

# TA6.2 Attachment 1

REPORT TO THE AUDIT COMMITTEE OF

## **TORONTO ATMOSPHERIC FUND**

For the year ended December 31, 2019

Prepared on May 7, 2020, by  
Matt Mersereau, CPA, CA  
Bryan Haralovich, CPA, CA  
Partners  
Welch LLP

## AUDIT STATUS

Our audit of the consolidated financial statements for Toronto Atmospheric Fund ("TAF") for the year ended December 31, 2019 is substantially complete and we expect to release our auditor's report after the following outstanding matters are completed:

- Receipt of the signed management representation letter
- Board approval of the draft financial statements
- Final subsequent review up to date of approval of the financial statements
- Receipt of Moncalm loan confirmation
- Board approval of the fund transfer to/from the Stabilization funds

If any significant matters arise between the date of this report and the signing of our audit report we will raise them with you. The following paragraphs provide information we are required to communicate with you in accordance with Canadian generally accepted auditing standards.

## QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES AND FINANCIAL REPORTING

Our audit includes consideration of the qualitative aspects of the financial reporting process, including matters that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided in the financial statements.

The following are matters that would like to draw your attention to with respect to the qualitative aspects of the organization's accounting practices:

### *Investment - Marketable Securities*

In accordance with the TAF Act, monies that are not immediately required are in the custody of the City of Toronto, and are invested in various pooled funds. During the year, no new funds were added to the mix of investments. As at December 31, 2019, the fair value of the total marketable securities was \$45.1M, of which \$26.6M pertains to the City of Toronto Fund, and \$18.5M pertains to the Province of Ontario Fund. The realized gains from investment is presented on the statements of operations for each of the fund, and the changes in unrealized gains from investment is presented on the statements of remeasurement gains and losses for each of the fund.

Welch confirmed investment holdings directly with each investment fund manager and performed re-calculation of the realized and unrealized gain or losses from investments, and proposed adjustments to present the realized and unrealized gain or losses on the financial statements to meet accounting presentation requirements.

*Investment - Marketable Securities - cont'd.*

Welch also reviewed TAF's compliance with the asset mix limits as set out by TAF's investment policy. As at December 31, 2019, the equities investments made up of 62% of total investments which is above the maximum of 55%, and the fixed income investments made up of 19% of total investments, which is lower than the minimum of 20%. Management had notified the Board for the non-compliance prior to having year-end results, and received instructions to re-balance as soon as practical to conform with the asset mix limits.

*Investment - Direct investments and private equity*

TAF also invests in various private equity funds. The private equity funds are valued at cost as market value is not readily determinable. During the year, no new fund was added to the mix of investments. As at December 31, 2019, the cost of the total investments in private equity was \$832K, of which \$678K pertains to the City of Toronto Fund, and \$154K pertains to the Province of Ontario Fund. Welch confirmed investment holdings directly with each investment fund manager.

Any potential gains from investment from the increase in value of the assets are not recorded, and Welch performed an assessment for any potential impairment required based on available financial information, including the audited financial statements of each fund. As at December 31, 2019, we did not identify any potential impairment.

Loan Receivables

TAF advanced various loans to building owners for energy efficiency measures and private funds focuses on clean technology. During the year, two new loans were granted, and the total balance receivable as at December 31, 2019 is \$2,587M. The two new loans granted are:

- London RNG Project 1 LP is for the construction and operation of a facility to extract renewable natural gas from industrial waste biogas to inject into the bulk natural gas supply pipeline and sell through a long-term offtake agreement. The investment made by TAF in the year was \$869K CAD.
- Montcalm Capital Fund I LP - CLEARAS 2018 Series P.S. This fund focuses on a low-carbon wastewater treatment technology that uses algae to remove nitrogen and phosphorous. The investment made by TAF in the year was \$740K USD (\$990K CAD).

Welch confirmed each loan balance to the borrowers, and agreed repayments received on a sample basis. An allowance for credit loss of \$20K was recorded in previous years against the loan balances.

*Energy Savings Performance Agreement ("ESPA")*

ESPAs are financing programs which enable building owners to retrofit and upgrade their buildings' energy performance. They are multi-year contracts where TAF provides a turnkey energy efficiency retrofit for the building owner who undertakes to re-pay TAF from realized energy cost savings. During the year no new ESPA was signed. Welch performed testing on the revenue received from existing ESPAs on a sample basis. No issue noted.

There is a reserve account in the amount of \$190K to be used against potential maintenance, equipment failures, disputes and credit issues (including legal and other professional services) resulting from ESPA projects. Welch reviewed the recoverability of the ESPA capital assets by comparing the future cash flow of the ESPA projects to the net assets value of the ESPA projects. Welch projected a potential over-provision of \$69K, Welch have addressed this in the misstatement section of the report.

*Subsequent event COVID-19*

In mid-March 2020, subsequent to the TAF's year-end, the province of Ontario declared a state of emergency in response to the public health concerns originating from the spread of the coronavirus disease. TAF's office is temporarily closed since then, and management expects that certain on-going projects will be delayed or postponed. However, TAF's management assessed the overall day-to-day operations of TAF has not been significantly impacted.

TAF's management is working with Proteus, TAF's investment manager, to closely monitor the impact of TAF's investment as a result of the market declines. A significant degree of uncertainty persists surrounding the full economic impact of the situation.

Consequently, at the time of issuance of these financial statements, the effect that the decline in economic activity on the Corporation's operations, assets, liabilities, revenues and expenses are not yet known. This uncertainty has been disclosed in the financial statements as a subsequent event.

**MANAGEMENT LETTER OF REPRESENTATION**

It is necessary for us to obtain written representations from management as an acknowledgement of their responsibility for the fair presentation of the financial statements and as audit evidence on matters material to the financial statements. We have provided a draft of the letter of representation in Appendix A. Management has committed to provide us with a signed copy of the letter on a date to coincide with the date of our auditors' report.

## MISSTATEMENTS

The corrected and uncorrected misstatements identified during our audit are included in the management letter of representation.

## SIGNIFICANT DEFICIENCIES IN INTERNAL CONTROL

During our audit we did not identify any significant deficiencies in internal control to report to the Audit Committee.

## INDEPENDENCE

Canadian generally accepted auditing standards require that we communicate at least annually with you regarding all relationships between Toronto Atmospheric Fund and us that, in our professional judgment, may reasonably be thought to bear on our independence.

No matters have been identified that would reasonably be thought to bear on our independence. As a result, we confirm that we are independent.

## FINANCIAL STATEMENT PRESENTATION

### 1. Significant Accounting Policies

TAF's significant accounting policies are disclosed in the notes to the financial statements.

During the year there were no new accounting policies or changes to existing accounting policies.

### 2. Management's Judgments and Accounting Estimates

During the year we encountered the following situations that required significant judgments and/or estimates to be made by management:

- **ESPA Provisions** - The estimates made relate to the provisions for losses due to maintenance, equipment failures, disputes, and credit issues. We have addressed these matters above in the Qualitative Aspects of Accounting Practices and Financial Reporting section of the report.

## **MATTERS SPECIFICALLY REQUIRED BY OTHER CANADIAN AUDITING STANDARDS TO BE COMMUNICATED**

Other sections of Canadian Auditing Standards require us to communicate with those charged with governance in a number of specific circumstances:

- Where we encounter unusual related party transactions or significant matters related to related party transactions;
- Where we encounter other transactions that were unusual or not in the normal course of business;
- Where we suspect or detect fraud;
- Where there is inconsistency between the financial statements and other information in documents containing the financial statements; and
- Where we believe there may be non-compliance with legislative or regulatory requirements.

We did not encounter any such matters during the course of our audit.

## **ACKNOWLEDGEMENTS**

During the course of our audit we received the full co-operation of management and did not encounter any difficulties during our audit. There were no limitations on the scope of our audit work and we did not have any disagreements with management. We would like to take this opportunity to thank them for efforts and for their constructive approach to the audit.

# TORONTO ATMOSPHERIC FUND

75 Elizabeth Street  
Toronto, Ontario  
M5G 1P4

May 21, 2020

Welch LLP  
36 Toronto Street  
Suite 1070  
Toronto, ON  
M5C 2C5

To whom it may concern:

We are providing this letter in connection with your audit of the financial statements of Toronto Atmospheric Fund (the "Organization") for the year ended December 31, 2019, for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects, in accordance with Canadian public sector accounting standards for government not-for-profit organizations.

We acknowledge that your examination was planned and conducted in accordance with Canadian generally accepted auditing standards so as to enable you to express an opinion on the financial statements. We understand that while your work includes an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, it is not designed to identify, nor can it necessarily be expected to disclose, fraud, shortages, errors and other irregularities, should any exist.

Certain representations in this letter are described as being limited to matters that are material. An item is considered material, regardless of its monetary value, if it is probable that its omission from or misstatement in the financial statements would influence the decision of a reasonable person relying on the financial statements.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit:

## **Financial Statements**

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated June 1, 2018, for the preparation of the financial statements in accordance with Canadian public sector accounting standards for government not-for-profit organizations; in particular, the financial statements are fairly presented in accordance therewith.
2. The significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

## **Information Provided**

1. We have provided you with:
  - (a) Access to all information of which we are aware that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
  - (b) Additional information that you have requested from us for the purpose of the audit; and
  - (c) Unrestricted access to persons within the Organization from whom you determined it necessary to obtain audit evidence
2. All transactions have been recorded in the accounting records and are reflected in the financial statements
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud. We have assessed this risk as low.
4. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Organization and involves:
  - (a) Management;
  - (b) Employees who have significant roles in internal control; or
  - (c) Others where the fraud could have a material effect on the financial statements.
5. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the Organization's financial statements communicated by employees, former employees, analysts, regulators or others.



6. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
7. We have disclosed to you the identity of the Organization's related parties and all the related party relationships and transactions of which we are aware.

### **Notes and Accounts Receivable**

1. Loans and accounts receivable represent valid claims relating to transactions made before the end of the fiscal year. Adequate provision has been made for losses which may be sustained in the collection of receivables.

### **Temporary and Portfolio Investments**

1. All investments that are owned by the Organization are recorded in the accounts.
2. The Organization has good title to all investments recorded in the accounts and these investments are free from hypothecation.
3. The investments in limited partnerships and private equity entities were valued at cost computed on an average cost basis as at December 31, 2019. The marketable security investments were measured at their fair market value as at December 31, 2019.
4. All income earned on the investments for the year has been recorded in the accounts.
5. For investments valued at cost, where there has been a significant adverse change in the expected timing or amount of future cash flows from an investment, it has been appropriately written down.

### **Capital Assets**

1. All charges to capital asset accounts during the year represent actual additions to and no expenditures of a capital nature were charged to the operations of the Organization during the year.
2. All capital assets sold or dismantled have been properly accounted for in the books of the Organization.
3. Appropriate rates have been used to amortize the assets over their estimated useful lives and the provisions were calculated on a basis consistent with that of the previous period.
4. The Organization has good title to the properties represented by the balance carried in the capital asset accounts, and there are no liens, mortgages or other charges against any of the capital assets shown on the books of the Organization.

5. Where the value of any capital assets has been impaired, this fact has been disclosed to you.

### **Liabilities and Commitments**

1. At the year end, with the exception of relatively immaterial obligations for which invoices had not been received or which otherwise could not readily be determined or estimated, all known liabilities of the Organization are included and fairly stated on the balance sheet.
2. At the year-end all contingent liabilities (e.g., discounted receivables or drafts, guarantees, pending or unsettled suits, matters in dispute) have been disclosed in the notes to the financial statements.
3. The Organization has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
4. At the year-end, all unusual commitments and contractual obligations that were not in the ordinary course of business or that might have an adverse effect upon the Organization have been disclosed in the notes to the financial statements.
5. All claims outstanding against the Organization or possible claims have been disclosed to you and, where appropriate, reflected in the financial statements or notes thereto.
6. We understand that any illegal or possibly illegal act could damage the Organization or its reputation or give rise to a claim or claims against the Organization. We are not aware of any violations or possible violations of law or regulations the effects of which should be considered for disclosure in the financial statements or as the basis for recording a contingent loss.

### **Statement of Operations**

1. All of the revenues of the Organization for the year has been recorded in the books of account and disclosed in the financial statements.
2. The statement of operations contains no extraordinary or non-recurring items of material amount except as shown thereon.

## **Restrictions**

1. All restrictions on the use of the Organization's funds or assets, as well as all requirements or conditions imposed by third parties, have been brought to your attention and are appropriately disclosed in the financial statements. The Organization complied with all restrictions, requirements or conditions which, in the event of non-compliance could have a significant effect on the financial statements.
2. All assets subject to a lien, pledged or assigned as security or guarantee for liabilities were brought to your attention and are appropriately disclosed in the financial statements.

## **Corporate Minutes**

The minute books of the Organization contain an accurate record of all of the business transacted at meetings of directors and committees of directors up to the date of this letter.

## **Controlled and Related Entities**

1. All subsidiaries and controlled not-for-profit organizations have been accurately reflected in the financial statements.

## **Related Party Transactions**

1. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of Canadian public sector accounting standards for government not-for-profit organizations.
2. There have been no exchanges of goods or services with any related parties for which appropriate accounting recognition and financial statement disclosure has not been given.

## **Recognition, Measurement and Disclosure**

1. Significant assumptions used in arriving at the fair values of financial instruments as measured and disclosed in the financial statements are reasonable and appropriate in the circumstances.
2. The Organization has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the financial statements.
3. The nature of all material measurement uncertainties has been appropriately disclosed in the financial statements, including all estimates where it is reasonably possible that the estimate will change in the near term and the effect of the change could be material to the financial statements.

4. The Organization did not undertake any material non-monetary transactions or transactions for no consideration during the financial reporting period under consideration.

### **Going Concern**

We confirm that we have assessed the Organization's ability to continue as a going concern, taking into account all information which is at least twelve months from the year-end date, and we conclude that the Organization is able to continue as a going concern for the foreseeable future.

### **General**

Other information consists of financial or non-financial information (other than financial statements and the auditor's report thereon) included in an entity's annual report. An annual report is a document, or combination of documents, prepared typically on an annual basis by management or those charged with governance in accordance with law, regulation or custom, the purpose of which is to provide owners or stakeholders with information on the Organization's operations and the Organization's financial results and financial position as set out in the financial statements.

1. We do not expect to issue any documents that may comprise "other information".

### **General**

1. We are unaware of any frauds or possible frauds having been committed by the Organization, its employees or any of its directors and officers and we have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
2. We have no knowledge of any allegations of fraud or suspected fraud affecting the Organization's financial statements.
3. We acknowledge that we are responsible for the implementation and operation of internal controls that are designed to prevent and detect fraud and error.
4. We are unaware of any known or probable instances of non-compliance with the requirements of regulatory or governmental authorities, including their financial reporting requirements.
5. The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to the representation letter.

6. In the course of your audit of our financial statements for the year ended December 31, 2019, you have recommended certain journal entries and adjustments to our books and records as attached to this letter. We hereby acknowledge that we understand, agree with and approve of the attached journal entries which have been considered necessary to present fairly the financial position and operating results of our Organization.

**Events Subsequent to the Year-end**

No facts have been discovered which necessitate material adjustment to the year-end figures or disclosure in the notes to the financial statements.

Yours very truly,

TORONTO ATMOSPHERIC FUND

Per \_\_\_\_\_  
Robert Wotten

DRAFT  
For Discussion Purposes Only

# Toronto Atmospheric Fund

Period ending: December 31, 2019

Summary of unadjusted errors

Rev. 2019-01

Description of Possible Misstatement	WP Ref.	INCOME STATEMENT Overstated or (Understated)			BALANCE SHEET Overstated or (Understated)		
		Identified Mis-statement	Likely Aggregate Mis-statement	Likely Aggregate Mis-statement After Tax	Assets	Liabilities	Closing Equity
To recognize over provision of ESPA projects	<a href="#">K2.1</a>	(69,242)	(69,242)	(69,242)	(69,242)		(69,242)
To recognize unrealized FX loss on Montclam receivable	<a href="#">C3.0</a>	29,226	29,226	29,226	29,226		29,226
<b>Total</b>			(40,016)	(40,016)	(40,016)		(40,016)
<b>Effect of Unadjusted Errors From Prior Years</b>			(7,209)	7,209			
<b>Aggregate Likely Misstatements</b>			(47,225)	(32,807)	(40,016)		(40,016)
<b>Further Possible Misstatements</b>							
<b>Maximum Possible Misstatements</b>			(47,225)	(32,807)	(40,016)		(40,016)
<b>Corrected Misstatements</b>							
<b>Uncorrected Misstatements</b>			(47,225)	(32,807)	(40,016)		(40,016)

Draft For Discussion Only

**Toronto Atmospheric Fund**

Year End: December 31, 2019

Corrected audit misstatements

Number	Date	Name	Account No	Debit	Credit
2	12/31/2019	ADMIN portion of staff costs	5205		-637,260.00
2	12/31/2019	Admin Portion of Payroll to ON	5176-1	216,668.00	
2	12/31/2019	ADMIN portion-Payroll from TO	5176-2	420,592.00	
		To adjust the salary allocations			
3	12/31/2019	Prepaid Deposits and Expenses	1500	19,490.72	
3	12/31/2019	Accrued Liabilities	2105	40,531.56	
3	12/31/2019	Statutories - Employer's Costs	5060		-1,319.61
3	12/31/2019	Gross Salaries	5110		-40,531.56
3	12/31/2019	Gross Salaries	5110		-9,249.27
3	12/31/2019	Gross Salaries	5110		-9,031.74
3	12/31/2019	LTD Premiums - Pd by Core Staff	5151	109.90	
		To correct payroll accrual and to remove double booking of PP1 in 2019F			
5	12/31/2019	HST Payable(Recvbl)-per A/P	2110	24,544.00	
5	12/31/2019	Miscellaneous Income	4975		-24,544.00
		To true up HST payable to agree to HST returns pending refund/payment			
6	12/31/2019	Ltd Ptships+Private Equity-CDN\$	1399	29,001.24	
6	12/31/2019	Transfer to DLForum	4175		-29,001.24
		To correct distribution received from Investeco investment per confirmation			
7	12/31/2019	TO-Gain/Loss+FX-USD\$ <=> CAD\$	1374		-64,938.00
7	12/31/2019	ON-Gain/Loss+FX-USD\$ <=> CAD\$	1381		-37,543.00
7	12/31/2019	TO-GEN performance fee	4229	64,938.00	
7	12/31/2019	ON-GEN-performance fee	4229-1	37,543.00	
		To adjust performance fees charged on Generations Investment for the FX difference			
10	12/31/2019	NEW-External Funds-External-Funding DL Forum	4499	31,773.00	
10	12/31/2019	LT-A/R-External Funding-TO-old	1299-OT		-31,773.00
		To write-off over-accrued grants receivable from previous years			
11	12/31/2019	Comp & Equip cost	1612		-7,992.00
11	12/31/2019	Accum dep Computer-Office Equip	1618	7,992.00	
11	12/31/2019	Miscellaneous Income	4975		-30,000.00
11	12/31/2019	Depreciation-Amortization Exps	5830	30,000.00	
		To reclass amount contribution from clean air partnership in office reno			

12	12/31/2019	Acc. Amort. EE Equip @Perth Ave	1658	58,353.00	
12	12/31/2019	Accum Amort EE Equip	1688		-5,056.00
12	12/31/2019	Depreciation-Amortization Exps	5830		-58,353.00
12	12/31/2019	Depreciation-Amortization Exps	5830		-14,291.00
12	12/31/2019	Depreciation-Amortization Exps	5830	5,056.00	
12	12/31/2019	Scarobo Heights - Acc Amort	1603-3	14,291.00	

To correct amortization related to  
office booked in Perth account

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14	12/31/2019	Operating Fund	3510	3,004,823.00	
14	12/31/2019	ONT-endowment-received-2016-Nov	3515	1,814,782.00	
14	12/31/2019	TO-stabilization-add or draw	9800-1		-3,004,823.00
14	12/31/2019	ON-stabilization fnd add/draw	9800-2		-1,814,782.00

F2019 stabilization fund adjustment

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