F I N A N C I A L S T A T E M E N T S

For

TORONTO ATMOSPHERIC FUND

For the year ended

DECEMBER 31, 2013

Welch LLP

INDEPENDENT AUDITOR'S REPORT

To the Board Directors of

TORONTO ATMOSPHERIC FUND AND THE CITY OF TORONTO

We have audited the accompanying financial statements of Toronto Atmospheric Fund, which comprise the consolidated statement of financial position as at December 31, 2013, the consolidated statements of operations, changes in fund balances, remeasurement gains and losses 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 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Toronto Atmospheric Fund as at December 31, 2013 and the results of its operations, remeasurment gains and losses and its cash flows for the year then ended in accordance with Canadian public sector accounting standards for government not-for-profit organizations.

Other Matter

The financial statements of Toronto Atmospheric Fund for the year ended December 31, 2012, were audited by another auditor who expressed an unmodified opinion on those statements on May 15, 2013.

Welch LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Ontario
April 28, 2014.

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TORONTO ATMOSPHERIC FUND

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2013

	2013	2012
ASSETS		
CURRENT ASSETS		
Cash	$ 729,419	$ 86,922
Accounts receivable	212,251	158,680
External funding receivable	444,615	581,947
Loans receivable - current portion (note 5)	356,985	500,379
Deferred expenses (note 2(j))	85,748	19,833
	1,829,018	1,347,761
CAPITAL ASSETS (note 4)	676,988	48,898
LOANS RECEIVABLE (note 5)	1,982,200	2,819,070
INVESTMENTS HELD IN TRUST BY THE CITY OF TORONTO (note 6)	21,342,377	19,156,319
	$ 25,830,583	$ 23,372,048
LIABILITIES AND FUND BALANCES		
CURRENT LIABILITIES		
Bank indebtedness (note 11)	$ 160,000	$ -
Accounts payable and accrued liabilities	151,225	148,285
Grants payable (note 8)	288,735	629,759
Deferred revenues (note 9)	666,545	865,674
Funds held in trust Dan Leckie Fund (note 10)	30,246	28,373
Refundable deposits	55,250	33,070
	1,352,001	1,705,161
FUND BALANCES		
Operating fund	18,288,546	19,442,460
Grant fund	958,295	669,295
Stabilization fund (note 13)	5,231,741	1,555,132
	24,478,582	21,666,887
	$ 25,830,583	$ 23,372,048

Commitments and contingencies (Note 12)

Approved by the Board:

. . . . Director

. . . . Director

(See accompanying notes)

TORONTO ATMOSPHERIC FUND

CONSOLIDATED STATEMENT OF CHANGES IN FUND BALANCES

YEAR ENDED DECEMBER 31, 2013

	Operating Fund	Grant Fund (note 2(h))	Stabilization Fund (note 13)	Total 2013	Total 2012
Fund balances, beginning of year	$ 19,442,460	$ 669,295	$ 1,555,132	$ 21,666,887	$ 20,814,940
Excess of expenditures over revenue	(737,420)	-	-	(737,420)	(583,345)
Net remeasurement gains (losses)	3,549,115	-	-	3,549,115	1,435,292
Interfund transfers					
Rescissions (note 8)	(197,500)	197,500	-	-	-
Drawdown amount	(91,500)	91,500	-	-	-
Net	(289,000)	289,000	-	-	-
Stabilization contribution	(3,676,609)	-	3,676,609	-	-
Fund balances, end of year	$ 18,288,546	$ 958,295	$ 5,231,741	$ 24,478,582	$ 21,666,887

(See accompanying notes)

TORONTO ATMOSPHERIC FUND

CONSOLIDATED STATEMENT OF REMEASUREMENT GAINS AND LOSSES

YEAR ENDED DECEMBER 31, 2013

	2013	2012
Accumulated remeasurement gains, beginning of year	$ 1,435,292	$ -
Unrealized gains (losses) attributed to:		
Foreign exchange	817,742	(248,384)
Equity instruments	3,076,961	1,683,676
	3,894,703	1,435,292
Amounts reclassified to the statement of operations:		
Foreign exchange	(50,597)	-
Portfolio Investments	(294,991)	-
	(345,588)	-
Net remeasurement gains	3,549,115	1,435,292
Accumulated remeasurement gains, end of year	$ 4,984,407	$ 1,435,292

(See accompanying notes)

TORONTO ATMOSPHERIC FUND

CONSOLIDATED STATEMENT OF OPERATIONS

YEAR ENDED DECEMBER 31, 2013

	2013	2012
Revenues		
Investment income, net (note 2(e))	$ 704,494	$ 274,022
Loan interest and fees, net	193,977	197,574
External funding recognized (note 9)	357,717	365,831
Sundry	1,753	11,229
	1,257,941	848,656
Expenses		
Program delivery	1,558,367	1,038,005
Grants approved (note 8)	208,500	364,500
Less: rescinded grants	(197,500)	(338,072)
Salaries and employee benefits	694,832	704,712
Salaries allocated to program delivery (note 14)	(486,382)	(493,298)
Corporate expenses (note 15)	173,102	152,295
Amortization	44,442	3,859
	1,995,361	1,432,001
Excess of expenditures over revenues	$ (737,420)	$ (583,345)

(See accompanying notes)

TORONTO ATMOSPHERIC FUND

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2013

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of revenues over expenditures	$ (737,420)	$ (583,345)
Adjustments for:		
Grants approved	208,500	364,500
Less: rescinded grants	(197,500)	(338,072)
Provision for credit losses	(34,000)	34,000
Amortization	44,442	3,859
Provision on ESPA contracts	13,200	-
	(702,778)	(519,058)
Increase (decrease) resulting from changes in:		
Accounts receivable	(53,571)	123,048
External funding receivable	137,332	(416,837)
Loans receivable - current portion	143,394	109,901
Deferred expenses	(65,915)	35,978
Accounts payable and accrued liabilities	2,940	(84,682)
Payable to Clean Air Partnership	-	(77,500)
Grants payable	(352,024)	(387,936)
Deferred revenues	(199,129)	449,429
Refundable deposits	22,180	(17,287)
Loans receivable	870,870	(770,343)
Cash flows from (used in) operating activities	(196,701)	(1,555,287)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in capital assets	(685,732)	(52,757)
Funds on deposit with the City of Toronto:		
Reinvestment of investment gains	(764,025)	(357,271)
Withdrawals	2,127,082	1,910,000
Dan Leckie fund		
Income attributed	1,873	-
Cash flows from (used in) investing activities	679,198	1,499,972
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances from credit facility	160,000	-
Cash flows from financing activities	160,000	-
INCREASE IN CASH	642,497	(55,315)
CASH AT BEGINNING OF YEAR	86,922	142,237
CASH AT END OF YEAR	$ 729,419	$ 86,922

(See accompanying notes)

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 is an arms-length agency of the City of Toronto (the "City") and operates as a not-for-profit organization

The City appoints TAF's Board of Directors while the TAF Relationship Framework, updated in 2013, establishes specific accountability requirements to the City.

TAF is financed by investment revenues from its endowment fund including 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.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of accounting

The financial statements have been prepared in accordance with Canadian Public Sector Accounting Standards for Not-for-Profit Organizations (PSA-GNPO) as issued by the Public Sector Accounting Board (PSAB).

(b) Basis of presentation

These consolidated financial statements include the accounts of the Toronto Atmospheric Fund and its wholly owned subsidiary, CAIT Ventures Inc. ("CAIT"); The financial statements of this subsidiary are summarized in Note 18.

(c) Revenue recognition

TAF follows the deferral method of accounting for contributions. Contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Restricted contributions are deferred and recognized as revenue in the year in which the related expenses are recognized and are recorded as deferred contributions on the statement of financial position.

Other revenues are recorded on an accrual basis, when the service has been provided, evidence of an arrangement exists, the fee is fixed or determinable and the amount is collectible.

2. **SIGNIFICANT ACCOUNTING POLICIES** - Cont'd.

(d) Financial assets and liabilites

Initial measurement

TAF 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 fair value

Subsequent measurement

At each reporting date, TAF 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.

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

(e) Investment income

Investment income consists of interest, dividends and realized gains (losses) on disposition of investments. Investment income is recorded net of portfolio management fees. Unrealized gains or losses are recorded in the statement of remeasurement gains and losses.

(f) Foreign currency translation

Foreign currency transactions are translated at the exchange rate prevailing at the date of the transactions.

Financial instruments included in the fair value measurement category denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing at the financial statement date. Unrealized foreign exchange gains and losses are recognized in the statement of remeasurement gains and losses. In the period of settlement, realized foreign exchange gains and losses are recognized in the statement of operations, and the cumulative amount of remeasurement gains and losses is reversed in the statement of remeasurement gains and losses.

(g) Loans/contracts receivable

Loans receivable are recorded at amortized cost less any amount for valuation allowance. Valuation allowances are made to reflect loans receivable at the lower of amortized cost and the net recoverable value, when collectability and risk of loss exists. Changes in valuation allowance are recognized in the statement of operations as costs of program delivery. Interest is accrued on loans receivable to the extent it is deemed collectible.

2. **SIGNIFICANT ACCOUNTING POLICIES** - Cont'd.

(h) 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.

(i) Capital assets

Capital assets are recorded at cost and contributed capital assets are recorded at fair value at the date of contribution. 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.

(j) 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.

(k) 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 13 provides the amounts allocated or withdrawn from the Stabilization Fund for the two most recent fiscal years.

3. **FINANCIAL INSTRUMENTS**

The activities of TAF expose it to a variety of financial risks including credit risk, liquidity risk and market risk.

Credit Risk

Credit risk is the risk of financial loss if a debtor fails to make payments of interest and principal when due. TAFs maximum exposure to credit risk represents the sum of the carrying value of its cash, accounts receivable, loans/contracts receivable and external funding receivable. TAF's cash is deposited with a Canadian Chartered bank and as a result, management believes the risk of loss of this item to be remote. Accounts receivable and external funding receivable balances are managed and analyzed on an ongoing basis and accordingly, management believes all amounts receivable will be collected and has determined that a provision for bad debts is not required. Credit risk on loans/contracts receivable is mitigated through a financial approval process, the use of general security agreements and pledges of assets, details of which are provided in note 5. Management makes a provision for possible credit losses each year detailed in note 5(l).

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.

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 and is comprised of currency risk, interest rate risk and other risk risk.

i) *Currency risk*

Currency risk relates to investments denominated in foreign currency and converting these to Canadian currency at different points in time when adverse or beneficial changes in foreign exchange rates can occur. Investments are translated into Canadian dollars at the exchange rate prevailing at the period end. At December 31, 2013 the investments held directly denominated in US dollars were $12,261,058 (2012 - $10,057,247).

ii) *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.

iii) Other Price Risk

Other price risk refers to the risk that the fair value of financial instruments or future associated cash flows will fluctuate because of changes in market prices (other than those arising from currency risk or interest rate risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all similar instruments traded in the market.

TAF is exposed to other price risk due to its investment in a variety of equities. Risk and volatility of investment returns are mitigated through diversification of investments. To minimize market risks, the entity’s investment policy operates within the constraints established by the City of Toronto. This policy’s application is monitored by management, a third party investment advisor, TAF’s Board appointed Investment Committee and the Board of Directors.

Changes in risk

There have been no changes in the organization’s risk exposures or policies, procedures and methods used to measure the above risks, from the prior year.

4. CAPITAL ASSETS

Capital assets consist of the following:

	2013		2012	
	Cost	Accumulated amortization	Cost	Accumulated amortization
Computer/office equipment	$ 37,992	$ 34,593	$ 37,992	$ 33,233
Software	43,349	8,127	10,837	1,354
Energy efficiency equipment - note 7	689,700	38,133	36,480	1,824
	771,041	$ 80,853	85,309	$ 36,411
Accumulated amortization	80,853		36,411	
	690,188		48,898	
Less provisions related to ESPA contracts	(13,200)		-	
	$ 676,988		$ 48,898	

5. LOANS RECEIVABLE

Loans receivable consist of the following:

	2013	2012
Pure Energies 7711565 Canada Inc. - note 5(a)	$ 609,975	$ 628,181
M5V Tower, TSCC #2206 - note 5(b)	528,458	591,153
York Condominium Corporation, YCC #132 - note 5(c)	335,467	351,229
Grande Triomphe, TSCC #2033 - note 5(d)	305,359	389,437
Exhibition Place - note 5(e)	285,718	356,972
Toronto Solar Neighbourhoods Initiative - note 5(f)	232,174	274,480
Toronto Artscape Inc. - note 5(g)	53,869	83,872
Nuvo II, TSCC #1959 - note 5(h)	18,165	102,114
TREC Lakewind - note 5(i)	-	150,000
Senarra Green Energy Capital Inc. - note 5(j)	-	379,559
Harbourfront Centre/Gardiner Roberts LLP In Trust - note 5(k)	-	76,455
	2,369,185	3,383,452
Less current portion	(356,985)	(500,379)
	2,012,200	2,883,073
Less credit provision - (note 5(l))	(30,000)	(64,000)
	$ 1,982,200	$ 2,819,073

(a) 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 34 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 and bears interest at 8% per annum.

5. **LOANS AND CONTRACTS RECEIVABLE** - Cont'd.

(b) M5V Tower (TSCC No. #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, matures in March 2020 and bears interest at 8% per annum.

(c) York Condominium Corporation (YCC No. #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 and bears interest at 7% per annum.

(d) 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, matures in February 2017 and bears interest at 6.61% per annum.

(e) 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 and bears interest at 6.06% per annum.

(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 43 loans receivable under this program, bearing interest at 7.25%, totalling $232,174 and the last loan is scheduled to mature in April 2021.

(g) 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 and bears interest at 7.4% per annum.

(h) 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, matures March 1, 2014 and bears interest at 6.1% per annum.

5. **LOANS AND CONTRACTS RECEIVABLE** - Cont'd.

(i) 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. If the project was implemented, the entire loan amount would have converted into equity in the Windshare cooperative corporation which was established to operate the project.

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. This commitment has been rescinded in 2013 as described in note 12.

During 2011 and 2012 TAF began to provide for the potential impairment of the TREC loan, and as at December 31, 2012, the provision totalled $64,000. During 2013 TAF was advised that despite persistent efforts by TREC, which complied with the process set out by the Provincial government, the chances of the proposed wind farm being connected to the electricity grid continued to be extremely low. Consequently at the end of 2013, TAF wrote down the remaining balance of $86,000 of which $64,000 was allocated from the allowance for credit losses. The net provision for 2013 is recorded in program delivery expense.

(j) Senarra Green Energy Capital Inc.

In December 2009 TAF agreed to finance Senarra Green Energy Capital Inc. to purchase and install solar hot water heating systems at three City of Toronto facilities which culminated with TAF advancing $412,358 for the project in January 2011. TAF’s security package includes a promissory note, a general security agreement on all solar panels at the three locations, plus the assignment of power purchase agreements at five other Senarra solar sites. The loan was also guaranteed by Glenbarra Energy Management Corp. (GEMCO).

Monthly loan repayments commenced as scheduled and, as provided by the loan agreement, TAF also began accumulating a loan pre-payment fund from customer billings sent directly to TAF by the three solar sites.

During 2013 it became evident that the borrower had ceased operations and consequently TAF placed the borrower into receivership and began an asset recovery process which included an expert assessment of the potential market value of equipment and potential revenues from the solar sites. As of December 31, 2013 the market value of the solar assets was still being determined and thus TAF has made a full provision for the loan balance of $358,277 which was reduced by the prepaid amount of $18,225 with the net provision recorded in program delivery expense.

5. **LOANS AND CONTRACTS RECEIVABLE** - Cont'd.

(k) Harbourfront Centre/Gardiner Roberts LLP In Trust

In 2012 TAF had 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 in 2012 and as December 31, 2012, $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. During 2013, an engineering contractor finalized the energy efficiency retrofit and all funds held in trust were disbursed.

(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.

Allowance for impaired loans:

	2013	2012
Opening balance	$ 64,000	$ 30,000
Charge for loan impairment	30,000	34,000
Amounts written off - note 5(i)	(64,000)	-
Ending balance	$ 30,000	$ 64,000

6. 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 to up to 60% of TAF's net asset value, the 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.

TAF's equity instruments are categorized according to a hierarchy which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The three levels of the fair value hierarchy are as follows:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 - Inputs for the asset or liability that are not based on observable market data.

		2013	2012
Investments at fair market value*			
Greenchip Global Equity Fund	Level 1	$ 2,495,211	$ 2,190,006
TD Emerald Canadian Bond Pooled Fund Trust	Level 1	2,794,190	6,477,236
TD Short Term Bond Fund, O-Series	Level 1	2,757,197	-
Generation IM Global Equity A Shares A32	Level 1	13,095,949	10,289,247
Total investments at fair market value		21,142,547	18,956,489
Investment at amortized cost			
Limited Partnership Units at cost**		199,830	199,830
Total investment at amortized cost		199,830	199,830
Total investments		$ 21,342,377	$ 19,156,319

*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.

7. ENERGY SAVINGS PERFORMANCE AGREEMENTS

In 2012 TAF began marketing a financing program based on its proprietary Energy Savings Performance Agreement (“ESPA”), which enables building owners to retrofit and upgrade their buildings’ energy performance. The ESPA is a multi-year performance contract between TAF and a building owner where TAF provides a turnkey energy efficiency retrofit for the owner who undertakes to re-pay TAF from realized energy cost savings. The installation process is managed by pre-qualified engineering firms who perform investment grade energy audits and use proven energy-saving technologies to achieve significant savings in both energy consumption and cash flow for building owners to make energy retrofits economically feasible.

Under an ESPA the building owner remits to TAF a significant portion (typically 90%) of their actual energy savings based on an investment grade energy audit performed before installation. The energy savings are remitted monthly to TAF for up to 10 years until TAF recovers its capital plus a financial return.

TAF’s financial risk related to ESPA retrofit projects is mitigated by: (1) review of project economics and building owner’s creditworthiness with TAF’s Investment Committee which in turn recommends approval by TAF’s Board of Directors; (2) project-specific insurance policy to ensure that TAF will receive the projected energy savings; (3) TAF’s right to increase a building’s energy savings remittances up to 100% of actual savings; (4) regular equipment maintenance combined with measurement and verification of a building systems’ operating performance for the duration of the ESPA contract.

The equipment installed in the building under an ESPA contract is the property of TAF and is part of TAF’s capital assets.

(a) Energy Savings Purchase Agreement with Harbourfront Centre

In 2012, TAF advanced project funding after entering into an Energy Savings Purchase Agreement (the Agreement) with Harbourfront Corporation (1990) which operates buildings called Harbourfront Centre. During the year, TAF finalized this retrofit financing project. Since this Agreement was a field trial for TAF’s ESPA financing program, the projected energy savings of this project are not insured.

During the year TAF earned $12,932 as its share of the energy savings resulting from the retrofit. At the end of the year, the depreciated value of TAF’s energy efficiency equipment (net of energy efficiency incentives received) located at Harbourfront Centre was $73,188. The Agreement has a duration of up to 10 years and TAF’s share of the projected energy savings for the remaining balance of the Agreement is estimated at $93,000.

(b) Energy Savings Performance Agreement with Robert Cooke Cooperative Homes Inc.

During the year, TAF completed a retrofit project under an Energy Savings Performance Agreement (ESPA) for a multi-unit residential building: Robert Cooke Cooperative Homes Inc. The projected energy savings of this ESPA retrofit project are insured in the manner described above.

TAF earned $21,815 as its share of the energy savings resulting from the retrofit for the period starting in August of 2013. At the end of the year the depreciated value of TAF’s energy efficiency equipment (net of energy efficiency incentives received) located in the building was $578,379. The ESPA contract has a duration of up to 10 years and TAF’s share of the projected energy savings for the remaining balance of the contract is estimated at $657,000.

8. GRANTS APPROVED AND PAYABLE

Grants approved by TAF's Board of Directors allocated to 2013 and balances payable are as follows:

	Allocated to 2013	Payable 2013	Payable 2012
City of Toronto Environment & Energy Division	$ 80,000	$ -	$ -
Clean Air Partnership	10,000	-	-
Ryerson University - Centre for Urban Energy	68,500	68,500	69,500
Pembina Institute	50,000	15,000	50,000
Evergreen	-	-	30,000
Summerhill Impact	-	-	60,000
Tower Labs @ MaRS	-	-	70,000
	208,500	83,500	279,500
Grants approved in prior years	-	205,235	350,259
	$ 208,500	$ 288,735	$ 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 $197,500 of outstanding grants during the year (2012 - $338,072) .

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:

	2013	2012
External funding brought forward from prior year	$ 865,674	$ 416,245
External funding received during the year	158,588	815,260
Total external funding committed to TAF	$ 1,024,262	$ 1,231,505
External funding recognized in the current year	$ 357,717	$ 365,831
External funding carried forward into subsequent year	$ 666,545	$ 865,674

In addition to the above, during 2013 a large funder confirmed that TAF has been approved for a loan of up to $2,557,000 combined with a grant of up to $511,000 to be used for energy retrofitting of several social housing buildings in Toronto. The funding offer will become effective when the loan agreement is finalized and signed.

10. 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. The changes in the fund were as follows:

	2013	2012
Opening balance and original fund principal	$ 28,373	$ 28,373
Income attributed from TAF	1,873	1,873
Expenditures	-	(1,873)
Closing balance and original fund principal	$ 30,246	$ 28,373

11. 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 $160,000 (2012 - $Nil) on the line of credit. Security has been provided in form of TAF's fixed income investment portfolio.

12. COMMITMENTS AND CONTINGENCIES

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:

- EnerMotion - potential $250,000 loan to accelerate the development of an energy recovery system for Class 8 heavy trucks.
- Toronto Community Housing Corporation (TCHC) - potential financing up to $3 million, structured as an Energy Savings Performance Agreement (ESPA), to install energy efficiency measures in seven TCHC 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 YMCA buildings.
- Windmill Development Group - potential $750,000 financing structured as a Green Condo Loan for condominium development in Ottawa.
- Ajax Municipal Housing Corporation - potential ESPA financing up to $737,000 for the retrofit of three high-rise buildings.

During 2013 the previously reported commitment to Robert Cooke Co-operative Homes Inc. became an ESPA financing agreement as outlined in note 7b. TAF also rescinded a previously reported financing commitment to ZooShare Biogas Cooperative for $250,000.

As of the year end the following financing commitments totalling $2,073,000 were outstanding but were subsequently rescinded on February 5, 2014 when approved by TAF's Board of Directors: Lakewind/TREC: $150,000; Canadian National Ballet School: $1,000,000; Victoria Shuter Non-Profit Housing Corp. ESPA: $367,000; Bellamy Housing Co-op ESPA: $281,000 and Chadwick Non-Profit Housing Corp. ESPA: $275,000.

During 2013 TAF approved a multi-year grant to the City of Toronto Environment & Energy Division. Payments of grant instalments are to be made in April 2014 in the amount of $80,000 upon receipt of an interim report and in April 2017 in the amount of $40,000 upon receipt of a final report.

13. 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 funds added to the Stabilization Fund in 2013 amounted to $3,676,609 (2012 - $1,098,886).

14. SALARY ALLOCATION TO PROGRAM DELIVERY

TAF's practice is to allocate program-related staff costs to the program delivery expenditure line. The percentage of staff costs allocated to the program delivery expenditure line in 2013 was 70% (2012 - 70%).

15. CORPORATE EXPENSES

Corporate expenses include activities related to communications, governance, organizational development and administration:

	2013	2012
Communications	$ 39,813	$ 49,373
Office operations	66,568	31,112
Professional services	52,626	59,896
IT/telecommunications	14,095	11,914
Corporate expenses	$ 173,102	$ 152,295

16. 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 the year TAF had sub-contracted CAP to perform project services for which TAF owed CAP $1,877 (2012 - $4,975) at the end of the year which is included below in the Payable to CAP amount.

	2013	2012
Receivable from CAP including accrued amounts	$ 7,347	$ 11,838
Payable to CAP including project and accrued amounts	(7,302)	(13,748)
Net owed by CAP to TAF (or owed by TAF to CAP)	$ 45	$ (1,910)

17. TAF BUDGET FISCAL YEAR 2013

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 to the City was as follows:

	2013 (in $ Thousands)	2012 (in $ Thousands)
Revenues		
Investment portfolio revenues*	$ 866	$ 1,159
Loan interest and transaction fees	654	380
External funding	500	500
Allocation from TAF's capital - if required	-	191
Sundry	101	50
Total Revenues	$ 2,121	$ 2,280
Program Delivery Expenditures		
Strategic programs	1,414	1,237
New and committed grants	300	575
Total programs and projects	1,714	1,812
Administration	407	467
Total Expenditures	$ 2,121	$ 2,279

* Based on mark-to-market valuation assumption.

18. 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:

	2013	2012
Assets		
Bank	$ 1,362	$ 1,457
Liabilities		
Due to TAF	$ 293,631	$ 293,631
Equity		
Capital	1	1
Deficit, opening	(292,174)	(292,036)
Net (loss)	(96)	(139)
Deficit, closing	(292,270)	(292,175)
	(292,269)	(292,174)
	$ 1,362	$ 1,457

	2013	2012
Expenses		
Bank charges	$ 96	$ 139
Net (loss)	$ (96)	$ (139)