



REPORT FOR ACTION

Draft 2018 Audited Consolidated Financial Statements

Date: April 26, 2019
To: Toronto Atmospheric Fund Board of Directors
From: Jason Wong, Director of Finance and Operations

SUMMARY

The 2018 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 & Operations recommends that the Toronto Atmospheric Fund Board of Directors:

1. Approve \$526,000 as the Toronto Stabilization Fund balance for 2018; and
2. Approve the 2018 Audited Consolidated Financial Statements.

FINANCIAL IMPACT

None to the City.

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:

Total Consolidated Net Asset Value (NAV) at fiscal year-end 2018 was ~\$47M comprised of \$30.9M from Toronto and \$16.1M from Ontario funds. The proportionality ratio to be applied for jointly funded expenses in 2019 is 66:34. The NAV declined modestly year-over-year by 3.5% – this was contributed by global market equity volatility experienced primarily during Q4/18, which impacted most pension and institutional funds. This decline is moderate relative to the decline with the MSCI World Index and U.S. market S&P 500 which were down -8.4% and -8.6%, respectively in Q4. During Q1/19, the global markets began to stabilize and have experienced a large reversal of the Q4/18 declines. We expect most if not all of the decline in NAV to be recuperated over the first half of 2019.

	Toronto	Ontario	TOTAL	Notes
Investment Securities	\$ 26,135,948	\$ 17,896,818	\$ 44,032,766	Fixed Income, Equities, Private Equity.
Direct Investments	6,289,705	-	\$ 6,289,705	Loans, ESPAs.
Consolidated Other Assets	1,367,351	736,266	2,103,617	Cash, Receivables, etc.
Gross Asset Value	33,793,004	18,633,084	52,426,088	Total Securities, Direct Investments and Other Assets.
Consolidated Liabilities	2,906,548	2,549,052	5,455,600	Payables, Debt (FCM, 3rd parties), Reserves, etc.
Net Asset Value (NAV)	\$ 30,886,456	\$ 16,084,032	\$ 46,970,488	NAV value including stabilization balances.

Revenues:

Per the above table, TAF's consolidated Marketable Securities (Fixed Income, Global Equities and Private Equities, referred to collectively as Assets Under Management (AUM)) was \$44M at the end of fiscal 2018, comprised of \$26.1M from the City of Toronto fund and \$17.9M from the Ontario fund.

At year-end, the full consolidated portfolio was 29% in fixed income and 49% in global equities. The balance of the portfolio was primarily the Toronto portfolio with 12% in direct investments (loans, ESPAs) and 1% in private equity funds. Investments and returns are presented separately for both funds.

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.

TAF has received external funding commitments for multi-year projects, but only funds received during the year are recognized. The total amount in 2018 was \$529K.

Expenses:

Total Program Delivery Expenses and Grants were on budget at \$2.61M; this includes \$976K in Grants and \$1.6M for Programs (of which \$529K was funded through external funding). Corporate expenses of \$395K were modestly above budget of \$349K contributed by delayed and previously budgeted telecommunications, office

improvements as well as legal expenses. With staffing included, total Administrative expenses amount to \$768K which comprises 19% of total Operating Expenses; these are funded proportionately between the Toronto and Ontario funds. The payout ratio for the year was 5.5% based on a four-year weighted average and 4.4% based on a total program payout ratio of 80%. Although, the payout ratio is not required by audit, TAF uses it as a metric to ensure responsible management of its endowment funds. The payout ratio is consistent with TAF's historical range.

Amortization expense (for Toronto only) was \$725K (vs. \$647K prior year) – the year-over-year increase was driven by the completion of several large ESPA-financed retrofits

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, but 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. Due to global financial volatility in 2018, returns on TAF's marketable securities portfolios were below projections, consequently the Toronto Stabilization Fund was reduced by \$526,362 but no respective reduction in the Ontario Stabilization Fund was possible since it was only established in 2017 and had a balance of zero.

While the global financial market's downward trend in the last quarter affected the fiscal year-end endowment value, TAF's overall financial picture is robust.

CONTACT

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SIGNATURE

Jason Wong
Director of Finance and Operations

ATTACHMENTS

1. Draft Consolidated Financial Statements for Toronto Atmospheric Fund for the year ended December 31, 2018.
2. Draft Auditors' Report to the Board of Directors.