



REPORT FOR ACTION

Draft Audited Consolidated Financial Statements for the year ended December 31, 2020

Date: April 23, 2021
To: Board of Directors of the Toronto Atmospheric Fund
From: Director of Finance

SUMMARY

The 2020 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 the City of Toronto, Province of Ontario, and Government of Canada endowment funds.

RECOMMENDATIONS

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

1. Approve transfers of:
 - a. \$485,553 to the Toronto Stabilization Fund;
 - b. \$1,388,507 less adjustment of \$874,879 for a net of \$513,628 to the Ontario Stabilization Fund; and
 - c. \$922,778 to the Canada Stabilization Fund.
2. Approve the 2020 Audited Consolidated Financial Statements.

FINANCIAL IMPACT

None to the City.

DECISION HISTORY

At their meeting on April 19, 2021, the Audit Committee received and reviewed the Audited Financial Statements.

The Audit Committee met on February 16, 2021 to review and approve the scope of work for the 2020 audit as presented in the Audit Engagement Letter from Welch LLP.

On February 5, 2021, TAF's Board of Directors appointed Councillor Brad Bradford to the Audit Committee, along with members Jacoline Loewen (Chair) and Kimberly Marshall. (<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2021.TA10.14>)

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>)

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 between TAF, the City of Toronto, the Province of Ontario, and the Government of Canada, the funds are to be accounted for separately. The auditors have reviewed the investments, investment proceeds, and expenses allocated to the three funds and the statements present the funds as restricted, each with its own Stabilization Fund.

Net Asset Value:

The Toronto and Ontario Net Asset Value (NAV) increased year-over-year by 6% and 7% respectively, mainly due to strong performance of global equities investments. In September 2020, TAF received a \$38 million endowment from the Government of Canada along with \$2 million in operating funds which can be spent down. The Canada NAV increased by 3% in Q4.

The Total Consolidated NAV at 2020 year-end stands at \$96.5M, comprised of: \$36.3M in the Toronto fund, \$19.2M in the Ontario fund, \$39.2M in the Canada fund, and \$1.8M in the operating fund. Based on the NAVs, the proportionality ratio to be applied for jointly-funded expenses in 2021 is 38:20:42.

Investment portfolio:

As at December 31, 2020, TAF's asset mix included: 40% in global equities, 36% in fixed income, 13.5% in cash (in anticipation of direct investment advances), and 10.5% in direct investments. Overall, the asset mix is in compliance with the investment policy.

It is worth noting that TAF's public equities declined in value due to the COVID-19 impact on financial markets in the spring, although the portfolio fared better than average due to the exclusion of fossil fuel holdings. By year end it had recovered and gained in value with some managers outpacing the benchmarks by a wide margin.

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 Statement of Investment Objectives and Principles (SIOP) target asset mix, the "operating deficit" is lower.

In 2020, the Toronto and Ontario endowments had unrealized gains of \$4.1M (\$4.3M in 2019) and \$2.4M (\$2.4M in 2019) from the redemption of equities, which required the cumulative unrealized remeasurement gains to be adjusted by \$6.9M and \$2M respectively to reflect the conversion of the unrealized gains to realized gains. As a result, the investment income for the Toronto fund increased to \$7.2M from \$308K in 2019, and for the Ontario fund to \$2M from \$215K in 2019. The Canada endowment had \$1.4M in unrealized gains in Q4.

In Q4 the strengthening Canadian dollar resulted in unrealized currency exchange losses related to US dollar denominated investments (Generation and Dimensional) of \$205K, \$108K and \$466K for Toronto, Ontario and Canada respectively.

Energy Saving Performance Agreement (ESPA) revenues decreased slightly to \$1.07M from \$1.14M as some of the mature ESPA contracts approach completion. Interest income from direct investment loans receivable increased year-over-year to \$238.5K (\$87.2K in 2019). In 2020, Ontario funds participated in direct investments and received interest income for the first time, totalling \$87.2K (\$0 in 2019).

External revenues for TowerWise projects nearly doubled to \$195K in 2020 (\$104K in 2019) as an increased number of projects in the rollout stage attracted contributions and utilized deferred revenues.

Expenses:

Total Program Delivery Expenses, including labour, increased to \$2.6M (\$2.2M in 2019) as more retrofit projects were in the installation phase. Grants increased to \$1.43M from \$658K, reflecting the addition of the Canada endowment proceeds and volume of grant applications received and approved.

Corporate expenses, including labour, decreased slightly to \$694K (\$731K in 2019) and were significantly under-budget of \$1.1M as COVID-19 resulted in deferred hiring and other expenses. These expenses (aka Administrative expenses) are within the 20% ceilings established for the Ontario and Canada funds (15% of Toronto and Ontario and 12% of Canada funds).

ESPA-related amortization expense (for Toronto only) decreased slightly to \$835K as projects are underway and performing. After year-end it was determined that a direct investment was behind schedule and over budget. As a precautionary measure it was

determined that a provision of \$240K should be established to comply with generally accepted accounting principles; if the investment does not get impaired the provision will be adjusted downward in subsequent years.

\$205K of the \$2M Canada operating fund was spent in 2020. The balance of \$1.8M is available to cover eligible costs and can also serve as a buffer for maintaining the original endowment value in the early years, as the NAV grows. It is invested as part of the full portfolio.

The payout ratio for the year was 5.4% with a rolling average of 5.4%

Stabilization Funds:

In keeping with best practice 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 (referred to in the Financial Statements as Internally-restricted fund), up to a maximum of 25% of the NAV. The Stabilization Fund remains part of TAF's endowment and the NAV 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, Ontario and Canada funds.

As a result of performance of the marketable securities portfolio above the budgeted return, transfers to the Stabilization funds are recommended. The Toronto and Canada transfers are calculated based upon actual portfolio revenues above budgeted return, and the Ontario transfer is calculated is based on excess revenues over expenses, although the result is generally the same for all three. The allocation to the Toronto Stabilization fund brings it to the maximum. The 2020 allocation to the Ontario Stabilization fund of \$1,388,507 is netted against a 2019 over-contribution of \$874,879; this addresses the accounting treatment between the internally and externally-restricted funds required for compliance with the Ontario Transfer Payment Agreement. The allocation to the Canada Stabilization fund was the result of strong returns in the last quarter.

CONTACT

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

SIGNATURE

Robert Wotten
Director of Finance

ATTACHMENTS

1. Draft Auditors' Report to the Audit Committee.
2. Draft Consolidated Financial Statements for Toronto Atmospheric Fund for the year ended December 31, 2020