

Item No. 9.1.5
Audit & Finance Standing Committee
March 5, 2014

TO: Chair and Members of Audit & Finance Standing Committee
Original Signed

SUBMITTED BY: _____
Brad Anguish, Director of Community & Recreation Services
Original Signed

Greg Keefe, CMA, Director of Finance & Information Technology

DATE: February 5, 2014

SUBJECT: **Fiscal Year 2012/2013 Financial Report – Sackville Sports Stadium**

ORIGIN

Motion of Audit and Finance Standing Committee meeting of March 20, 2013:

MOVED by Councillor Walker, seconded by Councillor Adams that the Audit and Finance Standing Committee recommend that Halifax Regional Council:

1. Approve the attached planning report for the Audit of HRM's financial statements as prepared by KPMG;
2. Approve the elimination of the Audit of the financial statements for the Sackville Sports Stadium; and,
3. Approve the attached planning report for the Review of the financial statement for the Sackville Sports Stadium as prepared by KMPG.

MOTION PUT AND PASSED.

LEGISLATIVE AUTHORITY

Under the *HRM Charter*, Section 48(2)(a), the Audit and Finance Standing Committee is responsible to perform a detailed review of the financial statements of the Municipality with the Auditor.

As Regional Council is responsible for the operation of the Sackville Sports Stadium, these statements are being presented to the Audit and Finance Standing Committee for their review and then will be forwarded to Council for approval.

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RECOMMENDATION

It is recommended that the Audit and Finance Standing Committee recommend that Halifax Regional Council approve the financial statements of the Sackville Sports Stadium dated March 31, 2013.

BACKGROUND

Financial reporting for all HRM expenditures is audited and presented to Regional Council annually. Prior to the year ended March 31, 2013, the Sackville Sports Stadium issued separate financial statement and these statements were audited by KPMG. In fiscal year 2011/12, the financial operation was integrated into HRM. As a result, and consistent with Regional Council's March 20, 2013 motion, a separate audit of the Sackville Sport Stadium was not required but a Review of the Sackville Sports Stadium's financial statements was requested by their financial institution for the year ended March 31, 2013.

DISCUSSION

The key items included in the financial statements are discussed below:

At March 31, 2013, the Sackville Sports Stadium had financial assets of \$351,000 made up of cash, trade receivable, payroll advances and long term receivables. The long-term receivable represents rent revenue that is to be paid by August 2016.

The financial liabilities are \$4,202,000, made up of accounts payable, accrued liabilities, deferred revenue and a due to the HRM. The due to HRM includes funds borrowed by HRM to fund the expansion of the facility that were to be repaid by the facility. However, the facility did not repay the debt in accordance with the agreed repayment plan, and as a result, the funds remain payable to HRM. With the integration of Sackville Sport Stadium operations into HRM, the accumulated deficits of the Sackville Sports Stadium were accounted for in HRM's General Rate Surplus in 2011/12.

For the fiscal year ending on March 31, 2013, the Sackville Sports Stadium had a deficit of \$437,000. This represents an unfavorable variance to the budget of \$446,000.

The key variances from the budget are as follows:

Revenue:

- Arena revenue was less than budgeted by \$30k. This was primarily due to last minute cancellation of approximately \$30k in summer ice rental by the primary user. Spring ice and public skates were down \$14k due to some booked camps being cancelled, less tournament hours, and lower attendance.
- Fitness and leisure revenue was below budget by \$174k. Membership revenues were down by \$164k. Approximately 25% of memberships were lost initially due to increased private fitness operators in the area. The decrease in memberships also impacted personal training revenue by \$10k.

- Aquatics revenue was less than budgeted by \$56k primarily due to a decline in program registration. There was also a decline in attendance at public swims during the latter part of the year. This was partially offset by increased pool lane rentals by a local swim team.
- Commercial revenue was below budget by \$26k. This was due to a food court vendor closing in July which was partially offset by an additional room rental for a current tenant, as well as a new tenant lease in October.
- The HRM operating subsidy was budgeted but not received this year, which resulted in a revenue shortfall of \$200k from budget. However, this was offset by a reduction in debt repayment with the integration of the finances into HRM.

Expenditures:

- Salaries were below budget by \$40k. The savings were primarily from lower wages from shift reductions and a reduction in program staff to correspond with fewer programs.
- Pools and fitness supplies were overspent by \$30k. This resulted from expenses of \$78k for new fitness equipment and equipment lease buyouts, which was partially offset by less than budget lease expenses of \$37k and reduced program supplies/equipment spending of \$11k.
- Office and general expenses savings were \$24k primarily due to reduction in internal charges for network/hardware, deferred spending on financial software and web page redesign, and lower bank fees.

As noted, with the full integration of the Sackville Sport Stadium into HRM and their transition to ScotiaBank, there will be no future financial statements presented for the Sackville Sport Stadium. Upon approval by Regional Council, the financial statements will be considered final and KPMG will provide their Review Engagement Report.

FINANCIAL IMPLICATIONS

There are no financial implications to the report.

COMMUNITY ENGAGEMENT

Not applicable.

ENVIRONMENTAL IMPLICATIONS

None identified.

ALTERNATIVES

None identified.

ATTACHMENTS

1. Draft Sackville Sports Stadium Financial Statements for the years ended March 31, 2013 and March 31, 2012.

A copy of this report can be obtained online at <http://www.halifax.ca/commcoun/cc.html> then choose the appropriate Community Council and meeting date, or by contacting the Office of the Municipal Clerk at 490-4210, or Fax 490-4208.

Report Prepared by: Diane Levandier, Client Services Manager, Sackville Sports Stadium 869-4141 ext. 306

Original Signed

Report Approved by:

Denise Schofield, Manager, Regional Recreation & Culture 490-6252

Original Signed

Financial Approval by:

Louís de Montbrun, Manager, Financial Reporting, 490-7222

DRAFT Financial Statements of the

SACKVILLE SPORTS STADIUM

Years ended March 31, 2013 and 2012
(Unaudited)

REVIEW ENGAGEMENT REPORT

To the Mayor and Members of Council of the Halifax Regional Municipality

We have reviewed the statement of financial position of Sackville Sports Stadium as at March 31, 2013, March 31, 2012 and April 1, 2011, the statements of operations and accumulated deficit, changes in net debt and cash flows for the years ended March 31, 2013 and March 31, 2012. Our review was made in accordance with Canadian generally accepted standards for review engagements and, accordingly, consisted primarily of enquiry, analytical procedures and discussion related to information supplied to us by the Stadium.

A review does not constitute an audit and consequently we do not express an audit opinion on these financial statements.

Based on our review, nothing has come to our attention that causes us to believe that these financial statements are not, in all material respects, in accordance with Canadian accounting standards for the public sector.

We draw attention to Note 11 to the financial statements which describes that the Stadium adopted Canadian accounting standards for the public sector on April 1, 2012 with a transition date of April 1, 2011. These standards were applied retrospectively by management to the comparative information in these financial statements including the statement of financial position as at March 31, 2012 and the statements of operations and accumulated deficit and cash flows for the year ended March 31, 2011 and related disclosures. We were not engaged to report on the restated comparative information and as such, it is neither audited nor reviewed.

Chartered Accountants

Halifax, Canada

SACKVILLE SPORTS STADIUM

Financial Statements
(Unaudited)

DRAFT

Years ended March 31, 2013 and 2012

Financial Statements

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SACKVILLE SPORTS STADIUM

Statements of Financial Position

DRAFT

March 31, 2013 , March 31, 2012 and April 1, 2011

(Unaudited)

	March 31 2013	March 31 2012	April 1 2011
Financial Assets			
Cash	\$ 142,448	\$ 476,130	\$ 953,234
Trade receivables	93,756	152,265	265,671
Payroll advances	2,922	2,922	2,922
Long-term receivables (note 3)	111,871	145,763	54,783
	350,997	777,080	1,276,610
Financial Liabilities			
Accounts payable	\$ 108,895	\$ 100,296	\$ 140,261
Accrued liabilities (note 4)	176,778	237,314	242,219
Deferred revenue	321,241	308,150	359,954
Due to the Halifax Regional Municipality (note 5)	3,946,396	3,618,303	3,731,401
Net debt	(4,202,313)	(3,486,983)	(3,197,225)
Non-financial Assets			
Inventories (note 2)	9,461	10,107	12,130
Prepaid expenses and deposits	5,779	5,969	7,832
	15,240	16,076	19,962
Commitments (note 5)			
Accumulated deficit	\$(4,187,073)	\$(3,470,907)	\$(3,177,263)

See accompanying notes to unaudited financial statements.

Approved on behalf of the Halifax Regional Municipality:

Mayor, Mike Savage

Municipal Clerk, Cathy Mellett

SACKVILLE SPORTS STADIUM

Statements of Operations and Accumulated Deficit

DRAFT

Years ended March 31, 2013 and 2012

(Unaudited)

	2013 Budget	2013	2012
Revenue:			
Arena	\$ 640,801	\$ 610,970	587,769
Fitness and leisure	1,117,656	944,036	1,088,091
Aquatics	866,513	810,845	845,900
Commercial	394,787	369,182	383,335
Curling and summer venues	126,991	123,619	114,665
Stadium overall	113,664	100,010	118,805
Halifax Regional Municipality operating subsidy	200,000	-	200,000
	<u>3,460,412</u>	<u>2,958,662</u>	<u>3,338,565</u>
Expenditures:			
Salaries:			
Administration and support services	746,496	706,450	705,096
Operations, maintenance and security	388,472	386,453	373,379
Fitness and leisure	390,215	387,334	370,759
Aquatics	395,016	389,599	387,892
	<u>1,920,199</u>	<u>1,869,836</u>	<u>1,837,126</u>
Staff expenses	26,645	11,724	11,966
Membership expenses	51,430	48,387	61,008
Cleaning supplies	227,436	227,436	219,737
Utilities	667,567	664,549	641,426
Repairs and maintenance	185,359	196,893	188,909
Professional fees	13,700	7,025	15,308
Bad debts	19,200	36,926	34,376
Office and general	112,395	88,792	101,729
Realty taxes	44,676	42,167	42,958
Snow, ice and garbage removal	45,624	33,312	44,732
Pools and fitness supplies	114,464	144,802	97,893
Sanitary supplies	22,602	24,139	22,485
Fundraising expenses	-	28	28
	<u>3,451,297</u>	<u>3,396,016</u>	<u>3,319,681</u>
Annual surplus (deficit)	9,115	(437,354)	18,884
Accumulated deficit, beginning of year		(3,470,907)	(3,177,263)
Transfers to Halifax Regional Municipality		(278,812)	(312,528)
Accumulated deficit, end of year		<u>(4,187,073)</u>	<u>(3,470,907)</u>

See accompanying notes to financial statements.

SACKVILLE SPORTS STADIUM

Statements of Changes in Net Debt

DRAFT

Years ended March 31, 2013 and 2012

(Unaudited)

	2013	2012
Annual surplus (deficit)	\$ (437,354)	\$ 18,884
Transfers to Halifax Regional Municipality	(278,812)	(312,528)
	(716,166)	(293,644)
Acquisition of inventories of supplies	(9,461)	(10,107)
Acquisition of prepaid expenses	(5,779)	(5,969)
Consumption of inventories of supplies	10,107	12,130
Use of prepaid expenses	5,969	7,832
	(715,330)	(289,758)
Change in net debt	(715,330)	(289,758)
Net debt, beginning of year	(3,486,983)	(3,197,225)
Net debt, end of year	<u>\$(4,202,313)</u>	<u>\$(3,486,983)</u>

See accompanying notes to unaudited financial statements.

SACKVILLE SPORTS STADIUM

Statements of Cash Flows

DRAFT

Years ended March 31, 2013 and 2012

(Unaudited)

	2013	2012
Cash provided by (used in):		
Operations:		
Annual surplus (deficit)	\$ (437,354)	\$ 18,884
Change in non-cash operating working capital:		
Decrease in trade receivables	58,509	113,406
Decrease in inventories	646	2,023
Decrease in prepaid expenses and deposits	190	1,863
Increase (decrease) in accounts payable	8,599	(39,965)
Decrease in accrued liabilities	(60,536)	(4,905)
Increase (decrease) in deferred revenue	13,091	(51,804)
	(416,855)	39,502
Financing:		
Increase (decrease) in due to the Halifax Regional Municipality	46,647	(97,993)
Net transfers paid to the Halifax Regional Municipality	2,634	(327,633)
	49,281	(425,626)
Investments:		
Decrease (increase) in long-term receivable	33,892	(90,980)
Decrease in cash	(333,682)	(477,104)
Cash, beginning of year	476,130	953,234
Cash, end of year	\$ 142,448	\$ 476,130

See accompanying notes to financial statements.

SACKVILLE SPORTS STADIUM

Notes to Financial Statements

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Years ended March 31, 2013 and 2012
(Unaudited)

Sackville Sports Stadium (the "Stadium") is a society incorporated under the Societies Act of Nova Scotia and it provides for the operation of the Sackville Sports Stadium facility on behalf of the Halifax Regional Municipality (the "HRM"). The Stadium operates at a deficit, however, the HRM provides support to fund these deficits in the form of advances from the HRM which are repayable in the event of future surpluses from operations.

On April 1, 2012, the Association adopted Canadian Public Sector Accounting Standards. These are the first financial statements prepared in accordance with these public sector accounting standards.

In accordance with the transitional provisions in Public Sector Accounting Standards, the Association has adopted the changes retrospectively, subject to certain exemptions allowed under these standards. The transition date is April 1, 2011 and all comparative information provided has been presented by applying public sector accounting standards.

A summary of transitional adjustments recorded to accumulated deficit and annual deficit is provided in note 10.

1. Significant accounting policies:

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles.

(a) Revenue recognition:

Restricted contributions related to general operations are recognized as revenue in the year in which the related expenses are incurred. All other restricted contributions are recognized as revenue as they are earned and measurable. Unrestricted contributions are recognized as revenue in the year received or receivable, if the amount to be received can be reasonably estimated and collection is reasonably assured.

Membership and program revenue and expenditures are recorded on the accrual basis. Revenue received or committed which is related to events occurring after year-end is recorded as deferred revenue on the balance sheet.

SACKVILLE SPORTS STADIUM

Notes to Financial Statements

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Years ended March 31, 2013 and 2012

(Unaudited)

1. Significant accounting policies (continued):

(b) Prepays and inventories of supplies:

Prepays and inventories of supplies are non-financial assets held for consumption by the Association and are recorded at the lower of cost and replacement cost. Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services.

(c) Capital assets:

The Sackville Sports Stadium is operated on behalf of the HRM. The land, building and equipment utilized and operated by the Stadium is owned by the HRM and is not included in these financial statements. The Stadium and the related capital debt are recorded in the Capital Fund of the HRM.

(d) Financial instruments:

Financial instruments are recorded at fair value on initial recognition and are subsequently recorded at cost unless management has elected to carry the instruments at fair value.

All financial assets are assessed for impairment on an annual basis. When a decline is determined to be other than temporary, the amount of the loss is reported in the statement of operations and any unrealized gain is adjusted through the statement of remeasurement gains and losses.

Accounts receivable, accounts payable and due to/from the Halifax Regional Municipality are recorded at cost.

The Association have no measurements at fair value as at March 31, 2013.

(e) Contributed services:

Due to the difficulty in determining their fair value, contributed services are not recognized in the financial statements.

(f) Government transfers:

Government transfers received relate to recreational programs. Government transfers paid relate to recreational programs. Transfers are recognized in the financial statements as revenues in the period in which events giving rise to the transfer occur, providing the transfers are authorized, any eligibility criteria have been met, and reasonable estimates of the amounts can be made.

SACKVILLE SPORTS STADIUM

Notes to Financial Statements

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Years ended March 31, 2013 and 2012

(Unaudited)

1. Significant accounting policies (continued):

(g) Statement of remeasurement gain and loss:

The Association has not presented a statement of remeasurement gain and loss as the Association has no financial instruments that give rise to remeasurement gains or losses.

(h) 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 contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

2. Inventories:

	2013	2012	2011
Pro shop	\$ 1,700	\$ 926	\$ 1,406
Staff uniforms	7,761	9,181	10,724
	\$ 9,461	\$ 10,107	\$ 12,130

During the year, the Stadium expensed inventory in the amount of \$3,676 (2012 - \$6,189 and 2011 - \$6,062).

3. Long-term receivable:

The long-term receivable is non-interest bearing and relates to rent revenue from their tenant, Hockey Town Training and Sports Center Inc., and will be paid in full by August 2016 in accordance with the most recent lease agreement dated November 12, 2009.

4. Accrued liabilities:

Included in accrued liabilities is HST payable of \$10,945 (2012 - \$60,063, and 2011 - \$66,936).

SACKVILLE SPORTS STADIUM

Notes to Financial Statements

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Years ended March 31, 2013 and 2012

(Unaudited)

5. Commitments:

(a) Debt commitments:

The facility expansion in 2000, together with the related debt principal of \$4.45 million, is included in the capital fund of the HRM. The Stadium has had a deferral of its debt repayments in order to create annual operating surpluses to reduce the accumulated deficit situation. The HRM has made certain payments on the debt on the Stadium's behalf. Commencing in 2008 the Stadium was in a position to commence payments towards debt repayment. Although repayments were made in previous years, no debt repayments were made at the end of fiscal 2013 by the Stadium (2012 - \$300,000; 2011 - \$200,000). As the formal schedule of repayment has not been determined, the debt has been classified as long term.

At year-end, the Stadium had a balance owing to the HRM of \$3,678,317 (2012 - \$3,396,871), equal to the accumulated net debt service payments made by the HRM on the Stadium's behalf. The Stadium also had a balance owing to the HRM of \$268,079 (2012 - \$221,432), consisting of short-term accounts payable and payroll balances.

	2013	2012	2011
Long-term, net debt service payments to HRM	\$ 3,678,317	\$ 3,396,871	\$ 3,411,976
Short-term advances from HRM	268,079	221,432	319,425
	<u>\$ 3,946,396</u>	<u>\$ 3,618,303</u>	<u>\$ 3,731,401</u>

(b) Equipment leases:

The Stadium is committed to minimum equipment operating lease payments as follows:

2014	\$	14,110
2015		13,425
2016		1,895
	<u>\$</u>	<u>29,430</u>

SACKVILLE SPORTS STADIUM

Notes to Financial Statements

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Years ended March 31, 2013 and 2012

(Unaudited)

6. Transactions with Halifax Regional Municipality:

During the year, the following amounts were transferred to the HRM:

	2013	2012
Debt service payments paid	\$ -	\$ (300,000)
Net increase (decrease) in due to the Halifax Regional Municipality	(281,446)	15,106
Capital expenditures	2,634	(27,634)
	<u>\$ (278,812)</u>	<u>\$ (312,528)</u>

During the year, the HRM did not contribute an operating subsidy to the Stadium. In the previous year, 2012, an operating subsidy in the amount of \$200,000 was contributed.

During 2013, the Stadium entered into the following transactions with the HRM:

	2013	2012
Printing & office charges	\$ 2,046	\$ 1,494
Telephone network charges	1,260	3,780
Computer purchases	-	65
Retiring allowance (increase during the year)	6,100	5,600
Commercial realty taxes	42,167	42,958
Payroll services	17,507	17,338

The HRM pays certain expenses on behalf of the Stadium, including payroll for the Stadium full-time staff and part-time staff.

The HRM provides certain services to the Stadium at no charge including HST, human resources, postage costs, insurance charges, and payroll services.

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 parties.

SACKVILLE SPORTS STADIUM

Notes to Financial Statements

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Years ended March 31, 2013 and 2012

(Unaudited)

7. Allocation of membership fees:

The Stadium allocates its membership revenue between fitness and leisure (92%) and aquatics (8%) based on management estimates. Membership fees totaling \$827,507 (2012 - \$990,491) have been determined as follows:

	2013	2012
Fitness and leisure	\$ 761,306	\$ 911,252
Aquatics	66,201	79,239
	<u>\$ 827,507</u>	<u>\$ 990,491</u>

8. Employee pension plan and benefits:

The employees of the Stadium participate in the Halifax Regional Municipality Pension Plan, a multi employer defined benefit pension plan that provides pension benefits based on length of service and earnings. Contributions to the plan are required by both the employees and the employer. Total employer contributions for 2013 were \$74,917 (2012 - \$71,675 and 2011 - \$63,284) and are recognized as an expense of the year.

The Stadium provides for the payment of retiring allowances to retiring employees in accordance with the terms of the various collective agreements and HRM policy. The retiring allowance is based on the member's final annual salary and years of service at retirement.

Actuarial valuations of the retiring allowances are done for accounting purposes using the projected benefit method prorated on services. The last actuarial valuation of the retiring allowance benefits was conducted as at March 31, 2010.

Retiring allowances in the amount of \$89,800 (2012 - \$83,700 and 2011 - \$78,100) were accrued during the year and are included in accrued liabilities.

9. Supplemental cash flow information:

During the year, the Stadium recognized a non-cash financing activity in the amount of \$281,446 (2012 - \$184,893) related to the settlement of the amount due to the HRM through the net transfers paid to the Halifax Regional Municipality.

SACKVILLE SPORTS STADIUM

Notes to Financial Statements

DRAFT

Years ended March 31, 2013 and 2012

(Unaudited)

10. Financial instruments:

Risk management relates to the understanding and active management of risks associated with all areas of the business and the associated operating environment. The Association's assets are primarily exposed to credit and liquidity risk.

(i) Credit risk:

Credit risk refers to the risk that a counterparty may default on its contractual obligations resulting in a financial loss. The Association is exposed to credit risk with respect to the accounts receivable and cash. The Association 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 Association at March 31, 2013 is the carrying value of these assets. The carrying amount of accounts receivable is valued with consideration for an allowance for doubtful accounts. The amount of any related impairment loss is recognized in the income statement. Subsequent recoveries of impairment losses related to accounts receivable are credited to the income statement. There have been no significant changes to the credit risk exposure from 2012.

(ii) Liquidity risk:

Liquidity risk is the risk that the Association will be unable to fulfil its obligations on a timely basis or at a reasonable cost. The Association manages its liquidity risk by monitoring its operating requirements. The Association prepares budget and cash forecasts to ensure it has sufficient funds to fulfil its obligations. Accounts payable and accrued liabilities are generally due within 60 days of receipt of an invoice. There have been no significant changes to the liquidity risk exposure from 2012.

11. Transitional adjustments:

(a) Deficit:

The following table summarizes the impact of the transition to Public Sector Accounting Standards (PSAB) on the Association's accumulated surplus (deficit) as of April 1, 2011:

Accumulated deficit:

As previously reported under Canadian generally accepted accounting principles, March 31, 2011	\$ (3,131,682)
Adjustment to recognize sick leave (ii)	(45,581)

Restated, April 1, 2011	\$ (3,177,263)
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SACKVILLE SPORTS STADIUM

Notes to Financial Statements

DRAFT

Years ended March 31, 2013 and 2012

(Unaudited)

11. Transitional adjustments (continued):

i) Employee future benefits:

The Association has elected on transition to recognize all cumulative actuarial losses related to employee future benefits as an adjustment to the opening deficit.

ii) Sick leave:

The Association is required under PSAB to recognize a liability for sick leave that the Association is obligated to provide, however, is not obligated to payout when employees leave the Association. Previously, no amount was required to be recognized.

iii) Budget:

As required under public sector accounting standards, the Association has disclosed their planned results in their statement of operations.

(b) Statement of Operations:

As a result of the above noted elections and the retrospective application of public sector accounting standards, there was no impact on the 2012 annual deficit (formerly excess of expenses over revenues).

In the prior year, the Association used the restricted fund method of accounting. Under this method the statement of operations was presented to show each fund separately. This is not permitted under PSAB. The 2012 statement of operations present the total impact of all funds. This change in presentation has no impact on the prior years annual deficit.