

Arena Boards of Management Settlement of Operating Results for the Year Ended 2020

Date: June 9, 2022

To: Executive Committee

From: Chief Financial Officer and Treasurer

Wards: 5, 8, 9, 13, 15, 18, 19

SUMMARY

On an annual basis, the City of Toronto receives the audited financial statements from eight Arena Boards of Management (Arenas). The audited financial statements allow the City to determine whether additional operating subsidy payments need to be provided to or clawed back from the Arenas to settle their operating deficits or surpluses. City staff report annually on the Arenas' operating surpluses and deficits once the respective Boards financial statements have been audited and approved by Council.

This report recommends the settlement of seven of the Arenas' operating surpluses and deficits for 2020 based on their audited financial statements for the year ended December 31, 2020, with operating surpluses payable to the City and operating deficits funded by the City upon Council's approval.

At the time of preparation of this report, the 2019 and 2020 audited financial statements for Leaside Memorial Community Gardens Arena remain in progress and therefore the settlement for this outstanding Arena will be presented in a future report for consideration and approval purposes.

While normally the prior year end settlement reports for both Association of Community Centres and Arena Boards are submitted together to Council in the following year, the 2020 settlement reports were delayed due to delays in completing the 2020 audits, and further delayed by the impact of COVID-19 on the City's 2021 priorities. City staff will present the 2021 Settlement Reports at the first opportunity to the new term of City Council for consideration and approval.

RECOMMENDATIONS

The Chief Financial Officer and Treasurer recommends that:

City Council direct that the 2020 operating surpluses totalling \$50,669 from Moss Park Arena be paid to the City of Toronto and be used, in part, to fund the cumulative operating deficit of \$682,634 for six Arenas (George Bell, William H. Bolton, Forest Hill Memorial, McCormick, North Toronto Memorial and Ted Reeve), resulting in a net operating deficit of \$631,965 to be funded by the City, as illustrated in Appendix A, column (g), of the report.

City Council direct that a funding provision of \$631,965 be made through the 2021 Year-End Operating Variance Report, as shown in the attached Appendix A – 2020 Program Summary.

FINANCIAL IMPACT

On an overall basis, the City is required to provide additional operating subsidies of \$631,965 (net) to its Arenas to satisfy the funding conditions noted in the Relationship Framework between the organizations. The Arena Boards of Management final net settlement for the year 2020 requires that surplus funds of \$50,669 be paid to the City from Moss Park Arena and be used to partially fund the operating deficit of \$682,634 for the remaining six arenas, resulting in a net funding requirement from the City of \$631,965, with an increased deficit over prior year results primarily as a result of the impacts of COVID-19 on operations for Arenas. This \$631,965 required to settle the overall net deficits of the seven arenas must be funded through the 2021 Final Year-End Operating Variance Report. A summary of net funding to the Arenas and surpluses payable to the City are detailed in Appendix A.

Since the combined Arenas operated at a net operating deficit position for 2020, there will be no proportional allocation to the Arena Boards of Management Vehicle and Equipment Replacement Reserve (XQ1705) for those Arena Boards that actually exceeded their individual budgeted surplus.

The Leaside Memorial Community Gardens' 2019 and 2020 audited financial statements were not available at the time of this report and will be included in a future report to determine whether a deficit/surplus settlement will be required to be rolled into the outstanding balance of the loan to build Leaside Arena's second pad. In accordance with the loan agreement, any annual operating deficit amounts incurred by Leaside Memorial Community Gardens shall be added to the outstanding loan balance. A revised amortization schedule to retire the amended loan balance will also be established.

DECISION HISTORY

The approval by City Council of the 2020 audited financial statements for all Arenas takes multiple phases subject to the completion of the annual audit process undertaken by external auditor. Thus far, City Council received seven of the 2020 Audited Financial Statements, Management Letters (where applicable), and Independent Auditor's Reports through the following City Council meetings:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2022.AU11.11>
<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2021.AU10.10>

At its meeting on July 14, 2021, City Council received the report titled “Operating Variance Report for the Year Ended December 31, 2020”, including the Arena Boards of Management’s Net Expenditure Variance.

<https://www.toronto.ca/legdocs/mmis/2021/ex/bgrd/backgroundfile-168632.pdf>

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 (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.

<http://www.toronto.ca/legdocs/2004/agendas/council/cc040419/pof3rpt/cl002.pdf>

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.

<http://www.toronto.ca/legdocs/2002/agendas/council/cc020304/pof4rpt/cl001.pdf>

COMMENTS

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.

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 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.

2020 Operating Results

A review of the audited financial statements for the year ended December 31, 2020, indicates that Moss Park was the only Arena which reported a surplus amounting to \$50,669 and the remaining six Arenas (George Bell, William H. Bolton, Forest Hill Memorial, McCormick, North Toronto Memorial, and Ted Reeve) reported deficits amounting to \$682,634, for an overall deficit of \$631,965. In comparison to pre-pandemic experiences, the net operating deficit for the Arenas were \$175,273 in 2019.

The Arena Boards net 2020 deficit of \$631,965 has resulted in a negative variance of \$651,609 in relation to the 2020 Council Approved Operating Budget of \$19,644 surplus as shown in Table 1.

Table 1 below summarizes the approved budget, actual operating surplus/deficit, and variance to budget for each of the Arena Boards for the year 2020.

Table 1	2020 Operating Surplus/(Deficit)		
	Council Approved Budget (\$)	Adjusted Actual (\$)	Variance Fav/(Unfav) (\$)
Arena Boards of Management			
George Bell Arena	284	(2,540)	(2,824)
William H. Bolton Arena	278	(217,500)	(217,778)
Forest Hill Memorial Arena	2,578	(14,814)	(17,392)
Leaside Gardens	N/A	N/A	N/A
McCormick Arena	426	(249,159)	(249,585)
Moss Park Arena	1,159	50,669	49,510
North Toronto Memorial Arena	110	(42,543)	(42,653)
Ted Reeve Arena	14,811	(156,078)	(170,889)
Total Program Net Surplus/(Deficit)	19,644	(631,965)	(651,609)

Significant revenue loss was reported by all Arenas collectively due to the suspension of regular operations as of March 16, 2020 as a result of COVID-19. The shortfall in revenue, which primarily consisted of ice rentals, registration for hockey league and camps, snack bar, pro shop sales, and room rentals, was partially offset by savings in direct costs associated with cancelled ice program, building and administrative overheads as well as cost containment measures including deferring non-essential purchases, and reducing non-permanent staff.

All COVID-19 impacts in the form of added costs and revenue losses were tracked throughout the year and included in the City's Safe Restart Agreement (SRA) municipal funding request for 2020.

Moss Park Arena was closed to the public for the majority of the year in response to public health measures and guidelines implemented by the Province. During 2020, the Arena received emergency funding from the City of Toronto to support cash shortfall due to closure. The reported 2020 surplus of \$50,669 mainly represents the deferral of

the additional emergency funding that the Arena will return to the City as part of the 2020 settlement as it related to fiscal year 2021.

Arena Surplus/Deficit Settlement

Appendix A attached provides a summary of the 2020 operating surplus/deficit net settlement calculation by Arena.

For the year 2020, Moss Park Arena reported an operating surplus totalling \$50,669 that is payable to the City. This surplus will be used to partially fund the operating deficits of six Arenas (George Bell, William H. Bolton, Forest Hill Memorial, McCormick, North Toronto Memorial and Ted Reeve) that total \$682,634, resulting in a net deficit to the City of \$631,965 as detailed in Appendix A. The surplus/deficit at Leaside Memorial Community Gardens will be added/reduced from the existing loan to the City, as discussed below.

Leaside Memorial Gardens Arena's Operating Deficit

The report "Leaside Arena 2nd Pad Expansion Project" was adopted and approved by City Council on January 17, 2012 (BU21.1ai/EX14.1ai – 2012), including authority for the loan agreement between the City, Leaside Memorial Gardens Arena Board of Management, and Infrastructure Ontario to facilitate the construction of the second ice pad. The general terms and conditions associated with the City loan included the following:

"13. Should the Arena Board meet its repayment obligations in respect of both Loans, but incur an Operating Budget deficit in any year, the Arena Board will be deemed to be in default under the Loans, and the amount of the Operating Budget deficit will be added to the balance of the City Loan outstanding."

<http://www.toronto.ca/legdocs/mmis/2012/ex/bgrd/backgroundfile-44225.pdf>

The "Annual Report on City's Loan and Loan Guarantee Portfolios" (EX14.11) adopted and approved by City Council on May 3, 2016, included the following on the Leaside Memorial Gardens Arena's loan agreement:

"In accordance with the loan agreement any annual operating deficit amounts shall be added to the outstanding direct City loan balance and a revised amortization schedule to retire the amended loan balance be established.

<http://www.toronto.ca/legdocs/mmis/2016/ex/bgrd/backgroundfile-91844.pdf>

The following recommendation was approved in this report (EX14.11):

"City Council request the City Manager and Deputy City Manager & Chief Financial Officer to report out in the fall of 2016 with a revised loan amortization schedule for the Leaside Memorial Gardens Arena Board or other remedy measures to reconcile any remaining previous year end operating deficits in accordance with the loan agreement."

At the time of this report the 2019 and 2020 audited financial statements for Leaside Memorial Gardens Arena were not available and any deficit or surplus from the statements will be included in a future report.

Funding Provision

Based on the annual audited financial statements, the City determines whether additional operating subsidy payments need to be provided to or clawed back from the Arenas to settle their operating deficits or surpluses for any given year.

No funding provision was provided through the 2020 Year-End Operating Variance Report when it was adopted by City Council at its meeting on July 14, 2021. Therefore, this report recommends a funding provision of \$631,965 be made through the 2021 Year-End Operating Variance Report as shown in the attached Appendix A – 2020 Program Summary.

In addition, City Council, at its meeting on November 9, 2021, adopted a report entitled "Arena Boards of Management 2019 Operating Surpluses / Deficits Settlement". As indicated in the 2019 settlement report, the provision of \$0.100 million made in the 2019 Final Year-End Operating Budget Variance Report was insufficient as the net operating deficit of the seven arenas was \$0.175 million for 2019. Council directed that the remaining amount of \$75,130 be provided through the 2021 Year-End Operating Variance Report. The total funding provision of \$0.707 million for 2019 and 2020 will be considered through the 2021 Year-End Operating Variance Report which is being presented to the Budget Committee for consideration at the same meeting as this report on June 24, 2022.

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 year-end net surplus, calculated using the audited financial statements, in excess of the Council approved budget for the Arena Boards of Management Program be transferred to the Arena Boards of Management Vehicle and Equipment Replacement Reserve (XQ1705) and applied proportionately among those Arenas who are in a surplus position and exceeded their budget target, with funds to be used to finance future ice resurfacer replacements for the Arena Boards.

Since the 2020 audited year-end results for the Arena Boards of Management as a whole did not result in surpluses 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. This Reserve is primarily funded through annual contributions from the eight Arena Boards' operating budgets. The balance of this Reserve at December 31, 2020 is \$312,083.

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SIGNATURE

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Chief Financial Officer and Treasurer

ATTACHMENTS

Appendix A – Arena Boards of Management – Summary of 2020 Operating Surplus/
Deficit Settlement

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**APPENDIX A
ARENA BOARDS OF MANAGEMENT
SUMMARY OF 2020 OPERATING SURPLUS / DEFICIT SETTLEMENT**

Arena	Budget	Adjusted Actual Operating Surplus/(Deficit)			Distribution of Operating Surplus/(Deficit)		
	2020 Council Approved Net Budget Surplus/(Deficit) \$ (a)	2020 Audited Actual Operating Net Surplus/(Deficit) \$ (b)	PSAB and Other Adjustments \$ (c)	Adjusted 2020 Actual Operating Surplus/(Deficit) \$ (d) = (b) + (c)	2020 Operating Surplus Payable to the City \$ (e)	2020 Operating (Deficit) to be funded by the City and loan repayment \$ (f)	2020 Total Payable to City/(Arena) (no Reserve Allocation) \$ (g) = (e) + (f)
George Bell Arena	284	747	(3,287)	(2,540)		(2,540)	(2,540)
William H. Bolton Arena	278	(211,713)	(5,787)	(217,500)		(217,500)	(217,500)
Forest Hill Memorial Arena	2,578	(17,581)	2,767	(14,814)		(14,814)	(14,814)
McCormick Arena	426	(61,614)	(187,545)	(249,159)		(249,159)	(249,159)
Moss Park Arena	1,159	61,443	(10,774)	50,669	50,669		50,669
North Toronto Memorial Arena	110	(34,448)	(8,095)	(42,543)		(42,543)	(42,543)
Ted Reeve Arena	14,811	(75,730)	(80,348)	(156,078)		(156,078)	(156,078)
Subtotal w/o Leaside	19,644	(338,896)	(293,069)	(631,965)	50,669	(682,634)	(631,965)
Leaside Gardens	88,305	N/A	N/A	N/A	N/A	N/A	N/A
TOTAL	<u>107,949</u>	<u>(338,896)</u>	<u>(293,069)</u>	<u>(631,965)</u>	<u>50,669</u>	<u>(682,634)</u>	<u>(631,965)</u>

Note: The actual data for Leaside Gardens Arena was not available at the time of drafting this report.

2020 Program Summary:

Total Payable to City/(Arena) before Reserve Allocation	A	(631,965)
Allocation to Vehicle & Equipment Replacement Reserve (XQ1705)	B	0
Net Payable to City/(Arena) after Allocation to Reserve	C = A - B	(631,965)
Funding Source: Approved Provision for Net Payable by City/(Arena) - 2020 Final Year-End Operating Variance Report	D	0
Recommended Provision for Net Payable to City/(Arena) - 2021 Final Year-End Operating Variance Report	C + D	(631,965)