

Arena Boards of Management Settlement of Operating Results for the year Ended 2021

Date: October 17, 2023

To: Executive Committee

From: Interim 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 assist 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. The audited financial statements are based on the Public Sector Accounting Board (PSAB) requirements for government not-for-profit entities while the operating deficits or surpluses align with the modified cash basis of accounting.

This report recommends the settlement of six of the Arenas' operating surpluses and deficits for 2021 based on their audited financial statements for the year ended December 31, 2021, 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 2020 and 2021 audited financial statements for Leaside Memorial Community Gardens Arena and 2021 audited financial statements for North Toronto Arena remains in progress and therefore the settlement for these outstanding Arenas 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 2021 settlement reports were delayed due to delays in completing the 2021 audits. City staff will present the 2022 Settlement Reports at the first opportunity to the City Council for consideration and approval.

RECOMMENDATIONS

The Interim Chief Financial Officer and Treasurer recommends that:

1. City Council direct that the 2021 operating surpluses totalling \$535,253 from five Arenas (George Bell, William H. Bolton, McCormick, Moss Park and Ted Reeve) be payable to the City of Toronto and be used, in part, to fund the operating deficit of \$12,808 for Forest Hill Memorial Arena, resulting in a net operating surplus of \$522,455 prior to the contribution to the Tax Rate Stabilization Reserve (XQ0703) for COVID-19 backstop, as illustrated in Appendix A, of the report.
2. City Council direct the excess of the actual operating net surplus balance of \$522,455 over the approved 2021 budgeted equating to \$490,307, be allocated to the Tax Rate Stabilization Reserve (XQ0703) for COVID-19 backstop and the remaining \$32,138 be retained by the City as illustrated in Appendix A – 2021 Program Summary.
3. City Council direct a funding provision be made through the 2023 Year-End Operating Budget Variance for the \$32,138 difference between the reported Arena Boards 2021 surplus of \$522,455 and the final net surplus to the City of \$490,307, as shown in the attached Appendix A - 2021 Program Summary.

FINANCIAL IMPACT

The Arena Boards of Management final net settlement for the year 2021 requires that surplus funds of \$535,253 be paid to the City from George Bell, William H. Bolton, McCormick, Moss Park and Ted Reeve Arenas and be used to fund the operating deficit of \$12,808 for Forest Hill Memorial Arena, resulting in a net operating surplus of \$522,445 of which \$490,307 will be allocated to the COVID-19 backstop and \$32,138 will be payable to the City. Consistent with past practice regarding excess year-end provisions, this amount will be applied to the 2023 Year-End Variance reported for the Arena Boards. A summary of net funding to the Arenas and surpluses payable to the City are detailed in Appendix A.

The overall net surplus of \$522,445 for the Arena Boards of Management for the 2021 fiscal year exceeded the approved 2021 budgeted surplus of \$32,138 by \$490,307. Typically, as directed by Council in April 2004, any audited year-end net surplus in excess of the Council approved budget for the Arena Boards of Management would be transferred to the Arena's Vehicle and Equipment Replacement Reserve Fund (XQ1705) and applied proportionately among those Arenas who are in a surplus position which exceeded their budget target. However, for 2021, five of the six Arenas brought forward for settlement in this report received cumulative emergency funding from the City of \$1,995,194 in order to minimize the financial impacts due to closures as a result of the COVID-19 pandemic. Through the year additional cost savings were realized by the Arenas in operations associated with cancelled ice programs, and

administrative and maintenance overheads. Accordingly, the excess surplus of \$490,307 is being recommended to be directed to the Tax Rate Stabilization Reserve (XQ0703) to help manage sustained COVID-19 costs.

The Leaside Memorial Community Gardens' 2020 and 2021 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 2021 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 six of the 2021 Audited Financial Statements, Management Letters (where applicable), and Independent Auditor's Reports through the following City Council meeting:

<https://www.toronto.ca/legdocs/mmis/2023/au/bgrd/backgroundfile-234046.pdf>

At its meeting on July 19-22, 2022, City Council received the report titled "Operating Variance Report for the Year Ended December 31, 2021", including the Arena Boards of Management's Net Expenditure Variance.

<https://www.toronto.ca/legdocs/mmis/2022/ex/bgrd/backgroundfile-228258.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.

2021 Operating Results

A review of the audited financial statements for the year ended December 31, 2021, indicates that five Arenas (George Bell, William H. Bolton, McCormick, Moss Park and Ted Reeve) reported a cumulative surplus of \$535,253 and one Arena (Forest Hill Memorial) reported a deficit amounting to \$12,808, for an overall surplus of \$522,445.

The Arena Boards net 2021 surplus of \$522,445 has resulted in a favourable variance of \$996,945 in relation to the 2021 Council Approved Operating Budget of \$474,500 deficit 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 2021.

Table 1 Arena Boards of Management	2021 Operating Surplus/(Deficit)		
	Council Approved Budget	Adjusted Audited Actual	Variance Fav/(Unfav)
George Bell Arena	\$ 13,382	\$ 80,541	\$ 67,159
William H. Bolton Arena	(342,350)	115,177	457,527
Forest Hill Memorial Arena	8,365	(12,808)	(21,173)
Leaside Gardens	N/A	N/A	N/A
McCormick Arena	(149,724)	10,878	160,602
Moss Park Arena	10,391	119,711	109,320
North Toronto Memorial Arena	N/A	N/A	N/A
Ted Reeve Arena	(14,564)	208,946	223,510
Total Program Net Surplus/(Deficit)	(474,500)	522,445	996,945

Significant revenue losses were reported by all Arenas collectively due to the suspension of regular operations as a result of COVID-19. 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 2021.

During 2021, seven Arenas received emergency funding from the City to support cash shortfalls due to closures. Through the year savings in salaries and benefits from reducing non-permanent staff, utilities, direct costs associated with cancelled ice program, administrative and maintenance overheads resulted in a cumulative surplus of \$535,253 for George Bell, William H. Bolton, McCormick, Moss Park and Ted Reeve Arenas.

Forest Hill Memorial Arena generated an operating deficit of \$12,808 due to lower revenues and higher amortization costs for the year.

Arena Surplus/Deficit Settlement

Appendix A attached provides a summary of the 2021 operating surplus/deficit net settlement calculation by Arena.

For the year 2021, five Arenas (George Bell, William H. Bolton, McCormick, Moss Park and Ted Reeve) reported an operating surplus totalling \$535,253 that is payable to the City. This surplus will be used to fund the operating deficits of one Arena (Forest Hill Memorial that total \$12,808, resulting in a net surplus payable to the City of \$522,445 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 2020 and 2021 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.

The net operating deficit provision of \$707,095 was provided through the 2021 Year-End Operating Variance Report for the 2019 and 2020 surplus and deficit settlement. No funding provision was provided through the 2021 Year-End Operating Variance report for the 2021 fiscal year. Therefore, this report recommends a funding of \$32,138 through the 2023 Year-End Operating Variance Report as shown in the attached Appendix A - 2021 Program Summary.

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 resurfacers replacements for the Arena Boards.

The 2021 audited year-end results for the Arena Boards of Management resulted in surpluses in excess of the Council approved budget (see Table 1). In a typical year these funds can be allocated to the Arena Boards' Vehicle and Equipment and Replacement Reserve. This Reserve is primarily funded through annual contributions from the eight Arena Boards' operating budgets. The balance of this Reserve at December 31, 2021 was \$219,065. However, for 2021, all Arenas received emergency funding in order to absorb the operational impact due to closures as a result of COVID-19. The excess surplus of \$490,307 is to be directed to the COVID-19 backstop (XQ0703) to help manage sustained COVID-19 costs.

CONTACT

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SIGNATURE

Stephen Conforti
Interim Chief Financial Officer & Treasurer

ATTACHMENTS

Appendix A – Arena Boards of Management – Summary of 2021 Operating Surplus/
Deficit Settlement

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Arena	Budget	Adjusted Actual Operating Surplus/(Deficit)			Distribution of Operating Surplus/(Deficit)			Vehicle & Equipment Reserve Allocation	
	2021 Council Approved Net Budget Surplus/(Deficit) \$	2021 Audited Actual Operating Net Surplus/(Deficit) \$	PSAB and Other Adjustments \$	Adjusted 2021 Actual Operating Surplus/(Deficit) \$	2021 Operating Surplus Payable to the City (e)	2021 Operating (Deficit) to be funded by the City (f)	2021 Total Payable to City/(Arena) before Allocation (g) = (e) + (f)	Surplus In Excess of Council Approved Surplus Budget \$	Allocation of Overall Excess Surplus to Individual Arenas with Excess Surplus \$
	(a)	(b)	(c)	(d) = (b) + (c)	(e)	(f)	(g) = (e) + (f)	(h) = (d) - (a)	(i)
George Bell Arena	13,382	75,353	5,188	80,541	80,541		80,541	67,159	64,379
William H. Bolton Arena	(342,350)	123,485	(8,308)	115,177	115,177		115,177	115,177	110,409
Forest Hill Memorial Arena	8,365	(7,736)	(5,072)	(12,808)		(12,808)	(12,808)	(21,173)	N/A
Leaside Gardens	(23,865)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
McCormick Arena	(149,724)	8,418	2,460	10,878	10,878		10,878	10,878	10,428
Moss Park Arena	10,391	158,021	(38,310)	119,711	119,711		119,711	109,320	104,795
North Toronto Memorial Arena	8,634	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Ted Reeve Arena	(14,564)	204,020	4,926	208,946	208,946		208,946	208,946	200,297
TOTAL	(489,731)	561,561	(39,116)	522,445	535,253	(12,808)	522,445	490,307	490,307

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

2021 Program Summary:

Total Payable to City/(Arena) before Allocation	A	522,445
Allocation to COVID-19 Backstop	B	490,307
Net Payable to City/(Arena) after Allocation	C = A - B	32,138
Approved Provision for Net Payable to City/(Arena) - 2021 Final Year-End Operating Variance Report	D	
Recommended Provision for Net Payable to City/(Arena) - 2023 Final Year-End Operating Variance Report	C + D	32,138