

Financial Statements of

## **MOHAWK 4 ICE CENTRE**

Year ended December 31, 2014

# MOHAWK 4 ICE CENTRE

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December 31, 2014, with comparative figures for 2013

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Mohawk 4 Ice Centre (the "Centre"), which comprise the statement of financial position as at December 31, 2014, and the statements of operations, changes in net financial assets (debt) and cash flows for the year then ended and notes, comprising a summary of significant accounting policies and other explanatory information. These financial statements have been prepared by management in accordance with the financial reporting provisions of the operating agreement between the City of Hamilton and Hamilton Arena Partners Inc. (the "agreement").

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation of these financial statements in accordance with the financial reporting provisions of the agreement 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.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Mohawk 4 Ice Centre as at December 31, 2014, and its results of operations and cash flows for the year then ended, in accordance with the financial reporting provisions of the operating agreement between the City of Hamilton and Hamilton Arena Partners Inc.

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*Basis of accounting and restriction on distribution and use*

Without modifying our opinion, we draw attention to Note 2 of the financial statements, which describes the basis of accounting. The financial statements are prepared to assist Mohawk 4 Ice Centre to comply with the financial reporting provisions of the operating agreement between the City of Hamilton and Hamilton Arena Partners Inc. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the City of Hamilton and Hamilton Arena Partners Inc. and should not be distributed or used by any other parties.

*KPMG LLP*

Chartered Professional Accountants, Licensed Public Accountants

Hamilton, Canada  
March 12, 2015

# MOHAWK 4 ICE CENTRE

## Statement of Financial Position

December 31, 2014, with comparative figures for 2013

|  | 2014              | 2013              |
|--|-------------------|-------------------|
| <b>Financial assets</b>                  |                   |                   |
| Cash and cash equivalents                | \$ 146,474        | \$ 226,896        |
| Accounts receivable                      | 146,540           | 224,457           |
| Due from the City of Hamilton (note 3)   | 201,108           | 79,809            |
|  | <u>\$ 494,122</u> | <u>\$ 531,162</u> |
| <b>Liabilities</b>                       |                   |                   |
| Accounts payable and accrued liabilities | \$ 146,122        | \$ 197,331        |
| Deferred revenue                         | 392,709           | 385,224           |
|  | <u>538,831</u>    | <u>582,555</u>    |
| <b>Net financial debt</b>                | <b>(44,709)</b>   | <b>(51,393)</b>   |
| <b>Non-financial assets</b>              |                   |                   |
| Prepaid expenses                         | 44,709            | 51,393            |
| <b>Accumulated surplus</b>               | <b>\$ -</b>       | <b>\$ -</b>       |

See accompanying notes to financial statements.

# MOHAWK 4 ICE CENTRE

## Statement of Operations

Year ended December 31, 2014, with comparative figures for 2013

|  | Budget       | 2014         | 2013         |
|--|--------------|--------------|--------------|
| Revenues:  |              |              |              |
| Ice rentals (note 3 (b))   | \$ 2,161,537 | \$ 2,184,401 | \$ 2,200,643 |
| League   | 537,600      | 601,581      | 544,001      |
| Leases   | 161,040      | 153,040      | 145,850      |
| Advertising  | 118,800      | 110,264      | 113,617      |
| Vending  | 33,000       | 28,308       | 31,985       |
| Other  | 16,650       | 22,297       | 18,343       |
| Tournament   | -            | 10,498       | -            |
| Total revenues   | 3,028,627    | 3,110,389    | 3,054,439    |
| Expenses:  |              |              |              |
| Bad debt expense (recovery)  | -            | 1,001        | (17)         |
| Bank charges and interest  | 31,896       | 34,770       | 33,276       |
| Insurance  | 52,800       | 48,735       | 58,356       |
| Investigate revenue source   | 25,000       | -            | 10,052       |
| League   | 174,000      | 197,952      | 181,366      |
| Management fees (note 3 (c))   | 204,482      | 207,972      | 205,361      |
| Marketing and sales  | 26,500       | 25,961       | 19,900       |
| Office   | 18,720       | 15,072       | 15,873       |
| Professional fees  | 7,080        | 3,300        | 3,100        |
| Repairs and maintenance  | 202,000      | 235,498      | 169,791      |
| Salaries and benefits  | 710,100      | 709,628      | 737,375      |
| Telephone  | 10,800       | 5,750        | 7,789        |
| Tournament   | -            | 4,386        | -            |
| Travel   | 4,650        | 1,973        | 3,067        |
| Training   | 5,675        | 3,267        | 3,203        |
| Utilities  | 460,000      | 445,936      | 447,719      |
| Total expenses   | 1,933,703    | 1,941,201    | 1,896,211    |
|  | 1,094,924    | 1,169,188    | 1,158,228    |
| Transfer to City of Hamilton's Reserve for Capital Projects (note 3 (d)) | (125,000)    | (125,000)    | (125,000)    |
| Transfer to City of Hamilton for debt repayment (note 3 (g))             | (969,924)    | (969,924)    | (969,924)    |
| Net revenues   | -            | 74,264       | 63,304       |
| Profit share expense (notes 3 (f), 4)                                    | -            | (74,264)     | (63,304)     |
| Annual surplus   | -            | -            | -            |
| Accumulated surplus, beginning of year                                   | -            | -            | 90,002       |
| Transfer to stabilization reserve (note 3 (e))                           | -            | -            | (90,002)     |
| Accumulated surplus, end of year   | \$ -         | \$ -         | \$ -         |

See accompanying notes to financial statements.

## MOHAWK 4 ICE CENTRE

### Statement of Changes in Net Financial Assets (Debt)

Year ended December 31, 2014, with comparative figures for 2013

|  | 2014        | 2013        |
|--|-------------|-------------|
| Annual surplus                                 | \$ -        | \$ -        |
| Transfer to stabilization reserve (note 3 (e)) | -           | (90,002)    |
| Decrease in prepaid expenses                   | 6,684       | 6,232       |
| Change in net financial assets (debt)          | 6,684       | (83,770)    |
| Net financial (debt) assets, beginning of year | (51,393)    | 32,377      |
| Net financial debt, end of year                | \$ (44,709) | \$ (51,393) |

See accompanying notes to financial statements.

## MOHAWK 4 ICE CENTRE

### Statement of Cash Flows

Year ended December 31, 2014, with comparative figures for 2013

|  | 2014       | 2013       |
|--|------------|------------|
| Cash provided by (used in):                    |            |            |
| Operating activities:                          |            |            |
| Annual surplus                                 | \$ -       | \$ -       |
| Items not involving cash:                      |            |            |
| Transfer to stabilization reserve (note 3 (e)) | -          | (90,002)   |
| Change in non-cash assets and liabilities:     |            |            |
| Accounts receivable                            | 77,917     | 78,137     |
| Prepaid expenses                               | 6,684      | 6,232      |
| Accounts payable and accrued liabilities       | (51,209)   | (66,906)   |
| Deferred revenue                               | 7,485      | 7,637      |
| Due from City of Hamilton                      | (121,299)  | 89,499     |
| Net change in cash and cash equivalents        | (80,422)   | 24,597     |
| Cash and cash equivalents, beginning of year   | 226,896    | 202,299    |
| Cash and cash equivalents, end of year         | \$ 146,474 | \$ 226,896 |

See accompanying notes to financial statements.



# MOHAWK 4 ICE CENTRE

Notes to Financial Statements

Year ended December 31, 2014

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## 1. Nature of operations:

The Mohawk 4 Ice 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"), owned and operated by Nustadia Recreation Inc., to maintain and operate the Centre.

## 2. Significant account policies:

### (a) Basis of accounting:

The Centre follows accounting principles for local governments, as recommended by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada, 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 operations. 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 of Hamilton and HAP, whereby the City owns the capital assets and arranges with HAP 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 HAP. As these financial statements have not been prepared for general purposes, some users may require further information.

### (b) Revenue recognition:

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

### (c) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of any contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

# MOHAWK 4 ICE CENTRE

Notes to Financial Statements (continued)

Year ended December 31, 2014

## 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 of Hamilton and HAP. This bank account is 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 \$472,518 (2013 - \$459,667) with respect to City of Hamilton ice time was included in revenue for the year.

### (c) Management fees:

Pursuant to the agreement between the City of Hamilton and HAP, the City of Hamilton has agreed to pay HAP an annual management fee of \$150,000, adjusted annually for increases in the consumer price index for Hamilton, 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 \$207,972 (2013 - \$205,361) with respect to these management fees.

### (d) Reserves:

The City of Hamilton holds a capital fund reserve for the Centre in the amount of \$616,277 (2013 - \$535,553) to be used primarily to finance major capital repairs to the facility. The capital fund has not been included in the Centre's statement of financial position nor has its operations been included in the statements of operations and changes in net financial assets (debt).

|  | 2014       | 2013       |
|--|------------|------------|
| Balance, beginning of year                   | \$ 535,553 | \$ 539,599 |
| Expenditures made on capital projects        | (57,843)   | (142,695)  |
| Contribution to fund future capital projects | 125,000    | 125,000    |
| Interest income earned on the reserve        | 13,567     | 13,649     |
| Balance, end of year                         | \$ 616,277 | \$ 535,553 |

# MOHAWK 4 ICE CENTRE

Notes to Financial Statements (continued)

Year ended December 31, 2014

## 3. Transactions 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.

As at December 31, 2011, the account was fully funded, due to amounts allocated from the City's capital reserve fund to the operating stabilization account and the \$90,002 accumulated surplus historically carried by the Centre. During fiscal 2013, the City of Hamilton and HAP agreed to formally transfer the accumulated surplus of \$90,002 to the operating stabilization account. Thus, \$nil (2013 - \$nil) was contributed to the operating stabilization account in 2014.

### (f) Operating deficits and surplus:

Subsequent to the first year of operations, 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. The first \$30,000 of the operating surplus is to fund the operating stabilization account. The remaining surplus is to be distributed to the City of Hamilton (70%) and HAP (30%). As the operating stabilization account is fully funded, the entire balance of the surplus is distributed between the City of Hamilton and HAP.

### (g) Debt repayment:

The construction of the 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 installments of \$80,828. The debt is held by the City of Hamilton and the Centre receives an internal debt charge allocation for its repayment.

## 4. Related party transactions:

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Accounts receivable include receivables, in the normal course of business, from related parties in the following amounts:

|                              | 2014      | 2013   |
|------------------------------|-----------|--------|
| Hamilton Arena Partners Inc. | \$ 20,059 | \$ -   |
| Nustadia Recreation Inc.     | 16,920    | 29,569 |

# MOHAWK 4 ICE CENTRE

Notes to Financial Statements (continued)

Year ended December 31, 2014

## 4. Related party transactions (continued):

Accounts payable and accrued liabilities includes trade payables, in the normal course of business, to related companies, in the following amounts:

|                              | 2014      | 2013      |
|------------------------------|-----------|-----------|
| Hamilton Arena Partners Inc. | \$ 23,885 | \$ 22,152 |
| Nustadia Recreation Inc.     | 5,360     | 6,258     |

The Centre had the following related party transactions with Nustadia Recreation Inc. during the year:

|  | 2014      | 2013      |
|--|-----------|-----------|
| Advertising, leasing, and vending revenue recognized by the Centre from contracts administered by Nustadia | \$ 55,415 | \$ 40,075 |
| Wage recovery expenses   | 58,496    | 69,692    |

In accordance with the terms of the partnership agreement disclosed in note 3(f), the operating surplus has been allocated as follows:

|                              | 2014      | 2013      |
|------------------------------|-----------|-----------|
| City of Hamilton             | \$ 51,985 | \$ 44,313 |
| Hamilton Arena Partners Inc. | 22,279    | 18,991    |
|                              | \$ 74,264 | \$ 63,304 |

# MOHAWK 4 ICE CENTRE

Notes to Financial Statements (continued)

Year ended December 31, 2014

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## 5. Financial risks and concentration of credit risk:

The Centre is subject to credit risk and liquidity risk. Credit risk is the risk that a counterparty may default on its contractual obligations resulting in a financial loss. The Centre is exposed to credit risk with respect to accounts receivable. The Centre assesses, on a continuous basis, accounts receivable and provides for any amounts that are not collectible in the allowance for doubtful accounts. The maximum exposure to credit risk of the Centre is the carrying value of accounts receivable at year end. Liquidity risk is the risk that the Centre will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Centre manages its liquidity risk by monitoring its operating requirements and the preparation of a budget forecast to ensure sufficient funds exist to fulfill its obligations. The City of Hamilton also maintains the capital fund reserve and operating stabilization account in anticipation of future capital and operating requirements of the Centre.