

TAF'S 2013 FINANCIAL STATEMENTS: EXPLANATORY NOTE

TAF's year-end financial results show excellent portfolio returns:

- 2013 was a banner year for TAF's investment portfolio due to strong returns from its investments in global equities
- TAF's investment portfolio delivered a 24.3% return in fiscal 2013. An average rate of return of 10.5% over last four years places TAF's portfolio performance in the top quartile
- Net Asset Value (NAV) or TAF's "net worth" increased 13% to \$24.5M

As of 2013, TAF's Financial Statements were prepared in accordance with Public Sector Accounting Standards for Government Not-For-Profit Organizations. The key disclosure change in 2013 relates to reporting of investment gains:

- Pre-2013, the revenue line called "Investment Income" in the Statement of Operations combined two types of investment gains:
 - (1) realized investment gains (actual sales of securities) AND
 - (2) unrealized gains (paper gains due to TAF holding appreciated securities in its investment portfolio)
- As of 2013 onwards, realized and unrealized investment gains are reported separately and are accounted for on two different statements:
 - (1) realized investment gains continue to be reported as revenue on the Statement of Operations (page 5), specifically \$705K (2013) and \$274K (2012)
 - (2) unrealized investment gains are now reported only on the Statement of Remeasurement Gains and Losses (page 4). TAF's unrealized gains from investments held have been substantial: \$3.5 million (2013) and \$1.4 million (2012).

Implications of the disclosure change:

- **No impact on TAF's overall "net worth".** TAF's Net Asset Value (NAV) captures all investment gains (realized and unrealized) for the fiscal year. In 2013, TAF's NAV increased by \$2.8 million during fiscal 2013 and is now \$24.5 million (page 2).
- **No impact on TAF's daily operations, investment strategy or financial health.** TAF realizes investment gains only when selling securities and this is only done when necessary and in the smallest amounts necessary. TAF has preserved its endowment for 22 years by investing prudently and for the long-term.
- **Not including unrealized (paper) investment gains in the Statement of Operations will typically result in an operating deficit.** The \$737K operating deficit in 2013 (page 5) reflects that TAF spent nearly \$2 million to deliver its programs, but only cashed a small portion of its endowment thereby reporting minimal realization of gains on its investments. Operationally, TAF uses its incoming cash (such as loan repayments, external grants and an occasional cashing of securities as noted) to cover most of its operating expenses, which is preferable to cashing portfolio investments

which earn long-term returns. The operating deficit is directly related to the change in disclosure methodology which now separates realized from unrealized investment gains. Importantly, the operating deficit is not a working capital deficit. In fact, TAF's working capital position at the end of 2013 was a favourable balance of \$477K (page 2) based on Current Assets of \$1.829M and Current Liabilities of \$1.352M at the end of 2013.

- **The auditor's restatement of TAF's results for fiscal 2012 best illustrates the impact of the changed disclosure method.** Originally, TAF's 2012 Statement of Operations reported an "operating surplus" of \$851K. The re-stated results for fiscal 2012 financials using the new disclosure method now show an "operating deficit" of \$583K (page 5) for fiscal 2012.

The bottom line remains the same: \$851K was added to TAF's NAV in fiscal 2012 consisting of two restated amounts: the "new" \$583K operating deficit for 2012 as reported in the latest financial statements as the comparative amount for 2012, plus the unrealized portfolio gains of \$1.4 million (page 4) which were reported last year as one combined amount which resulted in "operating surplus" of \$851K for fiscal 2012.

2013 bottom line:

- Endowment value (NAV) is \$24.5 million, up from \$21.7 million at the end of 2012
- Ongoing operations covered by ongoing cash flows with minimal cashing of securities
- Favourable working capital balance of \$477K at the end of 2013
- \$3.7 million transferred to the Stabilization Fund at the end of 2013
- Financial Statements audited by City-appointed Auditor: Welsh LLP
- TAF is a self-supporting agency and it does not draw on the operating budget of the City of Toronto

For more information contact:

Richard Rysak, Director of Finance

Email: rrysak@tafund.org Phone: 416-338-8103