



Toronto Atmospheric Fund
75 Elizabeth Street

Richard Rysak
Director of Finance

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City of Toronto Audit Committee
100 Queen St. W.
Toronto, ON M5H 2N2

Dear Committee Members:

RE: TAF 2016 Audited Financial Statements

TAF had a successful year in 2016 and is currently in a strong financial position to engage its larger asset base to support its new scope of operations covering the Greater Toronto and Hamilton areas. We submit the Audited Financial Statements for Fiscal Year 2016 with the following comments:

(1) Reason for Delayed Submission

TAF and its Auditor, Welch LLP, required additional time to resolve the disclosure treatment for a new type of transaction by seeking input from another accounting firm.

Specifically, in keeping with TAF's mandate of incubating approaches for reducing urban greenhouse gas emission, TAF has been developing innovative financing strategies, including financing energy efficiency retrofits for large buildings. We invest directly in such performance revenue projects, and during fiscal 2016, TAF sold two of its energy-efficiency performance revenue streams to a third party. This triggered consideration of the best accounting method for such transactions which are material in TAF's context. Also, given that such sales are important for TAF's future plans, it was advisable to get an independent review of the related accounting methods to give TAF solid accounting parameters to better structure such sales in the future.

(2) Full Financial Position with Unrealized Portfolio Gains Included

TAF's Consolidated Statement of Operations—Operating Fund (page 5/23), which indicates "operating deficits" for the last two years (\$1,171K in 2016 and \$425K in 2015), should be read in conjunction with page 4/23 (Consolidated Statement of Re-measurement Gains and Losses) which is focused on the unrealized portfolio gains of TAF's marketable securities: \$915K in 2016 and \$2,810 in 2015. Thus the overall results with unrealized portfolio gains included for the last two years are as follows:

* Overall our fiscal year 2016 had a small deficit: $(\$1,171K) + \$915K = (\$256K)$

* Overall our fiscal year 2015 had a large surplus: $(\$425K) + \$2,810K = \$2,385K$

Thus despite reporting “operating deficits” under the mandated disclosure method, all investment portfolio gains (realized and unrealized gains) contributed to TAF’s “net worth” or its Net Asset Value (NAV).

At the end of fiscal 2016, TAF’s Net Asset Value (NAV) was \$45.2 million consisting of City of Toronto’s \$28.2M portion and Province’s new contribution of \$17M, thereby continuing the trend of growing our NAV.

TAF results \$ in 000’s	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
A - Operating Deficit for the year	(\$ 583)	(\$ 737)	(\$ 31)	(\$ 425)	(\$1,171)
B - Accumulated Unrealized Portfolio gains - end of year	\$ 1,435	\$ 4,984	\$ 6,629	\$9,439	\$10,354
Net Asset Value (NAV)	\$ 21,667	\$ 24,479	\$ 26,092	\$ 28,476	\$28,220 + \$17,000

(3) Stabilization Fund

In keeping with best practices in endowment management, investment portfolio surpluses which exceed the budgeted investment rate of return are contributed to the Stabilization Fund. Thus the Stabilization Fund is part of TAF’s total endowment capital (NAV) to be used in “lean” years to reduce investment revenue variability due to financial market fluctuations. The investment portfolio performance shortfall of fiscal 2016 was easily covered from TAF’s Stabilization Fund which totalled a robust \$7.0 million at the end of 2016.

Sincerely,



Richard Rysak
Director of Finance