

## **AOCC Settlement of Operating Results for Year 2008**

<b>Date:</b>	June 3, 2010
<b>To:</b>	Budget Committee
<b>From:</b>	Deputy City Manager and Chief Financial Officer
<b>Wards:</b>	All
<b>Reference Number:</b>	P:\2010\Internal Services\FP\Bc10010Fp (AFS#12335)

### **SUMMARY**

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This report recommends settlement with the 10 Community Centres (Association of Community Centres or AOCCs) on their Core Administration Operations for 2008 based on audited financial results. In addition, the report also recommends that AOCCs adhere to existing City policies and guidelines, in accordance with the City of Toronto, AOCC Relationship Framework. This report has been prepared in consultation with Social Development, Finance & Administration Division, AOCC liaison.

### **RECOMMENDATIONS**

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The Deputy City Manager and Chief Financial Officer recommends that:

1. the accumulated surpluses of \$14,235 be paid to the City of Toronto for two AOCCs and be used to partially fund the payment of operating deficits of \$107,740 for the other eight AOCC Community Centres core administration operations resulting in a net payment of \$93,505 as detailed in Appendix 1.
2. effective immediately, all AOCCs adhere to the following existing City policies and guidelines in accordance with the AOCCs, City of Toronto Relationship Framework:
  - a. AOCCs seek approval from the Director of the Financial Planning Division prior to incurring expenditures that are not included in the Approved Operating Budget;
  - b. AOCCs submit quarterly operating variance reports in sufficient detail to the Financial Planning Division, including projected year-end variances and explanations; and

- c. AOCCs submit detailed Administration and Program budgets for the annual Operating Budget process, to the Financial Planning Division, consistent with operating budget guidelines and policies, and informal requirements.
3. this report be circulated to all AOCCs Boards of Management for information.

## **Financial Impact**

The total surpluses of \$14,235 from two Community Centres will partially offset the funding of deficits totalling \$107,740, resulting in a net payment of \$93,505 from the City to the AOCCs in 2010 arising primarily from the Core Administration Operations' year end results for 2008. The deficit payment will be funded from under-expenditures reported through the final 2010 year-end variance results.

## **ISSUE BACKGROUND**

### *Settlement of 2008 Operating Results*

At its meeting on July 24, 25 and 26, 2001, City Council adopted Policy and Finance Committee Report 11, Clause 6, entitled "Association of Community Centres (AOCCs), Community Centres Deficits". Among others, Council recommended that the Chief Financial Officer and Treasurer report on the AOCC surplus/deficit upon receipt of the annual audited financial statements, as the practice in the former City of Toronto.

At its meeting on April 14, 15, and 16, 2003, City Council adopted Policy and Finance Committee Report 3, Clause 11, entitled "Governance Review of the Association of Community Centres (AOCCS)". Among others, Council recommended that the City continue to provide core administration funding to AOCCs and their Boards are expected to operate within the approved budgets and, as with other City agencies, administrative surpluses be returned to the City and administrative deficits be funded, upon Council approval.

The AOCCs' financial statements are prepared under the Public Sector Accounting Board (PSAB) requirements for public sector entities. Accounting and reporting under PSAB require that all known liabilities, including liabilities related to post employment benefits as well as those related to retirees, be reflected in the public sector financial statements.

### *Budgeting and Financial Management Requirements*

At its meeting on September 25, 26, and 27, City Council adopted Policy and Finance Committee Report 7, Clause 17, entitled "Association of Community Centres (AOCCs), City of Toronto Relationship Framework". The Relationship Framework between the AOCCs and the City of Toronto was developed in compliance with the *City of Toronto Act, 2006* and the AOCC Governance Review approved by City Council at its meeting on April 14, 15, and 16, 2003. Among other items, Council adopted the following recommendations:

*a. Expenditure Control*

The Board of Management for each community centre will not expend or authorize the expenditure of administrative or capital funds or incur liabilities without the approval of Council through the annual budget submission or through approval of an in-year adjustment. The Board of Management is required to contact the designated Financial Planning Analyst in the event of unforeseen circumstances that may have budgetary implications. Similarly, a 1999 City Auditor report noted that community centres should under no circumstances be permitted to make expenditures which are not included in their annual approved budget submissions.

*b. Variance reporting*

The Board of Management for each community centre is responsible for monitoring its approved administrative budget and submitting variance reports on a quarterly basis to the Financial Planning Analyst. Variance reports need to include detailed variances, accurate projections to year-end, as well as justifiable explanations and remedial action plans to address variances.

*c. Budget submissions*

The annual budget submission requires the following details: a program overview, including performance measurement information related to a degree of achievement in that year, projected objectives and major activities proposed for the coming year; the annual budget request, staffing overview, organizational chart, and any other information as required by Council or the Chief Financial Officer. The annual budget request for Administration costs should include a very detailed breakdown. The detailed annual budget for Programming costs is also required for comparative and analytical purposes.

The AOCCs have not consistently adhered to these policies and guidelines, and that has resulted in poor information for decision making and financial management.

## **COMMENTS**

*Settlement of 2008 Operating Results*

The AOCC 2008 financial statement was prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP) not for profit organizations. Funding for sick leave, post retirement benefits and accrued vacation pay continue to be provided by the City as these benefit costs are paid out to employees. The Canadian GAAP requires reporting entities to accrue all known liabilities on the financial statements. Accordingly, the unpaid employee benefits and the post-employment benefits are reported as liabilities on the balance sheet. As mentioned earlier, the City of Toronto is responsible for these benefits, and accordingly a corresponding receivable from the City is recorded on the Balance sheet.

According to Canadian GAAP, not for profit entities are required to report capital expenditures on the Balance Sheet, rather than on the Statement of Revenue and Expenditures. The Statement of Revenue and Expenditures reflects the depreciation of capital assets to reflect the annual consumption of capital expenditures. Apart from financial reporting, the City had agreed with AOCCs to fund capital expenditures. Accordingly, audited financial statements that are prepared in accordance with GAAP are adjusted for non-cash items, such as depreciation, on

the Statement of Revenue and Expenditures to determine the annual operating results for City funding purposes. The capital assets are fully funded in the year they are purchased. As a result, expenses which are included in the Statement of Revenue and Expenditures are not necessary for cash flow purposes. Therefore, adjustments were made to year-end statements to determine the year-end cash flow position of each Community Centre as to ensure consistency and comparability with its Approved Operating Budget.

A review of the audited financial statements for the year ended December 31, 2008 indicates that AOCCs reported a deficit amounting to \$93,505. The deficit details are summarized in the table below:

**Association of Community Centres  
Summary of Net Payable to City / Community Centres**

Community Centre	2008			Description of Variance
	Net Surplus (payable to City)	Net (Deficit) (payable to Centre)	Total Net Adjusted Settlement to City/(Centre)	
519 Church Street Community Centre		(63,718)	<b>(63,718)</b>	See itemized list below
Applegrove Community Complex		(14,301)	<b>(14,301)</b>	See itemized list below
Cecil Community Centre		(4,206)	<b>(4,206)</b>	Replacement of failed telephone and voicemail equipment
Central Eglinton Community Centre	12,470		<b>12,470</b>	Audit adjustment to vacation/sick pay charged to prior years
Community Centre 55		(3,513)	<b>(3,513)</b>	Miscellaneous overspending
Eastview Neighbourhood Community Centre		(643)	<b>(643)</b>	Purchase of office supplies
Harbourfront Community Centre		(1,100)	<b>(1,100)</b>	Replacement of broken floor cleaning machine
Ralph Thornton Community Centre		(13,072)	<b>(13,072)</b>	See itemized list below
Scadding Court Community Centre		(7,187)	<b>(7,187)</b>	Backfilling of staff on sick, bereavement and personal leave
Swansea Town Hall	1,765		<b>1,765</b>	Higher than expected revenues
<b>TOTAL</b>	14,235	(107,740)	<b>(93,505)</b>	

Key deficit drivers include:

- ***The 519:***
- Audit fee increase not known during budget process, totalling \$2,500.
- Actual salaries of new staff higher than budget, totalling \$10,000.
- Backfilling of staff on sick leave in the amount of \$10,000.
- IT server replacement, support and consulting due to a system crash, totalling \$20,710.
- Accounting software replacement due to an obsolete and malfunctioning software in the amount of \$17,000.
- Higher than budgeted Hydro bills \$4,283.
- ***Applegrove***
- Mandatory retroactive payment to a former employee, resulting from a delayed job evaluation, totalling \$3,500.
- Embedding City of Toronto logo on letterhead for the first time, resulting in increased printing charges of \$1,500.

- Increased membership base requiring additional printing of newsletters, copying and postage costs in the amount of \$5,000.
- Audit fee increase not known during the budget process, totalling \$3,000.
- ***Ralph Thornton:***
- Necessary Health & Safety repairs of HVAC equipment totalling \$1,100.
- Replacement of broken chairs and tables and purchase of sound equipment required for room rentals totalling \$6,000.
- Backfilling of staff on sick leave in the amount of \$5,874.

The 2008 year-end settlement will be funded from under-expenditures reported through the final 2010 year-end variance report.

The reasons for the 2008 variance, as described above, are consistent with the experience in the last several years. This presents a challenge to the City in areas of financial control, analysis, and decision making. Specifically, as required by the Relationship Framework, AOCCs must submit and communicate to the Financial Planning Division in a timely manner, emergent expenditures that are not included in the Approved Operating Budget. For example, the City was only advised of expenses incurred not included in the 2008 Approved Budget upon the completion of the 2008 Audited Financial Statements. There was no time for City staff to question expenditures before they were incurred, ensuring that they were urgent, administration specific, and had no future year implications. Furthermore, there was no opportunity to develop mitigation strategies or resolve issues with the City.

In addition, AOCCs are required to submit detailed quarterly variance reports on a timely basis. However, there are a very few variances ever identified by AOCC staff through this process throughout the year. The unidentified variances create pressures at year-end and give rise to unanticipated deficit payments to the centres, following the audit. All Programs in the City, including AOCCs, are required to submit timely variance reports for better financial management. In 2008, most AOCCs did not identify any over expenditures during the year, even in the 4<sup>th</sup> quarter.

Finally, AOCCs must submit operating budget requests consistent with operating budget policies and guidelines. Submissions only include high level figures with limited information and/or business case explanations. In addition, Program budgets are consistently not submitted. It is becoming increasingly difficult to provide meaningful budgetary analysis without adequate and meaningful information.

Thus, it is recommended that all AOCCs adhere to the existing City policies and guidelines, in accordance with the AOCC, City of Toronto Relationship Framework:

- a. AOCCs seek approval from the Director of the Financial Planning Division prior to incurring expenditures that are not included in the Approved Operating Budget;
- b. AOCCs submit quarterly operating variance reports in sufficient detail to the Financial Planning Division, including projected year-end variances and explanations; and

- c. AOCCs submit detailed Administration and Program budgets to the Financial Planning Division, for the annual Operating Budget process, consistent with operating budget guidelines, policies, and informal requirements.

It is also recommended that this report be circulated to all AOCC Boards of Management for information.

## **CONTACT**

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## **SIGNATURE**

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Cam Weldon  
Deputy City Manager and Chief Financial Officer

## ATTACHMENTS – APPENDIX 1

<b>Association of Community Centres Summary of net payable to City / Community Centres</b>				
	<b>2008</b>			
<b>Community Centre</b>	<b>Net Surplus (payable to City)</b>	<b>Net (Deficit) (payable to Centre)</b>	<b>Total Net Adjusted Settlement to City/(Centre)</b>	<b>% of Budget</b>
519 Church Street Community Centre		(63,718)	<b>(63,718)</b>	5.6%
Applegrove Community Complex		(14,301)	<b>(14,301)</b>	3.8%
Cecil Community Centre		(4,206)	<b>(4,206)</b>	0.7%
Central Eglinton Community Centre	12,470		<b>12,470</b>	2.2%
Community Centre 55		(3,513)	<b>(3,513)</b>	0.5%
Eastview Neighbourhood Community Centre		(643)	<b>(643)</b>	0.1%
Harbourfront Community Centre		(1,100)	<b>(1,100)</b>	0.1%
Ralph Thornton Community Centre		(13,072)	<b>(13,072)</b>	2.1%
Scadding Court Community Centre		(7,187)	<b>(7,187)</b>	0.9%
Swansea Town Hall	1,765		<b>1,765</b>	0.6%
<b>TOTAL</b>	14,235	(107,740)	<b>(93,505)</b>	1.4%