

Financial Statements of

MOHAWK 4 ICE CENTRE

Year ended December 31, 2017

MOHAWK 4 ICE CENTRE

Financial Statements

December 31, 2017, with comparative figures for 2016

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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, 2017, and the statements of operations, changes in net debt and cash flows for the year then ended and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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, 2017, and its result of operations, its changes in net debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Hamilton, Canada
February 27, 2018

MOHAWK 4 ICE CENTRE

Statement of Financial Position

December 31, 2017, with comparative information for 2016

	2017	2016
Financial assets		
Cash and cash equivalents	\$ 219,453	\$ 218,984
Accounts receivable	135,783	127,156
Due from the City of Hamilton (note 3)	137,806	170,860
	<u>493,042</u>	<u>517,000</u>
Liabilities		
Accounts payable and accrued liabilities	149,290	155,645
Deferred revenue (note 5)	390,884	371,195
	<u>540,174</u>	<u>526,840</u>
Net debt	(47,132)	(9,840)
Non-financial assets		
Prepaid expenses	47,132	9,840
Accumulated surplus	\$ -	\$ -

See accompanying notes to financial statements.

MOHAWK 4 ICE CENTRE

Statement of Operations

Year ended December 31, 2017, with comparative information for 2016

	Budget	2017	2016
Revenues:			
Ice rentals (note 3 (b))	\$ 2,246,102	\$ 2,325,111	\$ 2,287,687
League	527,700	557,422	523,511
Leases	158,800	156,400	157,300
Advertising	99,996	104,015	102,851
Vending	29,700	23,777	27,137
Other	11,660	17,606	11,719
Tournament	8,000	5,089	9,630
Total revenues	3,081,958	3,189,420	3,119,835
Expenses:			
Bank charges and interest	27,480	31,583	32,413
Insurance	46,800	47,937	47,524
League	189,600	174,810	183,877
Management fees (note 3 (c))	213,204	216,448	212,668
Marketing and sales	15,150	11,205	15,808
Office	12,000	10,045	9,923
Professional fees	3,300	3,300	5,600
Repairs and maintenance	222,500	214,913	215,299
Salaries and benefits	732,000	741,040	686,114
Telephone	6,000	3,926	5,010
Tournament	4,200	2,245	4,633
Travel	1,800	1,650	1,333
Training	3,000	3,507	70
Utilities	510,000	627,348	604,188
Total expenses	1,987,034	2,089,957	2,024,460
	1,094,924	1,099,463	1,095,375
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	-	4,539	451
Profit share expense (notes 3 (f), 4)	-	(4,539)	(451)
Annual surplus	-	-	-
Accumulated surplus, beginning of year	-	-	-
Accumulated surplus, end of year	\$ -	\$ -	\$ -

See accompanying notes to financial statements.

MOHAWK 4 ICE CENTRE

Statement of Changes in Net Debt

Year ended December 31, 2017, with comparative information for 2016

	2017	2016
Annual surplus	\$ -	\$ -
(Increase) decrease in prepaid expenses	(37,292)	38,352
Change in net debt	(37,292)	38,352
Net debt, beginning of year	(9,840)	(48,192)
Net debt, end of year	\$ (47,132)	\$ (9,840)

See accompanying notes to financial statements.

MOHAWK 4 ICE CENTRE

Statement of Cash Flows

Year ended December 31, 2017, with comparative information for 2016

	2017	2016
Cash provided by (used in):		
Operating activities:		
Annual surplus	\$ -	\$ -
Change in non-cash assets and liabilities:		
Accounts receivable	(8,627)	5,115
Prepaid expenses	(37,292)	38,352
Accounts payable and accrued liabilities	(6,355)	(8,768)
Deferred revenue	19,689	(34,763)
Due from City of Hamilton	33,054	127,166
Net change in cash and cash equivalents	469	127,102
Cash and cash equivalents, beginning of year	218,984	91,882
Cash and cash equivalents, end of year	\$ 219,453	\$ 218,984

See accompanying notes to financial statements.

MOHAWK 4 ICE CENTRE

Notes to Financial Statements

Year ended December 31, 2017

1. Nature of operations:

The Mohawk 4 Ice Centre (the "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 (the "Agreement") with Hamilton Arena Partners Inc. ("HAP"), owned and operated by Nustadia Recreation Inc., to maintain and operate the Centre. The agreement was renewed in 2014 for an extension period of 5 years.

2. Significant account policies:

(a) Basis of accounting:

These financial statements have been prepared in accordance with Canadian Public Sector Accounting Standards ("PSAS") as recommended by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada. Significant accounting policies adopted by the Centre are as follows:

(b) Basis of accounting:

The Centre follows the accrual method of accounting for revenues and expenses. Revenues are normally recognized in the year in which they are earned and measureable. Expenses are recognized as they are incurred and measurable as a result of receipt of goods or services and the creation of a legal obligation to pay.

(c) Revenues:

Revenues are recognized in the fiscal year in which the related services are performed.

(d) Deferred revenue:

Deferred revenue represents funds collected for which related services have yet to be performed. These amounts will be recognized as revenue in the fiscal year in which the related services are performed.

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Notes to Financial Statements (continued)

Year ended December 31, 2017

2. Significant account policies (continued):

(e) Non-financial assets:

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the ordinary course of operations.

(f) Operating and capital reserves and reserve funds

Operating and capital reserves and reserve funds held by the City of Hamilton for use by the Centre are not reported in these financial statements.

(g) 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.

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 \$516,052 (2016 - \$501,028) 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 \$216,448 (2016 - \$212,668) with respect to these management fees and commissions.

MOHAWK 4 ICE CENTRE

Notes to Financial Statements (continued)

Year ended December 31, 2017

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

(d) Reserves:

The City of Hamilton holds a capital fund reserve for the Centre in the amount of \$688,104 (2016 - \$628,415) 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 debt.

	2017	2016
Balance, beginning of year	\$ 628,415	\$ 572,151
Expenditures made on capital projects	(79,660)	(80,736)
Contribution to fund future capital projects	125,000	125,000
Interest income earned on the reserve	14,349	12,000
Balance, end of year	\$ 688,104	\$ 628,415

(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. Thus, no amounts were contributed to the operating stabilization account in 2017 or 2016.

(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. Total repayments made by the Centre in 2017 was \$969,924 (2016 - \$969,924).

MOHAWK 4 ICE CENTRE

Notes to Financial Statements (continued)

Year ended December 31, 2017

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:

	2017	2016
Nustadia Recreation Inc.	\$ 10,327	\$ 4,084

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

	2017	2016
Hamilton Arena Partners Inc.	\$ 42,171	\$ 39,157
City of Hamilton	3,177	316
Nustadia Recreation Inc.	3,358	3,676

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

	2017	2016
Advertising, leasing, and vending revenue recognized by the Centre from contracts administered by Nustadia	\$ 29,667	\$ 28,275
Wage recovery expenses	81,958	76,705

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

	2017	2016
City of Hamilton	\$ 3,177	\$ 316
Hamilton Arena Partners Inc.	1,362	135
	\$ 4,539	\$ 451

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Notes to Financial Statements (continued)

Year ended December 31, 2017

5. Deferred revenue:

Included in deferred revenue are amounts for ice and facility rentals which will take place in the next fiscal year as well as amounts received for advertising contracts.

	2017	2016
Balance, beginning of year	\$ 371,195	\$ 405,958
Receipts	390,884	371,195
Transfer to revenue	(371,195)	(405,958)
	\$ 390,884	\$ 371,195

6. Financial risks and concentration of credit risk:

(a) Credit risk:

The Centre is subject to credit 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.

(b) Liquidity risk:

The Centre is subject to liquidity risk. 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.

7. Comparative information:

Certain comparative information has been reclassified to conform to the presentation adopted in the current year. There is no impact to ending accumulated surplus.