



BOARD OF COUNTY COMMISSIONERS  
OFFICE OF THE COMMISSION AUDITOR

**M E M O R A N D U M**

**TO:** Honorable Chairman Bruno A. Barreiro  
and Members, Board of County Commissioners

**FROM:** Charles Anderson, CPA  
Commission Auditor

A handwritten signature in black ink, appearing to read "Charles Anderson", is written over the printed name.

**DATE:** June 25, 2007

**SUBJECT: FY 2006-07 Mid -Year Supplemental Budget**

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In accordance with Resolution 195-05, we have reviewed the County Manager's FY 2006-07 Mid-Year Supplemental Budget concerning the Carnival Center for the Performing Arts (Center). We offer the following observations for your consideration concerning June 26, 2007 BCC Agenda Item 5(K), and Supplement #2 to 5(K).

**FY 2006-07 Mid-Year Supplemental Budget**

**Carnival Center for the Performing Arts** - The County Manager's memorandum indicated that the Carnival Center for the Performing Arts requires a supplemental budget in the amount of \$4,100,000 primarily due to underestimating the operational costs of the Center. A review was performed estimating the expenditures budgeted against the first six months of actuals and then forecasting the remaining six months. The items that were substantially more expensive were based mostly on inaccurate assumptions used to project the Center's occupancy costs. These occupancy costs principally include utilities, insurance, maintenance and related services, and security expenses. The occupancy budget was based on \$306,250 per month or \$3,675,000 for the full year. The first six months of actual expenses were \$647,844 per month or an estimated \$7,774,128 for the entire year. This results in a shortfall of \$4,099,128.

**Observations** - Originally, the Center for the Performing Arts was to receive an additional allocation of 3,754,000 in FY 06-07. Due to the under projected budget, the total amount now required by the Department is \$7,854,000. The higher than expected costs are due to occupancy expenses (utilities, maintenance and security) that were poorly budgeted and without the inclusion of police services. The mid-year supplemental budget adjustment of \$4,100,000 from the County increases the total County operating subsidy to the Center from \$3,754,000 to \$7,854,000 for FY 2006-07.

Resolution R-480-06, adopted on April 25, 2006 established a five-year allocation of \$11,054,000 for operational support beginning in FY06-07 through FY 09-10. It should be noted that \$1,000,000 of the \$4,100,000 now requested is being provided through this County funding source. The remaining \$3,100,000 is being provided through the Performing Arts Center's construction budget savings. Furthermore, the total construction budget was initially

\$344,459,000 and was closed at a cost of \$482,399,000, with \$3,100,000 being held for final close-out. The final construction amount was \$479,299,000. Technically, it is accurate to say that an allocation larger than required to close out a contract is a savings, but after numerous overruns and delays, the cost to complete the construction of the Center was substantially more than the original budget.

Also, with the allocation of \$3,754,000 this year, the funds remaining in the operational support fund will be \$7,300,000 or 66% of the fund for the next four (4) years. Any additional requests from this operational assistance fund must first be approved yearly by the Board of County Commissioners.

As the County Manager notes in the second paragraph on handwritten p. 8 of the Supplement to Agenda Item No. 5(K), use of funds from advance ticket sales to support current operations, instead of the future events for which the tickets were sold, amounts to taking out a loan. It is a loan for which no firm repayment schedule has been presented. In accounting terms, an advance ticket sale is “unearned income,” and an associated “liability” is incurred until the associated services are delivered. Although this use of funds from advance ticket sales may be appropriate in the short-term, extensive reliance on “borrowed” funds from advance ticket sales to support current operations would not be considered a best practice. If not promptly repaid, this “borrowing” of funds from advance ticket sales could jeopardize the viability of future operations of the Center and necessitate refunds to customers.

We agree that the Center’s financial situation must continue to be pursued as a partnership with the private sector; otherwise, the operational support established for them will have minimal impact on future operations.

Special thanks to Jennifer Glazer-Moon and the OSBM staff for all their cooperation and assistance.

c: Honorable Carlos Alvarez, Mayor  
George M. Burgess, County Manager  
Jennifer Glazer-Moon, Director, OSBM