TORONTO

STAFF REPORT ACTION REQUIRED

Arena Boards of Management 2007 Operating Surpluses /(Deficits) Settlement

Date:	May 6, 2009
To:	Budget Committee
From:	Deputy City Manager and Chief Financial Officer
Wards:	11, 16, 18, 20, 26, 27, 32
Reference Number:	P:\2009\Internal Services\FP\bc09011FP (AFS#6997)

SUMMARY

This report recommends settlement with the eight Arena Boards of Management (Arenas) on their 2007 operating surpluses and deficits based on audited financial results for the year ended December 31, 2007, 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.

RECOMMENDATIONS

The Deputy City Manager and Chief Financial Officer recommends that:

1. the 2007 operating surpluses totalling $7,611 from three Arenas (Larry Grossman Forest Hill, Moss Park, North Toronto), and the excess funds advanced to Ted Reeve Arena during 2007 of $8,164, be paid to the City of Toronto and be used to partially fund the payment of operating deficits of $277,652 for the other five Arenas (George Bell, William H. Bolton, Leaside, McCormick, Ted Reeve) resulting in an operating net deficit of $270,041 to be funded by the City, as detailed in Appendix A, column (c); and

2. a funding provision of $27,651 be made through the 2008 Final Year-End Operating Variance Report, as calculated in Appendix A.

Financial Impact

The Arena Boards of Management final net settlement for the year 2007 requires that operating surpluses totalling $7,611 from three Arenas be paid to the City and be used to partially fund the payments of the operating deficits of $277,652 to five other Arenas, resulting in a net funding requirement from the City to the Arenas of $270,041. A summary of net funding to the Arena Boards or surpluses payable to the City is detailed in Appendix A.

In addition, there was a 2006 settlement of $9,355 that was funded from the 2007 Operating Budget.

Of the total funding requirement of $279,396 in 2007, $251,745 was provisioned through the 2007 Final Year-End Operating Variance Report, leaving a balance of $27,651 to be funded in 2008 from an allocation of underspending through the 2008 Final 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 by-law established for each individual Arena Board of Management, the Board shall, at the end of each fiscal year, pay to the City all revenue received by the Board in excess of the money required to pay all the 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.

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

2007 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, 2007 indicates that three Arenas (Larry Grossman Forest Hill, Moss Park, North Toronto) reported operating surpluses totalling $7,611 while five Arenas (George Bell, William H. Bolton, Leaside, McCormick, Ted Reeve) reported operating deficits amounting to $210,913 as shown in Appendix A, column (a). At the Program level, the consolidated 2007 operating results of the Arena Boards of Management added up to a net deficit of $203,302 which is $13,541 greater than the budget deficit of $189,761 that was approved as part of the City's 2007 Operating Budget.

Explanation of Major Variances to 2007 Approved Budgets:

George Bell Arena's unfavourable variance to budget of $5,765 resulted from more repairs/replacement of equipment and building maintenance than anticipated.

William H. Bolton Arena's $56,220 higher than expected net deficit is attributed to the prolonged arena closure for major renovations that resulted in lost revenue from ice rental, programs and concessions (snack bar and pro shop) in June and the summer and fall months, plus some unexpected added expense to the arena due to construction items which were not within the budget of the capital project.

Forest Hill Memorial Arena's favourable variance is attributed to a longer ice season that included a one-time summer ice rental.

Leaside Gardens' favourable variance of $50,174 to budget from operations is attributed to more ice rental revenues than originally estimated; cost containment savings of $15,700; lower than budgeted utilities expense; and less requirement for part-time staffing in the banquet room for savings of $9,000 in labour expense.

McCormick Arena's unfavourable variance to budget of $19,113 is due to an error in budgeting for payroll in 2007 of $12,500 and an additional $5,500 in wages to cover extra shifts due to staff on long-term disability.

Moss Park Arena's favourable variance of $4,755 from an operating surplus was driven by higher than anticipated program registrations and ice rental revenues.

Ted Reeve Arena's favourable variance to budget of $9,082 is attributed to higher than anticipated ice rental revenues and lower than budgeted utilities expense.

Other Adjustments:

Other adjustments included as part of the Arena Boards' final settlement of operating results for 2007 is shown in Appendix A, column (b):

(1) An adjustment to William H. Bolton Arena for $154.81 relates to goods issued to the arena in April 17, 2007 by City Stores; and

(2) Effects of Leaside Gardens' accounting policy change as it relates to outstanding debt repayments and corrections/restatements of prior periods that total $66,894 as final repayment of debt raised to finance capital projects at the arena. Leaside Gardens' accounting policy change is explained in the staff report AU10.8 titled Leaside Memorial Community Gardens Arena – 2007 Audited Financial Statements and Management Letter that was adopted by Council on April 29-30, 2009.

The net PSAB adjustment is zero for each of the arenas.

Arena Surplus/(Deficit) Settlement:

Appendix A attached provides a summary of the 2007 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 2007 and subsequently. Upon Council approval of the Arena Boards' 2007 operating budgets, City funding was advanced to four Arenas (George Bell, William H. Bolton, Leaside, Ted Reeve) with deficit budgets in 2007 totalling $184,789. Further, in January 2009, interim settlement advances were made to three Arenas totalling $83,099. The total amount of City funds advanced to the Arenas is $267,888. These City funding advances are shown in Appendix A, columns (d), (e), (f).

For the year 2007, three Arenas (Larry Grossman Forest Hill, Moss Park, North Toronto) have operating surpluses totalling $7,611 that is payable to the City. As well, Ted Reeve Arena must pay back to the City the excess City funds of $8,164 that was advanced to the arena upon Council's approval of its 2007 deficit budget. The net payable to the City from arena operating surpluses and from overfunding of Ted Reeve totals $15,775 as indicated in Appendix A, column (g). These surpluses will be used to partly fund the outstanding deficit of Leaside Gardens of $17,928 as indicated in Appendix A, column (h).

Funding Provision:

The 2007 Final Year-End Operating Variance Report adopted by Council on July 15-17, 2008 provided $251,745 in funding for the Arena Boards of Management Program; this amount was arrived at based on the preliminary financial statements of the Arenas.

Since the total funding requirement needed is $279,396 as shown in Appendix A, and only $251,745 was provided for in 2007, the remaining funding requirement of $27,651 was provided for as part of the Arena Boards of Management Program's 2008 operating variance as reported in the Preliminary Operating Variance Report for the Year Ended December 31, 2008, Item BU46.2 approved by Council on March 31, 2009. It is recommended that this funding provision of $27,651 be included in the 2008 Final Year-End 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.

As the 2007 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

Mike St. Amant
Director, Accounting Services
Tel: 416-397-4438; Fax: 416-392-8003
e-mail: mstaman@toronto.ca

SIGNATURE

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Cam Weldon
Deputy City Manager and Chief Financial Officer

ATTACHMENT

Appendix A: Arena Boards of Management – Summary of 2007 Operating Surplus/ (Deficit) Settlement