



STAFF REPORT ACTION REQUIRED

Arena Boards of Management 2015 Operating Surpluses/Deficits Settlement

Date:	October 11, 2016
To:	Executive Committee
From:	Deputy City Manager & Chief Financial Officer
Wards:	11, 16, 18, 20, 26, 27, 32
Reference Number:	P:\2016\Internal Services\Fp\Ec16021Fp

SUMMARY

This report recommends settlements with the eight Arena Boards of Management (Arenas) of their 2015 operating surpluses and deficits based on the audited financial statements for the year-ended December 31, 2015, 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. Council direct the 2015 operating surpluses totalling \$73,222 from five Arenas (George Bell, William H. Bolton, Forest Hill Memorial, Leaside Memorial Community Gardens, and North Toronto) be paid to the City of Toronto and be used, in part, to fund the cumulative operating deficit of \$57,101 for three Arenas (McCormick Playground, Moss Park, and Ted Reeve Community), resulting in an operating net surplus balance of \$16,121 prior to Vehicle and Equipment Replacement Reserve allocation, as illustrated in Appendix A, column (g), of the report.
2. Council direct the excess of the actual operating net surplus balance of \$16,121 over the approved 2015 budgeted net operating surplus of \$6,732 equating to \$9,389, be allocated to the Vehicle and Equipment Replacement Reserve (XQ1705) and the remaining \$6,732 be retained by the City as illustrated in Appendix A, column (i), of the report.

3. Council direct a funding provision be made through the 2016 Final Year-End Operating Budget Variance Report for the \$37,889 difference between the reported Arena Board 2015 surplus of \$44,621 and the final net surplus to the City of \$6,732.

Financial Impact

The Arena Boards of Management final net settlement for the year 2015 requires that surplus funds of \$73,222 be paid to the City from five Arenas and to be used to partially fund the operating deficit of \$57,101 for the remaining three arenas, resulting in a net operating surplus of \$16,121 (before Vehicle and Equipment Replacement Reserve allocations). A summary of net funding to the Arenas and surpluses payable to the City are detailed in Appendix A.

As directed by Council's decision in April 2004, when the combined Arenas exceed their budgeted net operating surplus, the amount in excess is to be allocated proportionally to those arenas that exceeded their individual budgeted surplus. For 2015, the overall net surplus of \$16,121 exceeded the budgeted surplus of \$6,732 by \$9,389 which is to be allocated to the Vehicle and Equipment Reserve (XQ1705).

The net operating surplus reported in the 2015 Final Year-End Operating Variance Report sourced from pre-audit estimates was \$44,621. This is \$37,889 higher than the final \$6,732 result after allocation to the Vehicle and Equipment Replacement Reserve. As a result this report recommends the creation of a provision for this \$37,889 difference in the 2016 Final Year-End Operating Variance Report. This calculation is provided in Appendix A - 2015 Program Summary, of the report.

The highlights of the above are provided in Table 1 below along with details in Appendix A.

Table 1	Final Results	Year-End Variance - Reported Results
2015 Year-end Arena Surpluses	\$73,222	\$93,076
2015 Year-end Arena Deficits	(\$57,101)	(\$48,455)
2015 Year-end Arena Net Surplus/(Deficit)	\$16,121	\$44,621
Less: 2015 Budgeted Surplus	(\$6,732)	(\$6,732)
Balance Surplus	\$9,389 (Note 1)	\$37,889 (Note 2)
<p>Note 1: Allocated to Vehicle& Equipment Replacement Reserve - see Table 3 and Appendix A. Note 2: Outstanding variance to be settled in 2016 through the 2016 Final Year-End Operating Variance Report.</p>		

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 June 6, 2016, City Council received the report titled “Operating Variance Report for the Year Ended December 31, 2015”, including the Arena Boards of Management’s Net Expenditure Variance.

<http://www.toronto.ca/legdocs/mmis/2016/ex/bgrd/backgroundfile-94333.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

2015 Operating Results

A review of the audited financial statements for the year ended December 31, 2015 indicates that five Arenas (George Bell, William H. Bolton, Forest Hill Memorial, Leaside Memorial Community Gardens, and North Toronto) reported surpluses amounting to \$73,222 and the remaining three Arenas (McCormick Playground, Moss Park, and Ted Reeve Community) reported deficits amounting to \$57,101 as shown in Appendix A, columns (e) and (f).

Overall, the consolidated 2015 operating results of the eight Arena Boards add up to a net surplus of \$16,121 which is \$9,389 above the 2015 approved budgeted surplus of \$6,732 as shown in Table 2 below. The excess of the actual net surplus over the approved budgeted surplus is subject to an allocation to the Vehicle Reserve Fund which is explained in a subsequent section in this report.

Table 2 below summarizes the approved budget, actual operating surplus/deficit, and variance to budget for each of the Arena Boards for the year 2015.

Table 2	2015 Operating Surplus/(Deficit)		
	Council Approved Budget	Adjusted Audited Actual	Variance Fav/(Unfav)
Arena Boards of Management			
	\$	\$	\$
George Bell Arena	0	2,919	2,919
William H. Bolton Arena	845	26,438	25,593
Forest Hill Memorial Arena	1,183	899	(284)
Leaside Gardens	3,504	42,464	38,960
McCormick Arena	215	(26,543)	(26,758)
Moss Park Arena	97	(16,678)	(16,775)
North Toronto Memorial Arena	888	502	(386)
Ted Reeve Arena	0	(13,880)	(13,880)
Total Program Net Surplus/(Deficit)	6,732	16,121	9,389

Explanation of Major Variances to 2015 Approved Budgets

William H. Bolton and Leaside Gardens generated respective operating surpluses of \$26,438 and \$42,464 generally due to higher demand for the ice rinks and improved snack bar sales as well as fee increases at William H. Bolton. The two arenas also underspent on utilities and general equipment repairs. These surpluses are partly offset by adjustments for contributions to reserves for both arenas, and capital purchases for William H. Bolton.

McCormick Arena and Moss Park Arena generated respective operating deficits of \$26,543 and \$16,678 due to overspending in snack bar and materials supplies. In

addition, the adjusted actuals include adjustments for contributions to reserves for both arenas adding to the deficit.

Arena Surplus/Deficit Settlement

Appendix A attached provides a summary of the 2015 operating surplus/deficit net settlement calculation by Arena.

For the year 2015, five Arenas (George Bell, William H. Bolton, Forest Hill Memorial, Leaside Memorial Community Gardens, and North Toronto) have operating surpluses totalling \$73,222 that is payable to the City. These surpluses will be used to partially fund the operating deficits of the remaining three Arenas (McCormick Playground, Moss Park, and Ted Reeve Community) that total \$57,101, resulting in a net surplus to the City of \$16,121 (before Vehicle Reserve allocations) as detailed in Appendix A.

The 2015 overall net operating surplus of \$16,121, less the Vehicle & Equipment Reserve Allocation of \$9,389 (as detailed in Table 3 and Appendix A) results in a net surplus payable to the City of \$6,732.

Leaside 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 Gardens Memorial 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) was adopted and approved by City Council on May 3, 2016, included the following on Leaside 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."

Through these provisions, the City will recover any deficit during the period of the loan through the ongoing repayment as part of Leaside Arena's loan balance outstanding.

In 2015, Leaside Arena generated a surplus of \$42,464 after meeting its debt obligations. Therefore, no amount will be added to the existing loan balance.

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.

Since the 2015 audited year-end results for the Arena Boards of Management Program as a whole resulted in a surplus of \$9,389 in excess of the Council approved budget (see Table 2), these funds can be allocated to the Arena Boards' Vehicle and Equipment and Replacement Reserve for the year. These funds will be applied proportionately amongst those arenas that are in a surplus position and have exceeded their budget target, based on the extent to which they have exceeded their budget target. The balance of this Reserve at December 31, 2015 is \$162,736 and is projected to be \$162,125 as of December 31, 2016 (Table 3). Net surplus payable to the City after the reserve fund allocation is \$6,732 as illustrated in Appendix A.

Table 3	2015 Operating Surplus/(Deficit)			Allocation of Surplus to Vehicle & Equip. Replacement Reserve
	Council Approved Budget	Adjusted Audited Actual	Surplus in Excess of Budget to be Allocated to Reserve	
Arena Boards of Management				
George Bell Arena	0	2,919	2,919	406
William H. Bolton Arena	845	26,438	25,593	3,561
Forest Hill Memorial Arena	1,183	899	(284)	N/A
Leaside Gardens	3,504	42,464	38,960	5,421
McCormick Arena	215	(26,543)	(26,758)	N/A
Moss Park Arena	97	(16,678)	(16,775)	N/A
North Toronto Memorial Arena	888	502	(386)	N/A
Ted Reeve Arena	0	(13,880)	(13,880)	N/A
	6,732	16,121	9,389	9,389
Vehicle and Equipment and Replacement Reserve (XQ1705)				
			Opening Balance - Jan 1, 2016	162,736
			Budgeted Contributions net of Purchases	(10,000)
			Allocation of Surplus to Vehicle Replacement Reserve	9,389
			Projected Ending Balance - December 31, 2016	162,125

Funding Provision

As a net operating surplus provision of \$44,621 was reported in the 2015 Final Year-End Operating Variance Report, based on un-audited information, and the final actual net operating surplus payable to the City after reserve allocations is \$6,732, and shortfall of \$37,889 is outstanding. This report recommends the funding of this \$37,889 through the 2016 Final Year-End Operating Variance Report. This calculation is provided in Appendix A - 2015 Program Summary, of the report.

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SIGNATURE

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ATTACHMENTS

Appendix A – Arena Boards of Management – Summary of 2015 Operating Surplus/Deficit Settlement

APPENDIX A
ARENA BOARDS OF MANAGEMENT
SUMMARY OF 2015 OPERATING SURPLUS / DEFICIT SETTLEMENT

Arena	Budget	Adjusted Actual Operating Surplus/(Deficit)			Distribution of Operating Surplus/(Deficit)			Vehicle & Equipment Reserve Allocation	
	2015 Council Approved Net Budget Surplus/(Deficit) \$	2015 Audited Actual Operating Net Surplus/(Deficit) \$	PSAB and Other Adjustments \$	Adjusted 2015 Actual Operating Surplus/(Deficit) \$	2015 Operating Surplus Payable to the City (e)	2015 Operating (Deficit) to be funded by the City (f)	2015 Total Payable to City/(Arena) before Reserve Allocation (g) = (e) + (f)	Surplus In Excess of Council Approved Budget to be Allocated to Reserve \$ (h) = (d) - (a)	Allocation of Overall Excess Surplus to Individual Arenas with Excess Surplus \$ (i) Note 1
	(a)	(b)	(c)	(d) = (b) + (c)	(e)	(f)	(g) = (e) + (f)	(h) = (d) - (a)	(i) Note 1
George Bell Arena	0	27,727	(24,808)	2,919	2,919		2,919	2,919	406
William H. Bolton Arena	845	50,394	(23,956)	26,438	26,438		26,438	25,593	3,561
Forest Hill Memorial Arena	1,183	11,633	(10,734)	899	899		899	(284)	N/A
Leaside Gardens	3,504	648,535	(606,071)	42,464	42,464		42,464	38,960	5,421
McCormick Arena	215	(16,147)	(10,396)	(26,543)		(26,543)	(26,543)	(26,758)	N/A
Moss Park Arena	97	(10,170)	(6,508)	(16,678)		(16,678)	(16,678)	(16,775)	N/A
North Toronto Memorial Arena	888	17,315	(16,813)	502	502		502	(386)	N/A
Ted Reeve Arena	0	48,480	(62,360)	(13,880)		(13,880)	(13,880)	(13,880)	N/A
TOTAL	6,732	777,767	(761,646)	16,121	73,222	(57,101)	16,121	9,389	9,389

2015 Program Summary:

Total Payable to City/(Arena) before Reserve Allocation	A	16,121
Allocation to Vehicle & Equipment Replacement Reserve (XQ1705)	B	9,389
Net Payable to City/(Arena) after Allocation to Reserve	C = A - B	6,732
Approved Provision for Net Payable to City/(Arena) - 2015 Final Year-End Operating Variance Report	D	44,621
Recommended Provision for Net Payable to City/(Arena) - 2016 Final Year-End Operating Variance Report	C - D	(37,889)