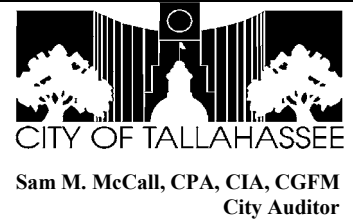


Audit Report ***of***



“An Invoice Submitted by Tallahassee-Leon County Civic Center Authority”

Report #0225

July 2, 2002

Request for Audit

In August 2001, Mayor Maddox requested the City Auditor to review available information relating to the financial operations of the Tallahassee-Leon County Civic Center Authority (the Authority). Subsequently, in November 2001, the Authority invoiced the City of Tallahassee \$119,936.19 as the City’s 50 percent share of a deficit for the year ending September 30, 2001. As follow-up, the Mayor requested that we also review the validity of the submitted invoice and supporting documentation, and provide comments, observations, or recommendations relating to the Authority’s short-term and long-term operations.

Summary

We have reviewed the invoice submitted to the City of Tallahassee in the amount of \$119,936.19, dated November 13, 2001, and the supporting documentation. While we do not believe that the City owes the invoiced amount to the Authority based upon a technical application of the language contained in the 1982 agreement in place, we believe that in fairness the City should approve and pay the amount invoiced. Currently, there are additional components of revenues and expenses that were not in existence when the agreement was written nor when the last deficit funding request was made. We recommend amending the agreement accordingly. The Authority should be encouraged to address and comply with bond covenant requirements, and the Authority should recognize depreciation on property, plant and equipment for external financial reporting purposes as required by generally accepted accounting principles. In addition, the City Manager should receive periodic reports to assist in monitoring the City’s obligation to the Authority. Also, in any year that the Authority invoices the City

for deficits incurred, the City should reserve the right to conduct certain additional on-site monitoring and/or auditing activities.

Scope, Objectives, and Methodology

The scope of this audit included a review of the submitted invoice and supporting documentation, and preliminary (draft) audited financial statements for the Authority for the fiscal year ending September 30, 2001.

The objective of this audit was to provide to the Mayor, the City Commission, and the Appointed Officials information relating to the financial operations of the Authority and to the invoice submitted to the City in the amount of \$119,936.19.

Specifically, we sought to answer the following questions:

1. Is the Authority invoice clearly supported by the agreement in place between the City and the Authority or by the notes to Authority financial statements?
2. Does the City of Tallahassee owe the Authority \$119,936.19 as invoiced in November 2001?
3. Is there information in the independent auditors draft report or the audited financial statements of other similar civic centers in the State that needs to be reported to the City?
4. Are there additional recommendations that should be reported to the City?

To address the above objectives, we obtained agreements executed in 1976 (as amended in 1982) for financing the construction of the Tallahassee-Leon County Civic Center and which described

funding commitments by the City and Leon County. We conducted interviews with the Authority's Executive Director, Chairman of the Board, and Director of Finance and Accounting. We reviewed draft financial statements for the year ending September 30, 2001. We also reviewed audited financial statements of the Authority for the years ending September 30, 1999, and 2000, and audited financial statements for four other civic centers in the State to obtain additional comparative information relating to civic center operations.

As Leon County was invoiced a like amount by the Authority, we have worked closely and cooperatively with the Leon County Budget Director to address the invoice presented to the respective governments and to identify and make suggestions for improvement and clarification.

This audit was conducted in accordance with Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States and Standards for the Professional Practice of Internal Auditing, as appropriate.

Background

Chapter 72-065, Laws of Florida, created the Tallahassee-Leon County Civic Center Authority on April 18, 1972. The Authority was organized for the purpose of planning, developing, operating, and maintaining a comprehensive complex of civic, governmental, educational, recreational, convention, and entertainment facilities for the use and enjoyment of the citizens of the Tallahassee area. The Authority Board consists of eleven members including the Mayor of the City of Tallahassee and the Chairperson of the Leon County Board of County Commissioners.

Contributions for the initial construction for the Tallahassee-Leon County Civic Center came from the City of Tallahassee, Leon County, the Board of Regents of the State of Florida, the U.S. Department of Commerce, and the State of Florida General Fund totaling approximately \$33,000,000. Construction of the facility was substantially completed in August 1981, and the Authority has been in operation since September 1981. The Authority functions as a self-supporting Enterprise Fund. The Governmental Accounting Standards Board provides that the purpose of an Enterprise Fund is to account for operations that are financed and operated in a manner similar to private business enterprises –

where the intent of the governing body is that costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

In 1998, the Authority issued bonds to fund the construction of club seats, suites, and other improvements (also referred to as the Suite Project) at the Civic Center, and the Authority received certain guarantees for payment of issued debt from the Seminole Boosters, Inc. Total property, plant, and equipment for the original structure and subsequent construction and improvements was \$59,465,094 at September 30, 2001.

In addition to other revenues that might be earned, the Authority has funding agreements from the following sources:

1. In 1982, the Board of Regents of the State of Florida signed a contract for \$250,000 per year for a forty-year period for use of the facility for an agreed upon number of days per year.
2. In 1982, the City of Tallahassee and Leon County agreed to reimburse the Civic Center for any deficit for a period of forty years up to a maximum of \$125,000 each or \$250,000 total per year. In addition, the City and County agreed to allow the Authority to charge \$240,000 per year to replacements and improvements expense in lieu of a depreciation charge.
3. In 1999, the City agreed to contribute \$60,000 per year for the next twenty years to assist in renovating the existing arena, meeting rooms and facilities. During any year in which the City reimburses the Authority for a deficit, City utility incentives are to be suspended until such time as the City recoups the contribution or the end of twelve months, whichever occurs first.
4. In 1999, the Authority entered into a limited guaranty of payment agreement with the Seminole Boosters, Inc., whereby the Boosters guarantee the payment of up to \$8,710,000 of certain bonds upon default in payment by the Authority.

On November 13, 2001, the Authority provided an operational statement to the City for the year ended September 30, 2001. The statement was in support of an invoice for \$119,936.19 as the City's 50 percent share of an Authority deficit.

Questions, Responses, and Recommendations

Question 1 – Is the Authority invoice clearly supported by the agreement in place between the City and the Authority or by the notes to Authority financial statements?

Response 1 – No. There are two issues. First, the Authority submitted a statement that is different than what is described in the 1982 amended agreement with the City; the operational statement submitted did not distinguish between operating and non-operating revenues and expenses. Governmental accounting literature describes operating revenues and expenses as activities generally resulting from providing services and producing and delivering goods, whereas non-operating revenues and expenses typically include interest revenue and expenses, taxes, and grants that are not equivalent to contracts for services. Second, the Authority's description of the 1982 amended agreement in previously issued financial statements is not correct. These two issues are addressed below.

The 1976 agreement with the Authority, as amended in 1982, provides that

“...in consideration of the Board of Regents having entered into a long-term agreement with the Authority for a commitment of annual rentals for a period of 40 years, and that there be assurance that any operating deficit be funded, that they each (the City of Tallahassee and Leon County) agree to assume the payment of any annual operating expenses in excess of operating revenues up to the sum of \$125,000, which may include in kind contributions that may have been made by any governing body during the year.”

The schedule submitted to the City in support of the payment request of \$119,936.19 is described as an “Over/Under Budget Report – Revenues/Expenses as of September 30, 2001.” For purposes of invoicing the City (and County) the Authority has included all revenues and expenses – both operating

and non-operating – to arrive at an overall deficit of \$239,872, of which one-half of the deficit is allocated to the City, or \$119,936.19.

Based upon a technical application of the language contained in the agreement in place, we are unaware of the basis or authority of record for including non-operating revenues and expenses in the Authority's calculations. However, precedent was set in 1993 when the Leon County Board of County Commissioners addressed a request for funding from the Authority due to an operating deficit. The County considered only operating income (operating revenues less operating expenses) as opposed to net income (which considers both operating and non-operating revenues and expenses). In addition, for the year the operating deficit occurred, the audited financial statements were used to support the payment request as opposed to an Over/Under Budget Report like the one that accompanied the 2001 payment request to the City.

Recommendation 1A. – We recommend that the agreement with the Authority be amended to specifically describe the type statement and information that will be included or excluded from any future payment request.

As to the second issue, a review of the previous audited financial statements reveals the following note:

“The City of Tallahassee and Leon County have signed an agreement with the Authority to reimburse any cash deficit from operations for a forty (40) year period up to a maximum amount of \$125,000 each or \$250,000 total per year.”

In response to our inquiry about why this note refers to a cash deficit from operations, the Authority responded that historically, the Authority has considered “cash deficit from operations” to be synonymous with “operating deficit.” We respectfully disagree that a cash deficit from operations is the same as an operating deficit. A cash deficit from operations would consider whether cash disbursements were greater than cash receipts, whereas an operating deficit would consider whether accrual expenses were greater than revenues.

Recommendation 1B. – We recommend that the Civic Center consider revising this note in future financial statements to achieve consistency with executed agreements.

Question 2 – Does the City of Tallahassee owe the Authority \$119,936.19 as invoiced in November 2001?

Response 2 – Technically, no. A technical review of the submitted invoice to the terms of the agreement in place does not support the requested payment. However, there are several reasons to support making the payment and amending the agreement in place.

1. Currently, there are additional components of revenues and expenses that were not in existence when the agreement was written nor when the last deficit funding request was made. In 1998, the Authority issued Capital Improvement Bonds in the aggregate amount of \$20,835,000 to refinance certain existing debt; finance the cost of acquiring, equipping, and constructing club suites and seats, and an arena view restaurant; and finance other additions and renovations to the existing facility. We have questioned why the City should share in interest expense on the debt because: (1) the debt is shown as a non-operating expense and therefore is not currently an allowable expense under the terms of the contract in place; and (2) we have been shown nothing of record to indicate that the City agreed to participate in the venture between the Authority and the Seminole Boosters, Inc.

In response, Authority management referred to the equity of including suite and club seat operating revenues of \$1,164,823 and to not include \$578,987 in related interest expense on the debt (a non-operating expense). Also, while there is nothing of record to show that the City agreed to participate in the agreement relating to the Authority and Seminole Boosters, Inc., the City is represented on the Authority and was aware of the issuance of debt and the agreement with Seminole Boosters, Inc.

2. Draft financial statements for the Authority for the year ended September 30, 2001, showed the agreement with the Seminole Boosters resulted in overall net operating revenue of \$26,092 for the year. The Authority agreement with the Boosters provides for a 50 percent sharing of net operating revenues. As a result of the City benefiting from the agreement, the invoice submitted to the City was less than it would have been otherwise.

To provide for further analysis of Authority operations, we requested two additional reports. The first uses the format of the report submitted to the City and, in addition, shows the Suite Project separate from Other Civic Center Operations (see Table 1). The second is a Statement of Operations from the draft financial statement for the year ending September 30, 2001, and also shows the Suite Project separate from Other Civic Center Operations (see Table 2).

Table 1
(A Summary of the Schedule Supporting the Submitted Invoice)
Tallahassee-Leon County Civic Center
Over/Under Budget Report –
Revenues/Expenses as of September 30, 2001

	Suite Project	Civic Center Other Operations	Civic Center Operations Total
Total Revenues	\$1,164,823	\$5,235,613	\$6,400,436
Total Expenses	742,655	5,897,653	6,640,309
Gain (Loss)	\$ 422,168	\$(662,040)	\$(239,872)

- Note 1. Total expenses shown above include an annual charge of \$240,000 agreed to by the City and County for replacements and improvements expense in lieu of a depreciation charge.
2. As previously discussed, the above Report does not distinguish between operating and non-operating revenues and expenses.
 3. From the Suite Project Gain, \$395,000 was used for debt service.

Table 2

(A Summary of the Draft Financial Statements)
 Tallahassee-Leon County Civic Center
 Statement of Revenues, Expenses, and Changes
 In Retained Earnings – Enterprise Fund
 For the Year Ended September 30, 2001

	Suite Project	Civic Center Other Operations	Civic Center Operations Total
Total Operating Revenues	\$1,164,823	\$5,112,005	\$6,276,828
Total Operating Expenses	(163,668)	(5,291,769)	(5,455,437)
Operating Income	1,001,156	(179,765)	821,391
Non-Operating Revenue (Expenses)	(578,987)	(317,353)	(896,340)
Net Loss After Non-Operating Revenue (Expenses)	\$ 422,169	\$ (497,118)	\$ (74,949)

- Note 1. The above Statement distinguishes between operating and non-operating revenues and expenses.
2. The Statement does not include depreciation or a replacements and improvements charge.
3. The difference in loss shown in Table 1 (\$239,872) and Table 2 (\$74,949) is \$164,923. This difference occurred because Table 1 includes \$240,000 for annual improvement expense but does not include additional audit adjustment to expenses amounting to \$75,077.

Recommendation 2A. – We recommend that the City approve the invoice to recognize additional components of revenues and expenses subsequent to the original agreement.

Recommendation 2B. – We recommend that the agreement between the Authority and the City be amended to take into consideration total revenues and expenses (not including depreciation) in calculating an operating deficit.

Recommendation 2C. – We recommend that if the Authority continues to submit an “Over/Under Budget Report – Revenues/Expenses as support for

payment when deficits occur, the Authority’s independent auditor provide the City with an examination level attestation report that would include an opinion on the accuracy of the submitted invoice and report and compliance with the agreement.

Recommendation 2D. – We recommend that the Authority provide periodic (at least quarterly) financial reports to the City on its financial operations to include and separately show arrangements with the Seminole Boosters. Since amounts invoiced to the City will be affected by that agreement, the City needs to be timely informed of all trends that could result in a deficit.

Question 3 – Is there information in the independent auditors draft report or the audited financial statements of other similar civic centers in the State that needs to be reported to the City?

Response 3 – Yes. A review of the draft financial statements and management letter for the year ending September 30, 2001, reveals the following:

1. The Authority does not record depreciation on property, plant, and equipment although required by accounting principles generally accepted in the United States.

City Auditor Comment:

We reviewed the financial statements of four other civic center operations in the State; they were:

- (1) *City of Orlando – Orlando Centroplex*
- (2) *Manatee County – Manatee Convention and Civic Center*
- (3) *Miami Beach Visitor and Convention Authority*
- (4) *Miami Sports and Exhibition Authority*

For the above facilities, three of the four facilities account for their operations as an Enterprise Fund. However, unlike the Authority, these three facilities record depreciation on plant, property, and equipment in accordance with generally accepted accounting principles.

2. As of September 30, 2001, the Authority was not in compliance with certain financial ratios required under the debt covenants. Failure to maintain the required ratios could constitute an event of default, and the Trustee may call the

- Bonds and accelerate repayment of the debt. The Authority has obtained a waiver from the Trustee indicating the Trustee will not call the bond within the next year.
3. As of September 30, 2001, the Authority had drawn down the letter of credit for its lease with the Tallahassee Tiger Sharks Hockey Club, Inc., because the lessee did not fulfill the terms of the lease. The Authority is currently in litigation regarding the hockey lease and letter of credit.
 4. The Authority is required to provide the Seminole Boosters, Inc., monthly financial reports. The Authority has not complied with the financial reporting requirement.
 5. A physical inventory of equipment and furniture has not been performed in several years. In addition, Accounting is not always notified of dispositions of property and equipment.
 6. Improvement is needed for internal controls over cash receipts and cash disbursements.
 7. Nothing came to the external auditors' attention to cause them to believe the Authority was in a state of financial emergency as defined by Section 218.503 (1), Florida Statutes.

Recommendation 3A. – We recommend that the Authority record depreciation in accordance with generally accepted accounting principles. The recording of depreciation expense is consistent with the economic resources measurement focus for Enterprise Funds and recognizes the using up of those resources over time. Moreover, under accounting principles recently issued by the Governmental Accounting Standards Board, all governmental entities will be required to recognize depreciation or a similar charge for the use or maintenance of fixed assets in government-wide financial statements in the future.

While we recommend the recognition of depreciation expense for financial statement purposes, the City should not be assessed a depreciation charge when net income is separately calculated for purposes of invoicing the City. The reason for this exception is that the City, and other governments, paid for the initial construction of the Civic Center, and they have agreed to a replacements and improvement expense in lieu of a depreciation charge.

We believe that recording depreciation could cause the Authority to more closely review its pricing structure and to think long-term as to Authority financial position and operations.

Recommendation 3B. – We recommend that the City continue to monitor the issues listed above as to corrective actions taken.

Question 4 – Are there additional recommendations that should be reported to the City?

Response 4 – Yes. In order for the City Manager to be informed of impending deficits, a process needs to be in place to receive timely information from the Authority and to have the opportunity to review and take this information into consideration in the City's budget process.

Recommendation 4A. – We recommend that any amendment to the Authority agreement also contain the following provision:

In any year in which the City is requested to fund a deficit pursuant to an invoice from the Authority, the City reserves the right to conduct financial and program monitoring of Authority operations and to audit all Authority records. An audit by the City may encompass an examination of all financial transactions, all accounts, reports, and programs, as well as an evaluation of compliance with terms and conditions of any agreement, that directly or indirectly affect any obligation the City may have with the Authority.

Conclusion

This report addresses the validity of an invoice and supporting documentation submitted by the Tallahassee-Leon County Civic Center Authority to the City of Tallahassee in the amount of \$119,936.19. The invoice represented the City's 50 percent share of a deficit for the year ended September 30, 2001. We have worked with the Leon County Budget Director in this review.

We thank the Authority's Executive Director, Chairman of the Board, and Director of Finance and Accounting for their cooperation and assistance during this engagement.

Copies of this audit report #0225 may be obtained at the City Auditor's web site (<http://talgov.com/citytlh/auditing/index.html>) or via request by telephone (850 / 891-8397), by FAX (850 / 891-0912), by mail or in person (City Auditor, 300 S. Adams Street, Mail Box A-22, Tallahassee, FL 32301-1731), or by e-mail (dooleym@talgov.com).

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