
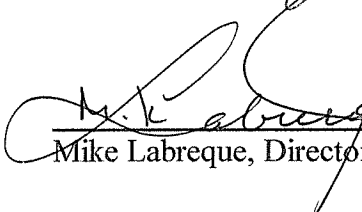


Halifax Regional Council
December 10, 2002

TO: Mayor Kelly and Members of Halifax Regional Council

SUBMITTED BY:


S. Dale MacLennan, CA, Director, Financial Services


Mike Labreque, Director, Real Property Services

DATE: December 2, 2002

SUBJECT: Sackville Sports Stadium - 2001/2002

INFORMATION REPORT

ORIGIN

Operating deficit of Sackville Sports Stadium for the year ended March 31, 2002.

BACKGROUND

The Sackville Sports Stadium facility is owned by the Municipality and operated by Lake District Recreation Association (LDRA) under the terms of a Management Agreement signed in September 1998.

The facility was built in 1990, expanded in 1995 with the addition of a fitness centre and then a further expansion was undertaken in 1999 to include a curling rink, retail space and expansion of the fitness centre. The 1999 expansion was undertaken based on a proposal from Lake District Recreation Association whereby HRM provided \$4.45 million in financing, to take advantage of the lower interest rates the municipality was able to obtain, and Sackville Sports Stadium agreed to make payments to HRM based on enhanced revenues generated from the expanded facility and fundraising money which would be allocated 30% for the acquisition of equipment and 70% to a reserve. The

reserve was to be used should Sackville Sports Stadium be unable to fully service the loan.

The business plan for the 1999 expansion included a repayment schedule for the \$4.45 million loan over a 20-year period, at no cost to the Municipality, as well as a reduction in the annual subsidy provided by the Municipality for the operation of the facility.

As part of the operation of the facility, the associated payroll costs are calculated and paid by the Municipality and then billed to Sackville Sports Stadium each pay period. The balance due to the Municipality at October 31, 2002 is \$1.8 million.

Staff have reviewed the processes around the internal reporting and management of agreements of this type and have concluded that improvements are necessary to ensure that roles and responsibilities are clear and that appropriate actions take place in a timely fashion in situations where difficulties arise related to deficits and other amounts owing. While processes have been in place to collect outstanding amounts and to address deficit issues as year-end approaches, changes have been made to create monthly reporting procedures and to ensure that staff responsibilities in different business units are supported by a regular review of financial information and management agreement issues should they arise. This will be lead by staff in Real Property Services and the appropriate Financial Consultant. Other business units will be involved as appropriate, including but not limited to Recreation and Human Resources.

DISCUSSION

Operating subsidies provided to Sackville Sports Stadium have been:

1998/1999	\$168,000
1999/2000	\$124,000
2000/2001	\$ 98,000
2001/2002	\$ 77,900 (budgeted)
2002/2003	\$ 77,900 (budgeted)

The first full year of operation for Sackville Sports Stadium, post the 1999 expansion, was 2001/2002. During the year, Stadium management advised HRM staff that problems were being encountered in reaching targeted results and an additional subsidy was requested. At the time, the actual amount of the additional subsidy was not known, however, management anticipated that a total of \$200,000 would be required, an increase of \$122,100 over the originally budgeted amount.

Real Property Services included this anticipated increase in the HRM's projected third quarter expenditures. Due to delays in finalizing Sackville Sports Stadium's financial results for the year end and a determination of the actual subsidy request, an estimate of the increased subsidy amount was included in Real Property Service's costs for the year ended March 31, 2002.

The final audited financial statements for Sackville Sports Stadium for the year ended March 31, 2002 are attached and they indicate that even with a \$200,000 subsidy from HRM, the deficit for the year

is \$495,786 and the accumulated deficit is \$663,282. In addition, the amount due to HRM is shown as long term debt on the balance sheet, which, in staff's opinion, should be shown as a current liability as the amount is current and past due with no arrangements made to make long-term payments.

Discussions were held with the management of Sackville Sports Stadium and the chair of LDRA and there was agreement that the LDRA board and Stadium management would prepare for HRM staff and Council:

1. a chronology of events that lead to the current deficit position of SSS, and,
2. a multi-year business plan which would address not only the past year and current projected deficit of SSS but also the overall cash position and liability to HRM of \$1.4 million at March 31, 2002.

The LDRA and staff of the Stadium have completed a considerable body of work around a three-year business plan for Sackville Sports Stadium. HRM staff have reviewed the draft business plan and feel that additional work is required to complete the analysis of the operations to date and to ensure that any recommendation to resolve the deficit is based on sound information and a feasible subsidy level. The staff resources at SSS are limited to support this type of analysis, therefore, with the concurrence of the LDRA and SSS staff, HRM will undertake a review of operations utilizing Real Property Services, Recreation and Financial Services staff, returning to Council in February with final recommendations.

Representatives of the LDRA and SSS will make a presentation to Committee of the Whole on December 17th, 2002 which will, among other things, present specific plans to address the outstanding liability to HRM.

The review of operations will be carried out to establish a cash management plan and a recommended level of subsidy to operate the facility in an economical and effective manner. Staff will report back to Council in February 2003 as to the results of the review of operations with recommendations.

BUDGET IMPLICATIONS

An assessment of other budget implications will be contingent on the results of the review of the cash management plan and review of operations.

FINANCIAL MANAGEMENT POLICIES/BUSINESS PLAN

This report complies with the Municipality's Multi-Year Financial Strategy, the approved Operating, Capital and Reserve budgets, policies and procedures regarding withdrawals from the utilization of Capital and Operating reserves as well as any relevant legislation.

ATTACHMENT

Audited Financial Statements of Sackville Sports Stadium for the year ended March 31, 2002.

Additional copies of this report, and information on its status, can be obtained by contacting the Office of the Municipal Clerk at 490-4210, or Fax 490-4208.

Report Prepared by:

Pam Caswill, CA, Manager of Accounting 490-6324

Denis Huck, Manager, Custodial Services, Real Property Services 490-4673

Peverill & Associates Incorporated

Sackville Sports Stadium

FINANCIAL STATEMENTS

MARCH 31, 2002

Sackville Sports Stadium

MARCH 31, 2002

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Peverill & Associates Incorporated


AUDITOR'S REPORT

To the Members of:
Lake District Recreation Association

We have audited the statement of financial position of Sackville Sports Stadium as at March 31, 2002 and the statements of operations and cash flows for the year then ended. These financial statements are the responsibility of the Stadium'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 Stadium as at March 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



Dartmouth, Nova Scotia
June 7, 2002
CHARTERED ACCOUNTANTS

Sackville Sports Stadium

STATEMENT OF FINANCIAL POSITION

AS AT MARCH 31, 2002

	<u>2002</u>	<u>2001</u>
ASSETS		
CURRENT		
Cash	\$ 670,080	\$ 348,587
Accounts Receivable	203,016	117,406
Inventory, at cost	13,556	13,755
Due from Sackville Arena	159,835	99,192
Prepaid Expenses and Sundry Assets	<u>8,368</u>	<u>15,264</u>
	<u>1,054,855</u>	<u>594,204</u>
CAPITAL ASSETS (Note 2)	<u>280,965</u>	<u>239,842</u>
	<u>\$ 1,335,820</u>	<u>\$ 834,046</u>
LIABILITIES		
CURRENT		
Accounts Payable and Accrued Liabilities	\$ 303,139	\$ 90,162
Current Portion of Long Term Debt (Note 3)	51,633	35,805
Deferred Grants	2,034	12,064
Deferred Revenue (Note 1)	<u>137,944</u>	<u>126,080</u>
	<u>494,750</u>	<u>264,111</u>
LONG-TERM DEBT		
Due to Halifax Regional Municipality	1,433,114	655,560
Long Term Debt (Note 3)	<u>71,238</u>	<u>81,871</u>
	<u>1,504,352</u>	<u>737,431</u>
	<u>1,999,102</u>	<u>1,001,542</u>
NET LIABILITIES		
NET LIABILITIES	<u>(663,282)</u>	<u>(167,496)</u>
	<u>\$ 1,335,820</u>	<u>\$ 834,046</u>

APPROVED ON BEHALF OF THE BOARD:

Director_____
Director

Sackville Sports Stadium

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31, 2002

	<u>2002</u>	<u>2001</u>
REVENUE (Schedule 1)	\$ <u>2,534,107</u>	\$ <u>2,148,164</u>
EXPENDITURES		
SALARIES		
Administration	339,237	254,367
Lifeguards and Aquatic Instruction	217,305	163,699
Fitness Instruction	277,885	267,579
Arena Operations and Maintenance	429,377	371,143
Front Desk and Security	149,253	136,266
Curling	44,343	32,880
Benefits	<u>170,331</u>	<u>156,560</u>
	1,627,731	1,382,494
OPERATIONS		
Utilities	420,145	420,895
Repairs and Maintenance	122,912	104,227
Sanitary Supplies	25,642	25,776
Curling Supplies	11,641	5,429
Snow, Ice and Garbage Removal	41,148	38,571
Pool and Fitness Supplies	58,638	52,366
Membership Expenses	44,739	29,516
Staff Expenses	8,578	13,065
Office and Computer Expenses	111,728	91,561
Commercial Occupancy Taxes	29,941	-
Contracted Accounting Services	55,445	-
Professional Fees	<u>6,000</u>	<u>2,488</u>
	<u>936,557</u>	<u>783,894</u>
TOTAL EXPENDITURES	<u>2,564,288</u>	<u>2,166,388</u>
(DEFICIENCY) OF REVENUE OVER EXPENDITURES, before the following:	(30,181)	(18,224)
Amortization	66,010	51,761
Stadium Expansion payments	359,202	-
Interest on HRM account	<u>40,393</u>	<u>39,165</u>
	<u>465,605</u>	<u>90,926</u>
(DEFICIENCY) OF REVENUE OVER EXPENDITURES	(495,786)	(109,150)
(DEFICIT), beginning of year	<u>(167,496)</u>	<u>(58,346)</u>
(DEFICIT), end of year	\$ <u>(663,282)</u>	\$ <u>(167,496)</u>

Sackville Sports Stadium

STATEMENT OF CASH FLOWS

MARCH 31, 2002

	<u>2002</u>	<u>2001</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Operations	\$ 2,450,331	\$ 2,116,721
Cash Paid to Suppliers and Employees	(2,703,418)	(2,155,432)
Cash Paid to Sackville Arena	(60,643)	(2,463)
Cash Received from Halifax Regional Municipality	<u>737,161</u>	<u>437,071</u>
	<u>423,431</u>	<u>395,897</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in long term debt	<u>5,195</u>	<u>71,144</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to capital assets	<u>(107,133)</u>	<u>(114,676)</u>
INCREASE IN CASH	321,493	352,365
CASH (BANK INDEBTEDNESS) , beginning of year	<u>348,587</u>	<u>(3,778)</u>
CASH, end of year	<u>\$ 670,080</u>	<u>\$ 348,587</u>

Sackville Sports Stadium
SCHEDULE OF REVENUE
FOR THE YEAR ENDED MARCH 31, 2002

	<u>2002</u>	<u>2001</u>
REVENUE		
Memberships	\$ 871,583	\$ 770,609
Fitness Revenue	171,940	136,139
Public Swims	100,384	103,821
Swim Classes	401,861	375,768
Ice Rentals	372,957	376,993
Pool Rentals	24,600	31,146
Concessions (net)	48,191	35,724
Day Passes	28,820	29,195
Advertising	34,526	18,047
Facility Rentals	8,526	6,562
Sundry	16,812	10,733
Levy from Halifax Regional Municipality	200,000	98,253
Curling	119,444	130,426
Lease Revenue	<u>121,558</u>	<u>24,748</u>
	<u>\$ 2,534,107</u>	<u>\$ 2,148,164</u>

Sackville Sports Stadium
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Inventory

Inventory is valued at the lower of cost and net realizable value.

b) Deferred Revenue

Deferred revenue is revenue received for programs which commence subsequent to year end.

c) Revenue Recognition

Revenues are recognized on the accrual basis.

d) Expenditures Recognition

Expenditures are recorded on the accrual basis.

(e) Capital Assets

Capital assets are recorded at cost. Amortization is provided annually at rates calculated to write-off the assets over their estimated useful lives as follows:

Signs	- 20% diminishing balance
Leaseholds	- 20% diminishing balance
Equipment	- 20% diminishing balance
Computer	- 30% diminishing balance
Software	- 100% diminishing balance

2. CAPITAL ASSETS

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net 2002</u>	<u>Net 2001</u>
Signs	\$ 35,226	\$ 3,399	\$ 31,827	\$ 10,530
Leaseholds	14,530	2,318	12,212	4,327
Equipment	310,527	139,347	171,180	181,936
Computer	149,148	87,664	61,484	43,049
Software	<u>16,665</u>	<u>12,403</u>	<u>4,262</u>	<u>-</u>
	<u>\$ 526,096</u>	<u>\$ 245,131</u>	<u>\$ 280,965</u>	<u>\$ 239,842</u>

Sackville Sports Stadium
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2002

3. LONG TERM DEBT

	<u>2002</u>	<u>2001</u>
Nova Scotia Power loan, with blended monthly payments of \$450.73, with interest at 8.0%, for a term of 4 years, secured by equipment	\$ 12,982	\$ 17,179
Obligation under capital lease, with blended quarterly payments of \$1,902 for a term of 66 months, expiring 2005, secured by photocopier	19,588	25,184
Obligation under capital lease, with blended monthly payments of \$1,008 for a term of 12 months, secured by sign	-	9,717
Obligation under capital lease, with blended monthly payments of \$588 for a term of 12 months, expiring 2004, secured by equipment	9,989	-
Obligation under capital lease, with blended monthly payments of \$1,151 for a term of 24 months, expiring 2003, secured by pylon sign	16,336	-
Obligation under capital lease, with blended monthly payments of \$924 for a term of 24 months, expiring 2004, secured by software	13,876	-
Nova Scotia Power loan, with blended monthly payments of \$627.65, with interest at 8.0% for a term of 5 years	16,526	22,500
Nova Scotia Power loan, with blended monthly payments of \$1,052.10, with interest at 8.0% for a term of 4 years	<u>33,574</u>	<u>43,096</u>
	122,871	117,676
Current Portion of Long Term Debt	<u>51,633</u>	<u>35,805</u>
	<u>\$ 71,238</u>	<u>\$ 81,871</u>

Principal repayments for the next five years as follows:

2003	\$51,633
2004	45,984
2005	12,176
2006	5,597
2007	7,481

Sackville Sports Stadium
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2002

4. COMMITMENT FOR CAPITAL EXPANSION

The Sackville Sports Stadium is committed to making payments to the Halifax Regional Municipality to repay the funds which were borrowed to finance the capital expansion which was completed in the prior fiscal year. These capital expenditures include a curling rink and an expansion of the weight room. Neither the assets nor the liability will be shown on the books of the Stadium as both are owned by the Halifax Regional Municipality. The total amount owing is \$4,405,222 and the payments over the next five fiscal years are as follows:

2002	\$359,202
2003	\$420,000
2004	\$450,000
2005	\$480,000
2006	\$480,000