Grant Thornton

Consolidated financial statements

Toronto Atmospheric Fund

December 31, 2012

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Independent auditor's report

To the Board of Directors of
Toronto Atmospheric Fund and the City of Toronto

We have audited the accompanying consolidated financial statements of **the Toronto Atmospheric Fund** which comprise the consolidated statement of financial position as at December 31, 2012, the consolidated statements of operations, changes in net assets, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards for government not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the consolidated financial statements present fairly the consolidated financial position of **Toronto Atmospheric Fund** as at December 31, 2012, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards for government not-for-profit organizations.

Comparative Information

Without modifying our opinion, we draw attention to Note 2(j) to the consolidated financial statements which describes that the Organization adopted Canadian public sector accounting standards for government not-for-profit organizations on January 1, 2012 with a transition date of January 1, 2011. These standards were applied retrospectively by management to the comparative information in these consolidated financial statements, including the consolidated statements of financial position as at December 31, 2011 and January 1, 2011, and the consolidated statement of operations, statement of changes in net assets and cash flows for the year ended December 31, 2011 and related disclosures. We were not engaged to report on the restated comparative information, and as such, it is unaudited.

Grant Thornton LLP

Toronto, Canada
May 15, 2013

Chartered Accountants
Licensed Public Accountants

Toronto Atmospheric Fund

Consolidated statement of financial position

		December 31, 2012		December 31, 2011 (unaudited)		January 1, 2011 (unaudited)
Assets						
Cash	**$**	**86,922**	$	142,237	$	-
Accounts receivable		**158,680**		281,728		228,803
External funding receivable		**581,947**		165,110		37,065
Loans/contracts receivable, net (Note 3)		**3,319,449**		2,659,007		3,021,149
Capital assets, net (Note 4)		**48,898**		-		-
Deferred expenses (Note 2(f))		**19,833**		55,811		10,880
Investments held in trust by the City of Toronto (Note 5)		**19,156,319**		19,308,093		20,291,691
	$	**23,372,048**	$	22,611,986	$	23,589,588
Liabilities						
Bank indebtedness (Note 6)	**$**	**-**	$	-	$	211,937
Accounts payable and accrued liabilities		**148,285**		233,304		118,020
Grants payable (Note 8)		**629,759**		991,267		886,301
Payable to Clean Air Partnership		**-**		77,500		5,000
Funds held in trust Dan Leckie Fund (Note 2(h))		**28,373**		28,373		30,254
Deferred revenues (Note 9)		**865,674**		416,245		550,598
Refundable deposits		**33,070**		50,357		69,000
Special projects payable		**-**		-		15,000
		1,705,161		1,797,046		1,886,110
Fund balances						
Operating fund		**19,442,460**		19,689,399		19,440,973
Grant fund (Note 8)		**669,295**		120,723		127,873
Stabilization fund (Note 10)		**1,555,132**		1,004,818		2,134,632
		21,666,887		20,814,940		21,703,478
	$	**23,372,048**	$	22,611,986	$	23,589,588

Commitments and contingencies (Note 7)

Approved on behalf of the Board

________________________ Director ______________________ Director

See accompanying notes to the financial statements

Toronto Atmospheric Fund

Consolidated statement of changes in fund balances

Year ended December 31, 2012

	Operating Fund	Grant Fund (Note 2(d))	Stabilization Fund (Note 10)	**Total 2012**	Total 2011 (unaudited)
Fund balances, beginning of year	$ 19,689,399	$ 120,723	$ 1,004,818	**$ 20,814,940**	$ 21,703,478
Excess (deficiency) of revenue over expenditures	851,947	-	-	**851,947**	(888,538)
Interfund transfers					
Rescissions	(338,072)	338,072		-	-
Drawdown amount	(210,500)	210,500	-	-	-
Stabilization contribution	(550,314)	-	550,314	-	-
Fund balances, end of year	$ 19,442,460	$ 669,295	$ 1,555,132	**$ 21,666,887**	$ 20,814,940

See accompanying notes to the financial statements

Toronto Atmospheric Fund

Consolidated statement of operations

Year ended December 31	2012	2011
		(unaudited)
Revenues		
Investment income, net (Note 2(c))	**$ 1,709,314**	$ 86,186
Loan interest and fees, net (Note 3)	**197,574**	206,834
External funding recognized (Note 9)	**365,831**	746,055
Sundry	**11,229**	78,549
	2,283,948	1,117,624
Expenditures		
Program delivery	**1,014,776**	1,012,272
Grants approved (Note 8)	**364,500**	743,800
Less: rescinded grants	**(338,072)**	(231,650)
Clean Air Partnership – City-mandated contribution	**-**	100,000
Salaries and employee benefits	**782,143**	747,457
Salaries allocated to program delivery (Note 11)	**(547,500)**	(478,372)
Communications	**49,373**	14,142
Office operations	**31,112**	31,726
Professional services	**59,896**	58,208
IT/telecommunications	**11,914**	8,579
Amortization	**3,859**	-
	1,432,001	2,006,162
Excess (deficiency) of revenues over expenditures	**$ 851,947**	$ (888,538)

See accompanying notes to the financial statements

Toronto Atmospheric Fund

Consolidated statement of cash flows

Year ended December 31		2012		2011
				(unaudited)
Increase (decrease) in cash and short term investments				
Operating activities				
Net (decrease) increase in Operating fund	**$**	**851,947**	$	(888,538)
Items not involving cash:				
Deferral of funds received		**449,429**		(149,353)
Grants approved		**364,500**		743,800
Grants and special projects rescinded		**(338,072)**		(231,650)
Provision for credit losses		**34,000**		30,000
		1,361,804		(495,741)
Net change in non-cash working capital items:				
Accounts receivable		**123,048**		(52,924)
External funding receivable		**(416,837)**		(128,045)
Loans receivable		**(660,442)**		362,142
Accounts payable and accrued liabilities		**(84,682)**		115,282
Payable to Clean Air Partnership		**(77,500)**		72,500
Deferred expenses		**35,978**		(44,930)
Refundable deposits		**(17,287)**		(30,000)
Grants paid, net of recovered		**(387,936)**		(407,184)
Special projects paid, net of recovered		**-**		(15,000)
Net cash flows from operating activities		**(123,852)**		(623,900)
Investment activities				
Investment in capital assets		**(48,898)**		-
Funds on deposit with the City of Toronto:				
Reinvestment of investment gains		**(1,792,563)**		(120,045)
Withdrawals		**1,910,000**		1,100,000
Dan Leckie fund				
Program expenditures		**(1,873)**		(3,887)
Income attributed		**1,873**		2,006
Net cash flows from investing activities		**68,539**		978,074
Net change in cash for the year		**(55,315)**		354,174
Cash (bank indebtedness), beginning of year		**142,237**		(211,937)
Cash, end of year	**$**	**86,922**	$	142,237

See accompanying notes to the financial statements

1. Nature of operations

The Toronto Atmospheric Fund ("TAF") was incorporated under the laws of the Province of Ontario, by the Toronto Atmospheric Fund Act, 1992 (the "TAF Act"), on December 10, 1992 as a Corporation without share capital. TAF is currently governed by the TAF Act, 2005, which amended the objects, investment powers and other provisions of the original TAF Act. TAF operates as a not-for-profit organization.

TAF is financed by investment revenues from its endowment fund including interest income from its loan portfolio and by external grants and contributions. TAF does not draw on the City of Toronto operating budget.

TAF focuses on incubating and demonstrating social, financial, policy and technological innovations which position the City of Toronto to achieve significant reductions in air pollution and greenhouse gas emissions.

The City of Toronto (the "City") appoints TAF's Board of Directors. The TAF Relationship Framework (2006) established specific accountability requirements to the City.

2. Significant accounting policies

The preparation of financial statements was done in accordance with Canadian Public Sector Accounting Standards for Not-for-Profit Organizations (PSA-GNPO), which require management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Management believes that the estimates utilized in preparing its financial statements are reasonable and prudent. Actual results could differ from these estimates.

The significant accounting policies of TAF are summarized below:

(a) Basis of presentation

These consolidated financial statements include the accounts of the Toronto Atmospheric Fund and its wholly owned subsidiary, CAIT Ventures Inc. ("CAIT"); refer to Note 14. These accounts are prepared on an accrual basis, in accordance with Canadian Public Sector Accounting Standards for Not-for-Profit Organizations (PSA-GNPO)

(b) Financial assets and liabilities

During the year, the Entity applied the recommendations of new Sections PS 1201, Financial Statement Presentation, and PS 3450, Financial Instruments, of the CICA *Public Sector Accounting Handbook*. These new sections require prospective application and, accordingly, comparative amounts are presented in accordance with the accounting policies which the Entity applied before adoption of these new sections.

Initial measurement
The Entity recognizes a financial asset or a financial liability on the statement of financial position when, and only when, it becomes party to the contractual provisions of the financial instrument. Unless otherwise stated, financial assets and liabilities are initially measured at cost.

2. **Significant accounting policies** (continued)

(b) Financial assets and liabilities (continued)

Subsequent measurement
At each reporting date, the Entity measures its financial assets and liabilities at amortized cost, except for portfolio investments which are measured at fair value (including any impairment in the case of financial assets).

The Entity determines whether there is any objective evidence of impairment of the financial assets, for financial assets subsequently measured at amortized cost. Any financial asset impairment is recognized in the statement of operations.

(c) Investment income

Investment income consists of interest, dividends, realized gains (losses) on disposition of investments and changes in unrealized gains (losses) on investments. Investment income is recorded net of portfolio management fees.

(d) Grants

All grants must meet TAF's criteria and be approved by the Board of Directors. Approved one-time payment grants are reported as current liabilities and expenditures. Approved grants which are in effect across several years are allocated to subsequent years.

Payment of the first instalment of a grant for a project meeting the objectives of TAF is made after approval of the Board of Directors and on execution of an agreement. Subsequent payments of grant instalments are generally made after acceptance and approval of reports from grantees detailing results of work on the project and are subject to various conditions.

Grants can be rescinded by TAF when the original granting conditions have not been met, or cannot be met, or when the applicant/recipient no longer needs the grant. The rescinded amounts are recognized in future fiscal years.

In 2006 TAF established a policy of carrying forward the unspent portion of any year's grants budget. The unspent amount and rescissions are transferred to the Grant Fund, an internally restricted fund. Note 8 summarizes TAF's specific grants.

(e) Revenue recognition

External revenues received by TAF related to project expenditures in the future are deferred and recognized in the year the expenditures are incurred. Note 9 summarizes TAF's revenue recognition and deferrals for the two most recent fiscal years.

(f) Deferred expenses

Expenditures related to programs to be completed in future fiscal years are deferred and recognized in proportion to progress made. Legal expenses related to financing negotiations which are payable by the borrower are deferred and expensed in future fiscal years when reimbursement is received by TAF.

2. Significant accounting policies (continued)

(g) Capital assets

Computer/office equipment and software are amortized using the straight line method over four years with half year rates applying in the year of acquisition. Energy efficiency equipment which is located on client premises as stipulated by Energy Savings Performance Agreements (ESPA) is amortized using the straight line method over the life of the ESPA contract with half year rates applying in the year of acquisition. Note 4 summarizes TAF's capital assets.

(h) Dan Leckie Fund

The Clean Air Partnership ("CAP") has engaged TAF as its agent to invest this Fund for CAP's account. The purpose of the Dan Leckie Fund is to support emission reduction opportunities in Toronto. TAF attributes investment income which is recognized as income of the Fund. The attributed investment income is based on the long term average rate of return as budgeted by TAF for its endowment portfolio. For 2012 the rate used was 6.6% resulting in income attribution of $1,873 for this fiscal year. Expenditures chargeable to the Fund were $1,873 in 2012 and $3,887 in 2011. Therefore the Fund's financial position at the end of 2012 was as follows:

Dan Leckie Fund:		
Opening balance and original fund principal	$	28,373
Income attributed from TAF		1,873
Expenditures		(1,873)
Closing balance and original fund principal	$	28,373

(i) Stabilization fund

This fund was established in 2003 to enable TAF to reduce variability in its program spending due to fluctuating financial markets which directly impact TAF's investment income. Note 10 provides the amounts allocated or withdrawn from the Stabilization Fund for the two most recent fiscal years.

(j) Conversion to Public Sector Accounting Standards for Government not-for-profit organizations

These financial statements are the Organization's first financial statements prepared using the new Canadian Public Sector Accounting Standards for Not-for-Profit Organizations (PSA-GNPO). The date of transition to the new accounting standards is January 1, 2011. The accounting policies presented in Note 2 to the financial statements were used to prepare the financial statements for the year ended December 31, 2012, the comparative information and the opening statement of financial position as at the date of transition.

3. Loans and contracts receivable

	December 31, 2012	December 31, 2011 (unaudited)	January 1, 2011 (unaudited)
Exhibition Place - Note 3(a)	**$ 356,972**	$ 424,097	$ 487,331
Toronto Artscape Inc. - Note 3(b)	**83,872**	111,774	137,724
Grande Triomphe, TSCC #2033 - Note 3(c)	**389,437**	468,220	542,044
Nuvo II, TSCC #1959 - Note 3(d)	**102,114**	181,135	378,026
TREC Lakewind - Note 3(e)	**150,000**	150,000	150,000
Toronto Solar Neighbourhoods Initiative - Note 3(f)	**274,480**	311,583	383,024
Pure Energies 7711565 Canada Inc. – Note 3(g)	**628,181**	645,000	643,000
Senarra Green Energy Capital Inc. - Note 3(h)	**379,559**	397,198	-
York Condominium Corporation,YCC #132 - Note 3(i)	**351,229**	-	-
M5V Tower, TSCC #2206 - Note 3(j)	**591,153**	-	-
Harbourfront Centre/Gardiner Roberts LLP In Trust - Note 3(k)	**76,455**	-	300,000
Allowance for credit losses - Note 3(l)	**(64,000)**	(30,000)	-
Loans and contracts receivable – net	**$ 3,319,449**	$ 2,659,007	$ 3,021,149

(a) Exhibition Place:

In January 2007 TAF loaned $1 million to Exhibition Place for the District Energy and Trigeneration project secured by a chattel mortgage on the Trigeneration asset. In 2009 the borrower exercised their option to accelerate repayment of principal by $256,000 which resulted in reduced semi-annual instalments. The loan matures in January 2017.

(b) Toronto Artscape Inc.:

In August 2003 TAF loaned $280,000 to Toronto Artscape Inc. which is secured by a collateral mortgage covering the renovation assets. The loan matures in August 2015.

(c) Grand Triomphe Toronto Standard Condominium Corporation (TSCC) No. 2033

In January 2010 TAF loaned $600,000 to TSCC No. 2033 for energy efficiency measures to enhance the building's energy performance by at least 25% above the National Model Building Code. This "Green Condo Loan" is secured by a general security agreement and matures in February 2017.

(d) Nuvo II Green Toronto Standard Condominium Corporation – TSCC No. 1959

In December 2008 TAF loaned $500,000 to TSCC No. 1959 for energy efficiency measures to enhance the building's energy performance by at least 25% above the National Model Building Code. This " Green Condo Loan" is secured by a general security agreement and matures in December 2015.

3. Loans and contracts receivable

(e) TREC Lakewind:

In September 2004 TAF agreed to provide unsecured financing of up to $300,000 to the Toronto Renewable Energy Co-operative (“TREC”) to establish the Lakewind Power Generation Project, a wind farm offered for community ownership by TREC. By the end of 2006 TAF advanced $150,000 to TREC with no interest payable. Under the original agreement the loan is forgivable if the project did not proceed by the end of 2008 and an amending agreement signed in December 2008 extended the funding term such that the loan may be terminated by TAF at any time after January 11, 2011. If the project proceeds, the entire loan amount will be converted into equity in the Windshare co-operative corporation which was established to operate the project. If the project does not proceed, TAF may forgive the loan at its discretion. TAF is entitled to be repaid only by way of equity participation or by return of the loaned amount without interest to the extent the loaned funds have not been spent. TAF believes that it is unlikely that the remaining $150,000 will be advanced.

(f) Toronto Solar Neighbourhood Initiative

Between July 2009 and April 2011 TAF provided loans to homeowners participating in the Toronto Solar Neighbourhoods Initiative (TSNI). The loans are backed by unsecured promissory notes from the homeowners who have full repayment privileges at any time. As of the year-end, there were 44 loans receivable under this program totalling $274,480 and the last loan is scheduled to mature in April 2021.

(g) Pure Energies 7711565 Canada Inc. Loan

In December 2010 TAF advanced a revolving loan of $645,000 to 7711565 Canada Inc., a wholly owned subsidiary of Solar Pure Energies Inc. The loan is for the installation of 35 to 40 residential roof top solar photovoltaic systems under the Ontario Power Authority’s MicroFIT program. TAF’s security consists of a promissory note, plus pledging all assets of the borrower including the assignment of the power purchase agreements. The loan matures in December 2029.

(h) Senarra Green Energy Capital Inc.

In December 2009 TAF approved debt financing of $615,000 to Senarra Green Energy Capital Inc. to finance the installation of solar hot water heating systems at several City of Toronto facilities. In January 2011 $412,358 was advanced for three such systems. TAF is holding a promissory note, a general security agreement on all solar panels located at the three locations, plus the assignment of power purchase agreements. The loan is also guaranteed by Glenbarra Energy Management Corp. (GEMCO). The loan matures in January 2016.

(i) York Condominium Corporation No. 132 (YCC #132)

During 2012 TAF advanced $355,000 for the installation of energy efficiency measures in this condominium building. This ” Green Condo Loan“ is secured by a general security agreement and matures in May 2026.

3. Loans and contracts receivable (continued)

(j) M5V Tower - TSCC #2206

During 2012 TAF advanced $635,000 for the incremental cost of energy efficiency measures to enhance the building's energy performance by at least 25% above the National Model Building Code. This "Green Condo Loan" loan is secured by a general security agreement and matures in March 2020.

(k) Harbourfront Centre/Gardiner Roberts LLP In Trust

TAF has approved a financing facility of up to $117,000 to finance installation of energy efficiency equipment under an Energy Savings Purchase Agreement for Harbourfront Corporation (1990) which operates as Harbourfront Centre. Under this agreement Harbourfront Centre will remit to TAF a substantial portion of its energy cost savings created by the energy efficiency measures until TAF recovers its capital investment including a fair financial return. The installation phase of the project commenced during 2012 and as of the year end, $40,509 of the financing was advanced to the client while the remainder of the credit facility in the amount of $76,455 was held in trust by TAF's legal counsel, Gardiner Roberts LLP. Subsequent to the year end an additional $65,397 was advanced to the client from the financing facility.

(l) Allowance for credit losses

Management makes an assessment of the collectability of each loan receivable at year end and, to be prudent, establishes a general allowance for potential credit losses. Any write-offs, net of recoveries, will be deducted from this allowance. TAF has not written off any loans in the last 14 years.

4. Capital assets

			December 31, 2012	December 31, 2011 (unaudited)	January 1, 2011 (unaudited)
	Cost	Accumulated Depreciation	**Net Book Value**	Net Book Value	Net Book Value
Computer/office equipment	$ 37,992	$ 33,233	**$ 4,759**	$ -	$ -
Software	10,837	1,354	**9,483**	-	-
Energy efficiency equipment - Note 3(k)	36,480	1,824	**34,656**	-	-
	$ 85,309	$ 36,411	**$ 48,898**	$ -	$ -

At the end of 2012 net book value of depreciated assets totalled $48,898. At the end of 2011 and 2010 TAF's capital assets were fully depreciated.

5. Investment held in trust

In accordance with the TAF Act, monies that are not immediately required are in the custody of the Treasurer of the City of Toronto. Investments consist of funds held by investment managers selected by TAF and engaged by the City Treasurer. These monies are invested in securities authorized under Sections 27 to 31 of the Trustee Act and income thus earned accrues to TAF.

During 2012 TAF's investment policy was revised by City Council to increase TAF's maximum allocation limit for direct investments up to 60% of TAF's net asset value. Prior maximum allocation limit for direct investments was 40%. TAF's shift to direct investments has and will be funded from investments held in trust.

	December 31, 2012	December 31, 2011	January 1, 2011
Investments at fair market value*	**$ 18,956,489**	$ 19,108,263	$ 20,091,861
Limited Partnership Units at cost**	**199,830**	199,830	199,830
Total Investments	**$ 19,156,319**	$ 19,308,093	$ 20,291,691

*Investments reported at fair market value are marketable securities held in trust by the City of Toronto. This portfolio also holds units of the Greenchip Global Equity Fund, which came with a non-transferable option to purchase 20 shares of Greenchip Financial Corp. at $1.00 per share as defined by the terms of the option offer. Exercising the option may result in enhanced returns to TAF from this investment.

**On December 15, 2010 the Board of Directors approved an investment in limited partnership units (LP Units) of InvestEco Capital Corporation ("ICC") Fund III. ICC is a private equity firm focused on cleantech investment opportunities including technologies and services that mitigate air pollution and advance energy efficiency. The LP Units are valued at cost as market value is not readily determinable.

6. Bank indebtedness

TAF has a revolving line of credit with a Canadian chartered bank repayable on demand with interest rate calculated at the bank's prime rate plus 0.50% per annum. The credit limit is the lesser of $2 million or the standard margin value of TAF's fixed income investment portfolio. At year-end, TAF had drawn $Nil (2011 – $Nil) on the line of credit. At the end of 2010 bank indebtedness was reported due to cheques issued but not negotiated.

7. Commitments and contingencies

(a) TAF has approved $300,000 in contingent debt financing to TREC for the Lakewind Power Generation Project. Advances at the end of the year totaled $150,000 (refer to Note 3(e)). TAF believes that it is unlikely that the remaining $150,000 will be advanced.

(b) In the course of carrying out its mandate, TAF issues financing commitment letters to prospective borrowers or prospective Energy Savings Performance Agreement (ESPA) clients. Commitment letters can expire or can be rescinded by TAF. At the end of the year TAF had the following financing commitments for which no cash advances have been made as of the year end:

- ZooShare Biogas Cooperative – potential $250,000 loan to develop a biogas facility at the Toronto Zoo.
- EnerMotion – potential $250,000 loan to accelerate the development of an energy recovery system for Class 8 heavy trucks.
- Toronto Community Housing (TCH) – potential financing up to $3 million, structured as an Energy Savings Performance Agreement (ESPA), to install energy efficiency measures in seven TCH high-rise buildings. The final $1 million of the above financing will be advanced only if TAF finds “take out” financing from a 3rd party.
- YMCA of Greater Toronto – potential $250,000 ESPA financing to install electricity optimization equipment in five buildings owned by this prospective client.
- Robert Cooke Co-operative Homes Inc. – potential $485,000 ESPA financing to install energy efficiency measures in this prospective client’s building.
- Windmill Development Group – potential $750,000 financing structured as a Green Condo Loan for Windmill Development Group’s condominium development in Ottawa.

During the year TAF rescinded previously reported financing commitments to GreenSaver and Green Energy Watchdog.

8. Grants approved and payable

Grants approved by TAF's Board of Directors allocated to 2012 and balances payable as at December 31, 2012 were as follows:

	Allocated to 2012	Payable
Evergreen	100,000	30,000
Pembina Institute	50,000	50,000
Ryerson University- Centre for Urban Energy	69,500	69,500
Summerhill Impact	75,000	60,000
Tower Labs @ MaRS	70,000	70,000
	364,500	279,500
Grants approved in prior years	-	350,259
	$ 364,500	$ 629,759

Grants can be rescinded by TAF when the original granting conditions have not been met, or cannot be met, or when the applicant/recipient no longer needs the grant. Based on management's ongoing review of its grants portfolio, TAF rescinded $338,072 of outstanding grants during the year.

9. External funding recognized and deferred

External revenues received by TAF related to project expenditures in the future are deferred and recognized in the year the expenditures are incurred. During the last two years external funding received, recognized and deferred by TAF was as follows:

	December 31, 2012	December 31, 2011 (unaudited)	January 1, 2011 (unaudited)
External funding brought forward from prior year	**$ 416,245**	$ 550,598	$ 768,581
External funding received* during the year	**815,260**	575,701	97,111
Total external funding committed to TAF	**$ 1,231,505**	$ 1,147,299	$ 865,692
External funding recognized in the current year	**$ 365,831**	$ 746,055	$ 314,734
External funding carried forward into subsequent year	**$ 865,674**	$ 416,245	$ 550,958

*In 2012 external funding received includes both cash receipts of $233,312 and binding commitment letters to fund TAF's projects in future years totaling $585,000 of which $3,052 was spent in the current year.

10. Stabilization Fund

Any investment income from marketable securities which exceeds the long term average rate of return assumption in the budget is added to the Stabilization Fund. Similarly, when such investment income falls below the budgeted amount, the shortfall is withdrawn from the Stabilization Fund. Consequently $550,314 was added to the Stabilization Fund for fiscal year 2012; $1,129,814 was withdrawn from the Stabilization Fund for fiscal 2011.

11. Salary allocation to program delivery

In 2010 TAF established a practice of allocating program-related staff costs to the program delivery expenditure line. In 2012, 70% of staff costs were allocated to the program delivery expenditure line; in 2011 this ratio was 64%.

12. Clean Air Partnership

Clean Air Partnership (“CAP”) is a registered charity which was also created by the TAF Act. TAF’s obligation to provide $100,000 annually in project funding (which was assumed by the City of Toronto for 2012) and authority to appoint three of CAP’s eleven directors has been rescinded by City Council on February 20, 2013.

TAF shares its premises and certain office services with CAP. The related costs are allocated proportionately between TAF and CAP. Amounts due to CAP are included in TAF’s Accounts Payable balance and amounts owing from CAP are included in TAF’s Accounts Receivable balance. During 2012 TAF has also sub-contracted CAP to perform project services for which TAF owed CAP $4,975 at the end of the year which is included below in the Payable to CAP amount.

	December 31, 2012	December 31, 2011 (unaudited)	January 1, 2011 (unaudited)
Receivable from CAP including accrued amounts	**$ 11,838**	$ 101,371	$ 73,226
Payable to CAP including project and accrued amounts	**(13,748)**	(93,193)	(35,520)
Net owed by CAP to TAF (or owed by TAF to CAP)	**$ (1,910)**	$ 8,178	$ 39,870
Payments to CAP			
City-mandated contribution for GTA-CAC	**$ -**	$ 100,000	$ 100,000

13. TAF Budget – Fiscal Year 2012

TAF is a self-supporting agency and it does not draw on the tax base of the City of Toronto. However, as an agency of the City, TAF submits its operating budget to the City of Toronto for approval. TAF's "net zero" budget submission for 2012 to the City was as follows:

	TAF 2012 Budget in $ Thousands
Revenues	
Investment Portfolio Revenues	$ 1,159
Loan Interest and transaction fees	380
External funding	500
Allocation from TAF's capital – if required	191
Sundry	50
Total Revenues	$ 2,280
Program Delivery Expenditures	
Strategic Programs	$ 1,237
New and Committed Grants	575
Total Programs and Projects	1,812
Administration	467
Total Expenditures	$ 2,280

14. CAIT Ventures Inc.

CAIT Ventures Inc. ("CVI") is a wholly-owned subsidiary of TAF which is currently inactive. CVI's financial status is as follows:

	December 31, 2012	December 31, 2011 (unaudited)	January 1 2011 (unaudited)
Assets			
Bank	**$ 1,457**	$ 1,596	$ 1,702
Total Assets	**$ 1,457**	$ 1,596	$ 1,702
Liabilities			
Due to TAF	**$ 293,631**	$ 293,631	$ 293,631
Equity			
Capital	**1**	1	1
Deficit, opening	**(292,035)**	(291,930)	(291,835)
Net (loss)	**(139)**	(106)	(95)
Deficit, closing	**(292,173)**	(292,036)	(291,930)
	(292,173)	(292,035)	(291,929)
	$ 1,457	$ 1,596	$ 1,702

14. CAIT Ventures Inc. (continued)

	December 31, 2012	December 31, 2011	January 1 2011
Expenses			
Bank charges	$ 139	$ 106	$ 95
	139	106	95
Net (loss)	$ (139)	$ (106)	$ (95)

15. Comparative amounts

Certain comparative figures have been reclassified to conform with the current presentation format. Previously reported excess (deficiency) of revenues over expenses have not changed due to reclassifications.

16. Financial Instruments

Credit Risk

Credit risk is the risk of financial loss if a debtor fails to make payments of interest and principal when due. The entity is exposed to this risk relating to its accounts receivable, loans/contracts receivable and external funding receivable. Credit risk on loans/contracts receivable is mitigated through a financial approval process. There have been no significant changes from the previous year in the exposure to risk or in methods used to measure the risk.

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of market factors. Market factors include three types of risks: currency risk, interest rate risk and equity risk.

The entity's investment policy operates within the constraints established by the City of Toronto. This policy's application is monitored by management, TAF's Investment Committee appointed by the Board, and the Board of Directors.

Currency Risk

Currency risk relates to investments denominated in foreign currency and converting these to Canadian currency at different points in time when adverse changes in foreign exchange rates can occur. The entity holds investments denominated in foreign currency but did not have any material transactions in foreign currency during the year.

17. Financial Instruments (continued)

Interest Rate Risk

Interest rate risk is the potential for financial loss caused by fluctuations in fair value of financial instruments due to changes in market interest rates. The entity is exposed to this risk through its investments in marketable securities and direct loans.

Liquidity Risk

Liquidity risk is the risk that the entity will not be able to meet its cash flow obligations as they come due. The entity mitigates this risk by maintaining a committed credit facility and monitoring cash activities and expected outflows through budgeting and maintaining liquid investments that may be converted to cash on short notice if unexpected cash outflows arise. Payables due within 30 days total $148,622.

There have been no significant changes from the previous year in the exposure risk or policies, procedures and methods used to measure the above risks.