



REPORT FOR ACTION

Draft Audited Consolidated Financial Statements for the year ended December 31, 2019

Date: May 8, 2020
To: Toronto Atmospheric Fund Board of Directors
From: Robert Wotten, Director of Finance

SUMMARY

The 2019 Audited Consolidated Financial Statements and Report have been prepared by Welch LLP and are presented to the Toronto Atmospheric Fund (TAF) Board of Directors for approval. These statements provide separate fund accounting for both the City of Toronto and the Province of Ontario endowment funds.

RECOMMENDATIONS

The Director of Finance recommends that the Toronto Atmospheric Fund Board of Directors:

1. Approve transfers of \$3,004,823 to the Toronto Stabilization Fund and \$1,814,782 to the Ontario Stabilization Fund.
2. Approve the 2019 Audited Consolidated Financial Statements.

FINANCIAL IMPACT

None to the City.

DECISION HISTORY

The Audit Committee received and have reviewed the Audited Financial Statements, and have provided comments to the Director of Finance, but were unable to formally meet ahead of the Board meeting due to COVID-19.

On February 14, 2020, TAF's Board of Directors approved amendments to the Audit Committee's Terms of Reference.

(<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2020.TA5.6>)

The Audit Committee met on January 28, 2020 to review and approve the scope of work for the 2019 audit as presented in the Audit Engagement Letter from Welch LLP.
(<https://www.toronto.ca/legdocs/mmis/2020/ta/bgrd/backgroundfile-145897.pdf>)

On November 8, 2019, TAF's Board of Directors established an Audit Committee and appointed Jacoline Loewen, Kimberly Marshall, and Deepak Ramachandran as its members. (<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.TA4.5>)

On March 26, 2018, City Council awarded RFP 9171-17-7291 to Welch LLP for External Audit Services for City Arenas, Community Centres and Miscellaneous Entities.
(<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.AU11.5>)

COMMENTS

Notes to the Draft Consolidated Financial Statements:

These provide detailed disclosure on all aspects of TAF's financial operations. As established in the Transfer Payment Agreement among TAF, the City of Toronto and the Province of Ontario, the funds are to be accounted for separately. The auditors have reviewed the investments, investment proceeds, and expenses allocated to both funds and the statements present both funds as restricted, each with its own Stabilization Fund.

Net Asset Value:

The NAV increased year-over-year by 11.1%, mainly due to strong performance of the equities investments. Total Consolidated Net Asset Value (NAV) at 2019 fiscal year-end was ~\$52.2M comprised of \$34.4M in the Toronto and \$17.8M in the Ontario funds. The proportionality ratio to be applied for jointly-funded expenses in 2020 is 66:34.

2019	Toronto	Ontario	Total	Notes
Investment Securities	\$ 27,952,675	\$ 19,027,535	\$ 46,980,210	Fixed Income, Equities, Private Equity
Direct Investments	\$ 6,916,174	\$ 291,805	\$ 7,207,979	Loans, ESPA
<u>Consolidated Other Assets</u>	<u>\$ 3,619,050</u>	<u>\$ 1,357,369</u>	<u>\$ 4,976,419</u>	<u>Cash, receivables etc.</u>
Gross Asset Value	\$ 38,487,899	\$ 20,676,709	\$ 59,164,608	
Consolidated Liabilities	-\$ 4,128,568	-\$ 2,865,316	-\$ 6,993,884	Payables and Debt
Net Asset Value	\$ 34,359,331	\$ 17,811,393	\$ 52,170,724	

Revenues:

As of 2013, TAF's financial reporting has been based on Public Sector Accounting Standards (PSAS) for Not-for-Profit Organizations under which "realized gains" flow through the Investment Income revenue line in the Statement of Operations while "unrealized gains" are only included in the Statement of Remeasurement Gains and Losses. In the years when TAF redeems its investments to offset expenses for operating needs (e.g., grants, direct investments) or portfolio rebalancing to meet SIOP target asset mix, the "operating deficit" is lower, and vice-versa. In 2019, unrealized

gains were \$4.3M in the Toronto fund (\$386K in 2018) and \$2.4M in the Ontario fund (\$374K in 2018).

ESPA revenues increased to \$1.1M in 2019 (\$824.2K in 2018).

External revenues dropped in 2019 in line with the project work to trigger revenue recognition from deferred revenue on the ADER project.

Expenses:

Total Program Delivery Expenses, including Grants, were under budget at \$2.261M (versus \$3.2M budgeted), mainly due to slower-than-projected cultivation of regional Grants meeting TAF's priorities and criteria (\$ 658K versus \$1.2M budget) and hiring new positions later in 2019 than expected (\$1.6M versus \$2M budget). Corporate expenses of \$731K were approximately on-budget (\$771K). Amortization expense (for Toronto only) was \$472K (versus \$725K in 2018) as fewer new ESPA projects were completed.

Investments Held in Trust by the City of Toronto

As at December 31, 2019, the equities investments made up of 63% of total investments (which is above the maximum of 55% in TAF's investment policy) and the fixed income investments made up of 19% (which is below the 20% minimum in the policy) of total investments. The Board has issued instructions to Management to adjust the portfolio mix as soon as practical to conform with the asset mix policy.

It is worth noting that as of Q1 2020, TAF's public equities have declined in value due to the COVID-19 impact on financial markets, although the portfolio has fared better than average due to the exclusion of fossil fuel holdings. Nevertheless, the asset mix will need to be re-balanced for compliance.

Accounts Receivable and Accounts Payable

Both Accounts Receivable and Accounts Payable increased substantially in 2019 due to TowerWise projects having large balances receivable from TCHC and payables to project vendors at year end. These have dropped substantially in 2020 as receipts and payments are realized.

Stabilization Fund:

In keeping with best practices in endowment management which aims to minimize the impact of market volatility on operations, returns from TAF's marketable securities that exceed the budgeted investment performance are contributed to a Stabilization Fund, up to a maximum of 25% of the NAV. The Stabilization Fund remains part of TAF's endowment and is invested in the same manner. It may be drawn upon to maintain a stable level of expenditure during unfavourable financial market conditions, with the 25% cap limiting such use of capital. Separate Stabilization Funds pertain to the

Toronto and Ontario funds. As a result of performance of the marketable securities portfolio above the 5.5% budgeted, especially in Q4, the Toronto and Ontario Stabilization Funds are being increased by \$3M and \$1.8M respectively.

CONTACT

Robert Wotten, Director of Finance, rwotten@taf.ca

SIGNATURE

Robert Wotten
Director of Finance

ATTACHMENTS

1. Draft Auditors' Report to the Board of Directors.
2. Draft Consolidated Financial Statements for Toronto Atmospheric Fund for the year ended December 31, 2019.