REPORT FOR ACTION

Draft Audited Consolidated Financial Statements for the year ended December 31, 2024

Date: April 25, 2025
To: Board of Directors of the Toronto Atmospheric Fund
From: Director of Finance

SUMMARY

The 2024 Audited Consolidated Financial Statements have been prepared by Doane Grant Thornton and are presented to the Toronto Atmospheric Fund (TAF) Board of Directors for approval. These statements provide separate fund accounting for the endowment funds provided to TAF by the City of Toronto, Province of Ontario, and Government of Canada.

RECOMMENDATIONS

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

1. Approve the transfer of:
   A. $578,595 from the Toronto General Fund (unrestricted) to the Internally restricted Stabilization Fund
   B. $411,523 from the Ontario General Fund (unrestricted) to the Internally restricted Stabilization Fund
   C. $1,433,298 from the Canada General Fund (unrestricted) to the Internally restricted Stabilization Fund.

2. Approve the Toronto Atmospheric Fund 2024 Audited Consolidated Financial Statements as presented in Attachment 1.

3. Receive the Report to the Audit Committee on Audit Results, Auditor's Letter to Management, and Draft Minutes of the Audit Committee Meeting held April 25, 2025 as presented in Attachments 2, 3 and 4.

4. Recommend that City Council receive for information the Toronto Atmospheric Fund 2024 Audited Consolidated Financial Statements as presented in Attachment 1.

FINANCIAL IMPACT

None to the City.

DECISION HISTORY

The Audit Committee met on April 25, 2025 to review the 2024 Draft Audited Consolidated Financial statements.

The Audit Committee received the scope of work for the 2024 audit on April 3, 2024, as presented by Doane Grant Thornton LLP.

COMMENTS

TAF's Auditor Doane Grant Thornton LLP has provided an unqualified audit opinion.

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 tri-partite agreements between TAF, City of Toronto and Province of Ontario, and between TAF, City of Toronto and 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) increased in 2024 by 2%, 2% and 4% respectively, primarily due to strong performance of public equities investments. The Total Consolidated NAV at 2024 year-end stands at $96.3million ($93.9M in 2023) comprised of: $37.2 million ($36.6 in 2023) in the Toronto fund, $18.9 million ($18.5M in 2023) in the Ontario fund, and $40.2 million ($38.8M in 2023) in the Canada fund. Based on the NAVs at year-end, the proportionality ratio to be applied for jointly funded expenses in 2025 is 39:20:41.

As of December 31, 2024, TAF's asset mix included: 47%% in public equities, 31% in fixed income, 6% in cash, and 17% 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 2024, there were $6.9M in unrealized gains before $7.6M historical unrealized gains were converted to realized gains and transferred to the Statement of Operations. The fixed income and public equity portfolio re-balancing resulted in $30.7M in redemptions that triggered the reclassification. The net result was net remeasurement losses of $715.2K in total. Toronto net measurement loss was $1.89M (2023 $3.1M gain), Ontario net measurement loss was $320K (2023 was $1.6M gain), and Canada net measurement gain was $1.5M (2023 $3.1M).

The weakening of the Canadian dollar in 2024 versus the US dollar resulted in resulted in total unrealized currency exchange gains of $2.4M (2023 $760K loss). The USD denominated investments (Generation and Dimensional) had gains of $958K, $462K and $932K for Toronto, Ontario, and Canada funds, respectively.

On the Statement of Operations, the investment income which is comprised of realized gains/losses jumped to $9.5M ($964K in 2023) with the $7.6M reclassification of historical gains from the portfolio re-balancing boosting the earnings.

Direct Investment revenue was $1.23M ($1.4M in 2023). The bulk of this - $886K ($1.36M in 2023) - is derived from investments in retrofits structured as Energy Saving Performance Agreement (ESPA) whereby TAF’s return is a share of energy and water bill savings achieved; returns are declining as these projects mature. The interest income -- $343K ($23K in 2023) – is related to investments in projects and companies aligned with TAF’s mandate; this increased, mainly due to lower unrealized loss impairments in private equity investments of $107K in 2024 ($469K in 2023) which are charged against direct investment interest revenues.

External revenues (grants and contributions) received for specific projects including for retrofits, installation of EV charging stations and program-related research and policy advocacy totaled $6.8M ($3.2M in 2023); the growth is due to contributions towards TAF’s EV Station Fund, Retrofit Accelerator, and specific retrofits including TCHC’s Sparroway property.

Expenses

Total Program Delivery Expenses, including labour, were $10.1M ($5.4M in 2023). The increase is directly correlated with external revenue received, as profiled above.

A total of $1.5M ($1M in 2023) was provided as grants to eligible organizations.

Corporate expenses (aka administrative expenses), including labour, were $238K ($292K in 2023). These do not exceed 20% of spending in keeping with non-profit best practice.

ESPA-related amortization expense was $676K ($713K in 2023) with amortization lower in the year due to maturation of ESPAs.

The provision for bad debts was adjusted upward significantly to $1.2M ($713K in 2023) as a direct investment (a loan receivable and accrued interest) was written off when the debtor technology was deemed no longer commercially viable and the company ceased operations, in addition to annual adjustments to the allowance for doubtful accounts.

$450K ($200K in 2023) of the $2M Canada Operating fund was utilized in 2024 leaving a $633K balance to cover eligible costs and 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 2024 payout ratio was 7.3% (4.7% in 2023) a result of the large write-off and the 4-year rolling average is 5.7% 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 as the ceiling. Given the performance of the endowments in 2024, transfers into the Stabilization Funds are being made.

CONTACT

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SIGNATURE

Robert Wotten
Director of Finance

ATTACHMENTS

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2. Report to the Audit Committee on Audit Results
3. Auditor’s Letter to Management
4. Draft Minutes of the Audit Committee Meeting held April 25, 2025