



REPORT FOR ACTION

Draft Audited Consolidated Financial Statements for the year ended December 31, 2022

Date: April 26, 2023
To: Board of Directors of the Toronto Atmospheric Fund
From: Director of Finance

SUMMARY

The 2022 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 Board of Directors of the Toronto Atmospheric Fund:

1. Approve the transfer of:
 - A. \$4,245,402 from the Toronto Internally-restricted (Stabilization) Fund to the Toronto Externally-restricted Fund;
 - B. \$2,456,504 from the Ontario Internally-restricted (Stabilization) Fund to the Ontario Externally-restricted Fund; and
 - C. \$1,713,979 from the Canada Internally-restricted (Stabilization) Fund to the Canada Externally-restricted Fund.

2. Approve the Toronto Atmospheric Fund 2022 Audited Consolidated Financial Statements in Attachment 1.

FINANCIAL IMPACT

None to the City.

DECISION HISTORY

The Audit Committee met on April 19, 2023 to review draft unaudited financial statements, and is scheduled to meet again immediately before the April 27 Board meeting to review the Draft Audited Consolidated Financial statements for Board recommendation.

The Audit Committee met on March 3, 2023, to review and approve the scope of work for the 2022 audit as presented in the Audit Engagement Letter from Welch LLP.

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

Consolidated Financial Statements and Separate Fund Accounts:

The Notes to the consolidated audited financial statements 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 between TAF, the City of Toronto and the Federation of Canadian Municipalities (re: the Government of Canada endowment), 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 and Investment Portfolio:

The Toronto, Ontario and Canada funds' Net Asset Value (NAV) decreased in 2022 by 11%, 12% and 11.8% respectively, primarily due to weak performance of global equities investments. The Total Consolidated NAV at 2022 year-end stands at \$88.7M (\$100.2M in 2021) comprised of: \$34.1M (\$38.4M in 2021) in the Toronto fund, \$17.6M (\$20.1M in 2021) in the Ontario fund, and \$36.9M (\$41.8M in 2021) in the Canada fund. Based on the NAVs at year-end, the proportionality ratio to be applied for jointly funded expenses in 2023 is 38:20:42.

As of December 31, 2022, TAF's asset mix included: 44% in global equities, 42% in fixed income, 3% in cash, and 10% in direct investments. Overall, the asset mix is in compliance with the investment policy.

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 investments to cover operating expenses (e.g., grants, direct investments) or portfolio rebalancing for compliance with the Statement of Investment Objectives and Principles (SIOP), the "operating deficit" is lower.

In 2022, the Toronto, Ontario and Canada endowments had net unrealized losses of \$4.9M (\$2.3M gain in 2021), \$2.4M (\$1.4M gain in 2021) and \$4.1M (\$2.4M gain in 2021) respectively. Redemptions result in the transfer of previous unrealized gains/losses to realized gains/losses in investment income on the Operating statements. As redemptions were not as active in 2022 as the previous year, investment income increased to \$1.8M (\$1.2M in 2021), \$801K (\$286K in 2021) and \$917K (\$302K in 2021) for the Toronto, Ontario, and Canada funds, respectively. Weakening of Canadian dollar in Q4 versus the US dollar resulted in unrealized currency exchange gains related to the USD denominated investments (Generation and Dimensional) of \$561K, \$253K and \$480K for Toronto, Ontario, and Canada, respectively.

Direct Investment revenue was \$1.5M (\$1.3M in 2021); the bulk of this is derived from investments in retrofits structured as Energy Saving Performance Agreement (ESPA) revenues whereby TAF's return is a share of energy and water bill savings achieved, plus investments in projects and companies aligned with TAF's mandate. ESPA earnings were \$1.1M in 2022 (\$1.1M in 2021). Other Direct Investment revenue was \$369.4K (\$218.3K in 2021)

External revenues (grants and contributions) received for specific projects including retrofits, installation of EV charging stations and program related research and policy totaled \$1.7M (\$180.7K in 2021). External revenues received but not utilized during the year are deferred and earmarked as per the contribution agreements.

Expenses:

Total Program Delivery Expenses, including labour, were \$3.3M (\$2M in 2021).

A total of \$1.3M (\$1.5M in 2021) was provided as Grants to eligible organizations and projects.

Corporate expenses (aka administrative expenses), including labour, were \$1M (\$535K in 2021). Corporate expenses do not exceed 20% of spending in keeping with non-profit best practice.

ESPA-related amortization expense was \$840K in 2022 (\$863K in 2021) based on the maturation of ESPAs and TAF's provision for bad debts was adjusted downward \$57K (\$90.7K downward in 2021) as the Auditors assessed the requirement for to be lower since it had not been used in the previous years.

\$212,500 of the \$2M Canada Operating fund was spent in 2022. The \$1.3M balance is available to cover eligible costs and serves 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 2022 payout was 4.8% and the 4-year rolling average is 5.1%, which is compliant with TAF's policy.

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. Transfers to the Toronto and Canada internally restricted funds are based on actual portfolio revenues above budgeted return, and the Ontario transfer is calculated is based on excess revenues over expenses. Given the performance of the endowments in 2022, no transfers into the Stabilization Funds are being made, and for accounting purposes related to maintaining the original value of the Ontario fund in the Externally Restricted fund and the investment underperformance overall, funds are being transferred out of the Internally-restricted fund and into the Externally-restricted funds.

Letter to Management

This will be made available at a subsequent Board meeting once the Auditors provide it, along with management's response. Based on management's understanding there are no material issues being flagged.

CONTACT

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SIGNATURE

Robert Wotten
Director of Finance

ATTACHMENTS

1. Draft Audited Consolidated Financial Statements for Toronto Atmospheric Fund for the year ended December 31, 2022