

Arena Boards of Management 2013 Operating Surpluses/Deficits Settlement

Date:	May 4, 2015
To:	Budget Committee Executive Committee
From:	Deputy City Manager & Chief Financial Officer
Wards:	11, 16, 18, 20, 26, 27, 32
Reference Number:	P:\2015\Internal Services\Fp\Bc15015Fp (AFS #20935)

SUMMARY

This report recommends settlements with the eight Arena Boards of Management (Arenas) of their 2013 operating surpluses and deficits based on the audited financial statements for the year-ended December 31, 2013, with operating surpluses payable to the City and operating deficits funded by the City upon Council's approval.

RECOMMENDATIONS

The Deputy City Manager & Chief Financial Officer recommends that:

1. City Council direct that the 2013 operating surpluses totalling \$7,854 from two Arenas (Larry Grossman Forest Hill Memorial and North Toronto) be paid to the City of Toronto and be used to partially fund the cumulative operating deficit of \$253,208 for six Arenas (George Bell, William H. Bolton, Leaside Memorial Community Gardens, McCormick, Moss Park, and Ted Reeve), resulting in an operating net deficit of \$245,354 to be funded by the City, as detailed in Appendix A, column (d), of the report; and
2. City Council direct that a funding provision for the 2013 net deficit of \$97,487 is made through the 2014 Final Year-End Operating Variance Report, as calculated in the attached Appendix A.

Financial Impact

The Arena Boards of Management final net settlement for the year 2013 requires that surplus funds of \$7,854 be paid to the City from two Arenas and be used to partially fund the operating deficit of \$253,208 for the remaining six arenas, resulting in a net funding requirement from the City of \$245,354. A summary of net funding to the Arenas and surpluses payable to the City are detailed in Appendix A.

In addition, \$11,314 of the 2012 settlement was funded from the 2013 Operating Budget, resulting in a total 2013 settlement funding requirement of \$256,668.

Of this total funding requirement of \$256,668, \$159,181 was provided through the 2013 Final Year-End Operating Variance Report, leaving a balance of \$97,487 to be funded through the 2013 Final Year-End 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.

<http://www.toronto.ca/legdocs/2002/agendas/council/cc020304/pof4rpt/cl001.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 July 8, 2014, City Council received the report titled “Operating Variance Report for the Year Ended December 31, 2013”, including the Arena Boards of Management’s Net Expenditure Variance.

<http://www.toronto.ca/legdocs/mmis/2014/ex/bgrd/backgroundfile-70915.pdf>

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

2013 Operating Results:

A review of the audited financial statements for the year ended December 31, 2013 indicates that two Arenas (Larry Grossman Forest Hill Memorial and North Toronto) reported surpluses amounting to \$7,854 and the remaining six Arenas (George Bell, William H. Bolton, Leaside Memorial Community Gardens, McCormick, Moss Park, and Ted Reeve) reported deficits amounting to \$253,208 as shown in Appendix A, column (d). Overall, the consolidated 2013 operating results of the eight Arena Boards add up to a net deficit of \$245,354 which is \$261,086 below the 2013 approved budgeted surplus of \$15,732 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 2013.

Table 1	2013 Operating (Surplus)/Deficit		
	Council Approved Budget	Adjusted Actual	Variance (Fav)/Unfav
Arena Boards of Management			
	\$	\$	\$
George Bell Arena	(967)	13,073	14,040
William H. Bolton Arena	(133)	45,707	45,840
Forest Hill Memorial Arena	(1,434)	(7,620)	(6,186)
Leaside Gardens	(9,563)	144,360	153,923
McCormick Arena	(213)	25,695	25,908
Moss Park Arena	(413)	21,347	21,760
North Toronto Memorial Arena	(2,536)	(234)	2,302
Ted Reeve Arena	(473)	3,026	3,499
Total Program Net (Surplus)/Deficit	(15,732)	245,354	261,086

Explanation of Major Variances to 2013 Approved Budgets:

George Bell Arena's unfavourable variance of \$14,040 was the result of a one-time corrective adjustment for the Energy Retrofit Program debt repayment which had not been recorded previously.

William H. Bolton Arena's unfavourable variance of \$45,840 resulted primarily from overspent expenditures for wages, and repairs and maintenance. Bill Bolton Arena under-budgeted for wages which resulted in a \$38,441 over-expenditure including one-time coverage for sick leave. In addition, repairs and maintenance were higher than budgeted due to increased needs for maintenance of the Arena's ice rink.

Forest Hill Arena's favourable variance of \$6,186 resulted mostly from higher than budgeted revenue from ice rentals and advertising sales.

Leaside Gardens Arena's unfavourable variance of \$153,923 resulted from the following:

Lost revenues

- Leaside Arena sent one of its user groups to Angela James Arena as the opening date for the new ice rink was delayed, leading to a one-time revenue loss of \$54,574.
- Leaside Arena budgeted for spring ice revenues in 2013. However, the Arena was not ready to open for the spring season resulting in lost revenue of \$41,400.
- William Lea Banquet Room did not meet its expected revenue levels in 2013, by a shortfall of \$28,325. During to the construction works, the entire banquet hall was occupied as a construction office which prevented any other use.

Deficiency costs arising from Capital Works

- Leaside Arena incurred a one-time construction expense for the new snack bar. A ventilation system was required costing \$32,515, to complete the snack bar.
- Reconstruction and repainting of the William Lea Banquet Room resulted in additional cost of \$7,965.

Other extraordinary expenditures included varied expenses, such as fire alarm installations to comply with the building code.

McCormick Arena's unfavourable variance of \$25,908 resulted from lower levels of actual ice rental revenues than budgeted. The Arena also incurred higher than budgeted utility costs.

Moss Park Arena's unfavourable variance of \$21,760 resulted from a one-time write down of \$29,520 on the outstanding accounts receivable for the insurance claim for a fire incident in 2006. As of December 31, 2014, the outstanding claim balance of \$86,654 has been received by the Arena.

Ted Reeve Arena's unfavourable variance of \$3,499 resulted from unexpected costs of emergency repairs resulting from power outages in December 2013.

Arena Surplus/Deficit Settlement:

Appendix A attached provides a summary of the 2013 operating surplus/deficit net settlement calculation by Arena.

For the year 2013, two Arenas (Larry Grossman Forest Hill Memorial and North Toronto) have operating surpluses totalling \$7,854 that is payable to the City. These surpluses will be used to partially fund the operating deficits of the remaining six Arenas (George Bell, William H. Bolton, Leaside Memorial Community Gardens, McCormick, Moss Park, and Ted Reeve) that total \$253,208, resulting in a net deficit to the City of \$245,354 as detailed in Appendix A.

The 2013 overall operating net deficit of \$245,354, plus the 2012 net settlement of \$11,314 funded out of the 2013 Operating Budget, totals \$256,668.

Funding Provision:

Through the 2013 Year-End Operating Variance Report, an overall Arena Board deficit of \$159,181 was provided for based on pre-audited statements at that time. It is recommended that the remaining \$97,487 be funded from the 2014 Final Year-End Operating Surplus through the Final Year-End 2014 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 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.

As the 2013 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. The balance of this Reserve at December 31, 2014 was \$144,663.

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SIGNATURE

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ATTACHMENT

Appendix A – Arena Boards of Management – Summary of 2013 Operating Surplus/
Deficit Settlement

APPENDIX A
ARENA BOARDS OF MANAGEMENT
SUMMARY OF 2013 OPERATING SURPLUS / DEFICIT SETTLEMENT

Arena	2013 Council Approved Net Budget (Surplus)/Deficit \$ (a)	2013 Audited Actual Operating Net (Surplus)/Deficit \$ (b)	PSAB and Other Adjustments \$ (c)	Adjusted 2013 Actual Operating (Surplus)/Deficit \$ (d) = (b) + (c)	Settlement of 2013 Operating Results		
					2013 Operating (Surplus) Payable to the City \$ (e)	2013 Operating Deficit to be funded by the City \$ (f)	Total Net Payable to (City)/Arena \$ (g)
George Bell Arena	(967)	(10,350)	23,423	13,073		13,073	13,073
William H. Bolton Arena	(133)	24,449	21,258	45,707		45,707	45,707
Larry Grossman Forest Hill Memorial	(1,434)	(28,643)	21,023	(7,620)	(7,620)		(7,620)
Leaside Gardens	(9,563)	90,825	53,535	144,360		144,360	144,360
McCormick Arena	(213)	20,365	5,330	25,695		25,695	25,695
Moss Park Arena	(413)	14,783	6,564	21,347		21,347	21,347
North Toronto Memorial Arena	(2,536)	(16,980)	16,746	(234)	(234)		(234)
Ted Reeve Arena	(473)	852	2,174	3,026		3,026	3,026
TOTAL	(15,732)	95,301	150,053	245,354	(7,854)	253,208	245,354

2013 Program Summary:							
Total Operating (Surpluses)				(7,854)	(7,854)		(7,854)
Total Operating Deficits				253,208		253,208	253,208
Program Net (Surplus)/Deficit				245,354	(7,854)	253,208	245,354

Funding Requirement:					Funding Source:		
Arena Boards of Management Program 2013 Operating Net Deficit				\$245,354	Approved provision from the 2013 Operating Budget		\$159,181
Plus: 2012 settlement funded out of 2013 Operating Budget				\$11,314			
Total Funding Requirement				\$256,668			

Recommendation:							
A funding provision be made through the 2014 Final Year-End Operating Variance				\$97,487			