

Arena Boards of Management 2006 Operating Surpluses /(Deficits) Settlement

Date:	September 6, 2007
To:	Budget Committee
From:	Deputy City Manager and Chief Financial Officer
Wards:	11, 16, 18, 20, 26, 27, 32
Reference Number:	P:\2007\Internal Services\FP\bc07021FP-ts (AFS #4666)

SUMMARY

This report recommends settlement with the eight Arena Boards of Management (Arenas) on their 2006 operating surpluses and deficits based on audited financial results for the year ended December 31, 2006, with any unsettled operating surplus to be payable to the City by various Arenas and any unsettled operating deficit to be funded by the City upon Council's approval.

The Arena Boards' 2006 operating surpluses, including any excess funds advanced to the arenas during the year, totalling \$88,198 from four Arenas shall be paid to the City and be used to partially fund the outstanding deficits of four other Arenas of \$117,464, leaving a net funding shortfall of \$29,266. Of this amount, \$19,911 had already been provided for through the 2006 Final Year-End Operating Variance Report adopted by Council on July 16-19, 2007. It is recommended that the balance of \$9,355 be funded from 2007 underspending through the 2007 3rd Quarter Operating Variance Report.

RECOMMENDATIONS

The Deputy City Manager and Chief Financial Officer recommends that:

1. the surpluses of \$88,198 (including any excess funds advanced to the arenas during 2006) be paid to the City of Toronto from four Arenas (Larry Grossman Forest Hill, Leaside, Moss Park, Ted Reeve) and the City fund the payments of the outstanding deficits of \$117,464 to four other Arenas (George Bell, William H. Bolton, McCormick, North Toronto) as the final settlement of the net surpluses

and deficits for the year 2006, resulting in a net deficit of \$29,266 to be funded by the City, as detailed in Appendix A;

2. a provision for the required \$9,355 be made through the 2007 3rd Quarter Operating Variance Report from underspending, since \$19,911 of the \$29,266 net deficit funding requirement to the Arenas has already been provided through the 2006 Final Year-End Operating Variance Report;
3. this report be forwarded to the Executive Committee for its consideration; and
4. Council authorize and direct the appropriate City officials to take the necessary action to give effect thereto.

Financial Impact

The Arena Boards of Management final net settlement for the year 2006 requires that surplus funds of \$88,198 be paid to the City from four Arenas and be used to partially fund the payments of the outstanding deficits of \$117,464 to four other Arenas, resulting in a net funding requirement from the City to the Arenas of \$29,266 arising from the Arenas' 2006 operations and City funds advanced to the Arenas during 2006. A summary of net funding to the City or Arena Board is detailed in Appendix A.

Of this \$29,266 net funding requirement, \$19,911 was provided through the 2006 Final Year-End Operating Variance Report, leaving a balance of \$9,355 to be funded in 2007 from an allocation of underspending through the 3rd Quarter Operating Variance Report.

ISSUE BACKGROUND

Eight Arena Boards of Management operate and manage ice arenas on behalf of the City of Toronto in accordance with the former Chapter 25 of the Toronto Municipal Code for community and recreation centres. Under the bylaw established for each individual Arena Board of Management, the Board of Management, at the end of each fiscal year, shall pay to the City all revenue received by the Board over and above that necessary to pay all charges, costs and expenses resulting from or incidental to the management and control of the premises. Any operating deficit incurred by the arena will be funded by the City.

At its meeting on March 4 - 8, 2002, City Council adopted Policy and Finance Committee Report No. 4, Clause 1, entitled "City of Toronto 2002 Recommended Operating Budget", Recommendation #134 that directed the City Auditor and Chief Financial Officer and Treasurer, beginning in 2002, report annually to the Policy and Finance Committee on the Arena Boards' annual operating surpluses and deficits once the Boards' annual financial statements have been audited, with any net payment to be funded by the City. The 2004 and 2005 Arenas' surpluses/(deficits) settlement report was adopted by City Council on September 25-27, 2006 in Clause 64 of Policy and Finance Committee Report No. 7.

At its meeting on April 19-23 and 26-28, 2004, City Council adopted Policy and Finance Committee Report No. 3, Clause 2, entitled “City of Toronto 2004 Budget Advisory Committee Recommended Operating Budget”, Recommendation HH(95)(g) that directed “any audited year-end net surplus in excess of the Council approved budget for the Arena Boards of Management Program be transferred to the Arena Boards of Management account in the Vehicle and Equipment Replacement Reserve Fund (XQ1705) and applied proportionately among those Arenas who are in a surplus position and exceeded their budget target”, such funds to be used to finance future ice resurfacer replacements for the Arena Boards of Management.

Since 2005, the Arenas’ 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.

COMMENTS

2006 Operating Results

Since amalgamation, individual Arena Board operating budgets have been budgeted as either surplus or deficit operations. Consolidated at the program level, the Arena Boards have operated at a deficit.

A review of the audited financial statements for the year ended December 31, 2006 indicates that three Arenas (Larry Grossman Forest Hill, Moss Park, Ted Reeve) reported operating surpluses totalling \$38,214 while five Arenas (George Bell, William H. Bolton, Leaside, McCormick, North Toronto) reported operating deficits amounting to \$258,840 as shown in Table 1 below. At the Program level, the consolidated 2006 operating results of the Arena Boards of Management added up to a net deficit of \$220,626 which is \$94,094 greater than the deficit of \$126,532 which was approved as part of the City 2006 Operating Budget.

The 2006 audited actual net deficit of \$220,626 is \$9,355 higher than that reported in the 2006 Final Year-End Operating Variance Report adopted by Council on July 16-19, 2007.

Table 1. Arena	2006 Operating Surplus/(Deficit)			2006 Operating Surplus/(Deficit)		
	2006 Council Approved Budget	Audited Actual for the year ended December 31, 2006	Variance Over/(Under)	As reported in 2006 Final Year-end Operating Variance Report adopted by Council July 16-19, 2007	Audited Actual for the year ended December 31, 2006	Variance Over/(Under)
	\$	\$	\$	\$	\$	\$
George Bell Arena	(21,059)	(151,238)	130,179	(151,238)	(151,238)	0
William H. Bolton Arena	(779)	(10,036)	9,257	(10,036)	(10,036)	0
Forest Hill Memorial Arena	225	1,127	(902)	1,127	1,127	0
Leaside Gardens	(93,709)	(52,131)	(41,578)	(52,131)	(52,131)	0
McCormick Arena	(708)	(33,122)	32,414	(23,767)	(33,122)	9,355
Moss Park Arena	(406)	36,440	(36,846)	36,440	36,440	0
North Toronto Memorial Arena	73	(12,313)	12,386	(12,313)	(12,313)	0
Ted Reeve Arena*	(10,169)	647	(10,816)	647	647	0
Total Program Net Surplus/(Deficit)	(126,532)	(220,626)	94,094	(211,271)	(220,626)	9,355

*Ted Reeve Arena 2006 audited actual was adjusted to remove the City funds advanced to them in 2006; a cash advance is not operating revenue.

Explanation of Major Variances to 2006 Approved Budgets:

George Bell Arena had to perform emergency repairs and immediately remediate critical health and safety and building systems issues in 2006 as well as incurring an unforeseen human resources cost, resulting in expenditures of \$130,000 in total. These unplanned one-time extraordinary expenditures, together with an immediate cash flow advance of \$69,000 were approved by City Council on July 25-27, 2006 in Clause 14 of Policy and Finance Committee Report 6, in a confidential report (July 10, 2006) from the Deputy City Manager & Chief Financial Officer entitled "George Bell Arena Request for Cash Flow Advance".

The unplanned closure of arena operations at McCormick Arena for two and a half weeks during its peak ice season to accommodate the completion of a Parks, Forestry and Recreation state of good repair capital project involving major renovations of the arena that had to be completed by year-end 2006 resulted in lost revenue from cancelled ice rentals for an unfavourable variance of \$32,414. Although initially it was planned to perform the capital work outside of operating hours, that proved to be impossible.

North Toronto Memorial Arena's net deficit position of \$12,313 was attributed to less demand for ice rental during May, June, July and August (summer ice) and lower than anticipated snack bar/vending revenue that fluctuates with the number of users and spectators.

William H. Bolton Arena's actual operating deficit of \$10,036 was mostly attributed to increased program registrations resulting in higher revenues and related incremental program costs.

Leaside Gardens' actual operating deficit of \$52,131 for a \$41,578 favourable budget variance is attributed to higher than expected revenues from one-time ice rentals and commercial shoots/trade shows. During 2006, a City funding advance of \$92,760 was provided to Leaside equal to the original Council approved 2006 Net Operating Budget; therefore, the excess funds of \$40,629 must be paid back to the City.

Moss Park Arena's operating surplus of \$36,440 for a favourable variance to budget of \$36,846 was attributed to higher revenues from more program registrations and participants than expected combined with less expenses incurred (utility usage was \$33,000 less) due to a fire and subsequent month-long closure of the arena on September 21, 2006 (reopened October 21, 2006). The financial impact was minimal because any revenue losses were insured. Moss Park was able to recoup all the revenue losses of approximately \$60,000 as well as one-time extraordinary expenses to rebuild the office on the second floor and replace the furniture and equipment of approximately \$63,000 in total.

Ted Reeve Arena's operating surplus of \$647 that represents a \$10,816 favourable variance against a budgeted deficit of \$10,169 was attributed to more ice rental revenue realized in 2006.

Arena Surplus/(Deficit) Settlement:

Appendix A attached provides a summary of the 2006 operating surplus (deficit) net settlement calculation by Arena.

The net settlement calculation takes into account any approved budgeted City funding that was advanced to the Arenas in 2006. Upon Council approval of the Arena Boards' 2006 operating budgets, City funding was advanced to three Arenas (George Bell, Leaside, Ted Reeve) with deficit budgets in 2006 totalling \$122,360. During 2006, Council also approved a cash flow advance to George Bell Arena of \$69,000. These City funding advances are shown in Appendix A, columns (d), (e) and (f).

For the year 2006, three Arenas (Larry Grossman Forest Hill, Moss Park, Ted Reeve) have operating surpluses totalling \$38,214 that is payable to the City. As well, Leaside Gardens must pay back to the City the excess City funds of \$40,629 that was advanced to the arena upon Council's approval of its 2006 deficit budget. The net payable to the City from arena operating surpluses and from overfunding of Leaside totals \$88,198 as indicated in Appendix A, column (g). These surpluses will be used to partly fund the outstanding deficits of four other Arenas (George Bell, William H. Bolton, McCormick, North Toronto) that totals \$117,464 as indicated in Appendix A, column (h). This leaves \$29,266 of arena deficits requiring further City funding as indicated in column (j) of Appendix A.

Of the \$29,266 of further City funding required, \$19,911 had already been provided through the 2006 Final Year-End Operating Variance Report adopted by Council on July 16-19, 2007. It is recommended that the remaining \$9,355 net deficit be funded from 2007 underspending through the 2007 3rd Quarter Operating Variance Report.

Allocation of Net Surpluses to the Arena Boards of Management Program's Vehicle and Equipment Replacement Reserve:

In April 2004, City Council directed that any audited year-end net surplus in excess of the Council approved budget for the Arena Boards of Management Program be transferred to the Arena Boards of Management account XQ1705 in the Vehicle and Equipment Replacement Reserve and applied proportionately among those Arenas who are in a surplus position and exceeded their budget target, such funds to be used to finance future ice resurfacer replacements for the Arena Boards. Arena settlements occurring after this Council approved direction are eligible.

As the 2006 audited year-end results for the Arena Boards of Management Program as a whole did not show a surplus in excess of the Council approved budget (see Table 1), no funds can be allocated to the Arena Boards' Vehicle and Equipment and Replacement Reserve for the year.

CONTACT

Judy Skinner, Manager
Financial Planning Division
Tel: 416-397-4219; Fax: 416-392-3649
e-mail: [jskinne1@toronto.ca](mailto:jskinner1@toronto.ca)

May Chong, Financial Analyst
Financial Planning Division
Tel: 416-397-4473; Fax: 416-392-3649
e-mail: mchong1@toronto.ca

SIGNATURE

Joseph P. Pennachetti
Deputy City Manager and Chief Financial Officer

ATTACHMENTS

Appendix A: Arena Boards of Management – Summary of 2006 Operating Surplus/
(Deficit) Settlement