- John Kirkpatrick, Manager, Culture and Recreation Division – East District
- Ed Pavao and Ben Sproule, Nustadia Recreation Inc. (Hamilton Arena Partners)

CITY STRATEGIC COMMITMENT:

By evaluating the “Triple Bottom Line”, (community, environment, and 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, 2006

Grant Thornton®
Contents

Auditors' Report  
Statement of Financial Position  
Statement of Financial Activities  
Notes to the Financial Statements

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<td>Statement of Financial Activities</td>
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Grant Thornton LLP
Chartered Accountants
Management Consultants

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, 2006 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 overall 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, 2006 and the results of its operations for the year then ended in accordance with Canadian generally accepted accounting principles.

Grant Thornton LLP
Chartered Accountants

Hamilton, Ontario
March 3, 2007

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Hamilton, Ontario L8P 4V2
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F (905) 522-4410
E Hamilton@GrantThornton.ca
W www.GrantThornton.ca

Canadian Member of Grant Thornton International
Mohawk 4Ice Centre  
Statement of Financial Position  
Year Ended December 31

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$159,447</td>
<td>$164,373</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>$399,471</td>
<td>$305,833</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>$3,142</td>
<td>$2,624</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$520,060</td>
<td>$472,835</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable and accrued liabilities</td>
<td>$113,060</td>
<td>$135,929</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>$171,702</td>
<td>$192,157</td>
</tr>
<tr>
<td>Due to City of Hamilton</td>
<td>$430,585</td>
<td>$330,973</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$715,247</td>
<td>$659,059</td>
</tr>
<tr>
<td><strong>Deficit</strong></td>
<td>$(186,227)</td>
<td>$(166,227)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$529,060</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, 2006

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ice rentals (Note 3)</td>
<td>$2,200,892</td>
<td>$1,805,467</td>
</tr>
<tr>
<td>Food, beverage and concessions</td>
<td>139,684</td>
<td>113,690</td>
</tr>
<tr>
<td>Advertising</td>
<td>125,170</td>
<td>64,820</td>
</tr>
<tr>
<td>Other</td>
<td>9,832</td>
<td>12,899</td>
</tr>
<tr>
<td><strong>Total Revenue</strong></td>
<td>$2,555,476</td>
<td>$1,983,966</td>
</tr>
<tr>
<td>Expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bad debt expense</td>
<td>10,230</td>
<td>-</td>
</tr>
<tr>
<td>Bank charges and interest</td>
<td>9,499</td>
<td>6,065</td>
</tr>
<tr>
<td>Insurance</td>
<td>64,227</td>
<td>68,498</td>
</tr>
<tr>
<td>Management fees (Note 3)</td>
<td>192,638</td>
<td>167,925</td>
</tr>
<tr>
<td>Marketing and sales</td>
<td>35,754</td>
<td>17,723</td>
</tr>
<tr>
<td>Office</td>
<td>22,687</td>
<td>28,818</td>
</tr>
<tr>
<td>Professional fees</td>
<td>12,000</td>
<td>12,000</td>
</tr>
<tr>
<td>Repairs and maintenance</td>
<td>112,563</td>
<td>64,393</td>
</tr>
<tr>
<td>Salaries and benefits</td>
<td>614,921</td>
<td>664,534</td>
</tr>
<tr>
<td>Telephone</td>
<td>14,247</td>
<td>14,830</td>
</tr>
<tr>
<td>Travel</td>
<td>1,972</td>
<td>4,670</td>
</tr>
<tr>
<td>Training</td>
<td>4,723</td>
<td>9,293</td>
</tr>
<tr>
<td>Utilities</td>
<td>446,433</td>
<td>367,088</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td>$1,531,854</td>
<td>$1,347,122</td>
</tr>
<tr>
<td>Excess of revenue over expenses before</td>
<td></td>
<td></td>
</tr>
<tr>
<td>transfer to reserve and debt repayment</td>
<td>$1,003,624</td>
<td>640,574</td>
</tr>
<tr>
<td>Transfer to Reserve for Capital Projects (Note 3)</td>
<td>(75,000)</td>
<td>(68,750)</td>
</tr>
<tr>
<td>Transfer to City of Hamilton for debt repayment</td>
<td>(969,924)</td>
<td>(727,443)</td>
</tr>
<tr>
<td>Excess of expenses over revenue before recoveries</td>
<td>(41,300)</td>
<td>(146,819)</td>
</tr>
<tr>
<td>Recovery of 50% of operating deficit from the City of Hamilton</td>
<td></td>
<td>20,650</td>
</tr>
<tr>
<td>Recovery of 50% of operating deficit from Hamilton Arena Partners</td>
<td></td>
<td>20,650</td>
</tr>
<tr>
<td>Excess of expenses over revenue</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Deficit, beginning of the year</strong></td>
<td>$ (186,227)</td>
<td>$(39,668)</td>
</tr>
<tr>
<td><strong>Excess of expenses over revenue</strong></td>
<td>-</td>
<td>(146,619)</td>
</tr>
<tr>
<td><strong>Deficit, end of the year</strong></td>
<td>$ (186,227)</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, 2006

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.

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.

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.
Mohawk 4Ice Centre
Notes to the Financial Statements
December 31, 2006

2. Significant accounting policies (continued):

Financial instruments
The Centre’s financial instruments consist of cash, accounts receivable, 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
approximates 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 $401,500 (2005 - $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 $182,638 (2005 - $167,625) with respect to these
management fees.

(d) Reserves:
The City of Hamilton holds a capital fund reserve for the Centre in the amount of $143,750 (2005
- $85,750) 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></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance, beginning of year</td>
<td>$ 68,750</td>
<td>$ -</td>
</tr>
<tr>
<td>Funds transferred from current operations to fund future capital projects</td>
<td>-</td>
<td>58,250</td>
</tr>
<tr>
<td>Amounts owing at year end to fund future capital projects</td>
<td>75,000</td>
<td>12,500</td>
</tr>
<tr>
<td>Balance, end of year</td>
<td>$ 143,750</td>
<td>$ 68,750</td>
</tr>
</tbody>
</table>
Mohawk 4Ice Centre
Notes to the Financial Statements
December 31, 2006

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

(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’s 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 $80,828. 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.
March 19, 2007

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 2006 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 incorporates 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, 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.

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 19, 2007, 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 Ice Centre.

Yours truly,

GRANT THORNTON LLP

Evan McDade, CA, CBV
Partner