

Financial Statements of

UNITED WAY OF KFL&A

Year ended December 31, 2015



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INDEPENDENT AUDITORS' REPORT

To the Members of United Way of KFL&A

We have audited the accompanying financial statements of United Way of KFL&A, which comprise the statement of financial position as at December 31, 2015, the statements of operations, changes in net assets and cash flows for the year then ended, and notes, comprising 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 accounting standards for 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.

Auditors' 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 our 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, we consider 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 qualified audit opinion.



Basis for Qualified Opinion

In common with many charitable organizations, United Way of KFL&A derives revenue from donations, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, our verification of these revenues was limited to the amounts recorded in the records of the entity and we were not able to determine whether, as at and for the years ended December 31, 2014 and December 31, 2015, any adjustments might be necessary to campaign revenue, excess of revenue over expenses, current assets and changes in net assets.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of United Way of KFL&A as at December 31, 2015, and its results of operations and its cash flows for the year then ended, in accordance with Canadian accounting standards for not-for-profit organizations.

A handwritten signature in black ink that reads 'KPMG LLP' with a horizontal line underneath.

Chartered Professional Accountants, Licensed Public Accountants

April 21, 2016

Kingston, Canada

UNITED WAY OF KFL&A

Statement of Financial Position

December 31, 2015, with comparative information for 2014

	2015	2014
Assets		
Current assets:		
Cash	\$ 743,096	\$ 555,851
Short-term investments (note 2)	561,772	461,589
Pledges receivable (note 3)	236,492	283,027
Accounts receivable	76,336	36,466
Prepaid expenses	14,619	17,672
	<u>1,632,315</u>	<u>1,354,605</u>
Long-term investments (note 4)	2,015,618	2,412,161
Capital assets (note 5)	66,607	41,912
	<u>\$ 3,714,540</u>	<u>\$ 3,808,678</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities (note 6)	\$ 708,190	\$ 615,876
Monies held in trust (note 7)	200,286	—
Deferred contributions non-campaign	25,500	43,250
Deferred campaign revenue	1,465,214	1,593,349
	<u>2,399,190</u>	<u>2,252,475</u>
Net assets:		
Invested in 417 Bagot Group (note 4)	405,271	404,047
Invested in capital assets (note 8)	66,607	41,912
Reserves (note 9)	255,167	418,667
Endowments	599,622	598,422
Unrestricted (deficiency)	(11,317)	93,155
	<u>1,315,350</u>	<u>1,556,203</u>
Commitments (note 13)		
Subsequent event (note 20)		
	<u>\$ 3,714,540</u>	<u>\$ 3,808,678</u>

See accompanying notes to financial statements.

On behalf of the Board of Directors:



Director



Director

UNITED WAY OF KFL&A

Statement of Operations

Year ended December 31, 2015, with comparative information for 2014

	2015	2014
Revenue:		
Campaign revenue (note 10(a))	\$ 3,248,680	\$ 3,320,382
Funds transferred from other United Ways	25,143	27,392
Funds transferred to other United Ways	(22,737)	(28,243)
Community special events (note 10(b))	113,594	291,979
Gross campaign revenue	3,364,680	3,611,510
Pledge loss (note 11)	(120,939)	(65,884)
Net campaign revenue	3,243,741	3,545,626
Homelessness partnership strategy grant	162,047	192,058
Areas of service designations (note 12)	226,930	187,092
Unrealized gain (loss) on investments	(966)	59,106
Realized gain on investments	37,862	52,353
Investment income	26,897	47,121
Donations and other revenue	35,291	35,455
Program grants	57,969	22,988
	3,789,771	4,141,799
Expenses:		
Allocations and programs:		
Program grants	1,776,850	1,828,081
United Way Community Investment Programs (schedule 1)	246,262	337,393
United Way Community Impact Initiatives	379,662	465,816
Donor choice designations	599,409	648,562
Homelessness partnership strategy grants	152,208	179,462
United Way dues and shared costs	31,297	31,084
Youth Homelessness	245,114	3,018
	3,430,802	3,493,416
Operations:		
Fundraising (schedule 1)	556,970	445,199
Community special events	37,173	41,531
Investment management fee	8,103	7,914
	4,033,048	3,988,060
Excess of revenue over expenses (expenses over revenue) before the undernoted	(243,277)	153,739
Income from joint venture	1,224	123
Excess of revenue over expenses (expenses over revenue)	\$ (242,053)	\$ 153,862

See accompanying notes to financial statements.

UNITED WAY OF KFL&A

Statement of Changes in Net Assets

Year ended December 31, 2015, with comparative information for 2014

	Invested in 417 Bagot Group (note 4(a))	Invested in capital assets (note 8)	Reserves (note 9)	Restricted for endowments (note 18)	Unrestricted	2015 Total	2014 Total
Balance, beginning of year	\$ 404,047	\$ 41,912	\$ 418,667	\$ 598,422	\$ 93,155	\$ 1,556,203	\$ 1,400,841
Excess of revenue over expenses (expenses over revenue)	1,224	(20,618)	—	—	(222,659)	(242,053)	153,862
Endowment contributions	—	—	—	1,200	—	1,200	1,500
Interfund transfer	—	—	(163,500)	—	163,500	—	—
Net change in investment in capital assets (note 8)	—	45,313	—	—	(45,313)	—	—
Balance, end of year	\$ 405,271	\$ 66,607	\$ 255,167	\$ 599,622	\$ (11,317)	\$ 1,315,350	\$ 1,556,203

See accompanying notes to financial statements.

UNITED WAY OF KFL&A

Statement of Cash Flows

Year ended December 31, 2015, with comparative information for 2014

	2015	2014
Cash provided by (used for):		
Operating expenses:		
Excess of revenue over expenses (expenses over revenue)	\$ (242,053)	\$ 153,862
Item which does not involve cash:		
Amortization of capital assets	20,618	16,150
Change in non-cash working capital:		
Pledges receivable	46,535	11,889
Accounts receivable	(39,870)	1,887
Prepaid expenses	3,053	(9,089)
Accounts payable and accrued liabilities	92,314	25,445
Monies held in trust	200,286	(5,150)
Deferred contributions non-campaign	(17,750)	(65,972)
Deferred campaign revenue	(128,135)	(165,694)
Deferred endowment revenue	—	(10,100)
	(65,002)	(46,772)
Financing activities:		
Endowment contributions	1,200	1,500
Investing activities:		
Purchase of capital assets	(45,313)	(14,409)
Decrease (increase) in long-term investments	396,543	(329,274)
	351,230	(343,683)
Increase (decrease) in cash	287,428	(388,955)
Cash, beginning of year	1,017,440	1,406,395
Cash, end of year	\$ 1,304,868	\$ 1,017,440
Represented by:		
Cash	\$ 743,096	\$ 555,851
Short-term investments	561,772	461,589
Cash, end of year	\$ 1,304,868	\$ 1,017,440

See accompanying notes to financial statements.

UNITED WAY OF KFL&A

Notes to Financial Statements

Year ended December 31, 2015

United Way of KFL&A is a not-for-profit organization incorporated without share capital under the laws of Ontario. United Way of KFL&A's services are provided to the Kingston, Frontenac, Lennox & Addington community. United Way of KFL&A is a registered charity under the Income Tax Act (Canada) and accordingly is exempt from income taxes, provided certain requirements of the Income Tax Act (Canada) are met. These requirements have been met as at December 31, 2015.

United Way of KFL&A's mission is to build and strengthen the community by bringing people and resources together to facilitate change. United Way of KFL&A's vision is a future where people are self-sufficient in a community where individuals live with hope, dignity and a sense of belonging.

1. Significant accounting policies:

The financial statements have been prepared by management in accordance with Canadian accounting standards for not-for-profit organizations in Part III of CPA Canada Handbook – Accounting.

(a) Revenue recognition:

United Way of KFL&A uses the deferral method of accounting for contributions for not-for-profit organizations.

United Way of KFL&A conducts a public campaign for funds during the last quarter of each calendar year in order to fund programs and to identify and work on issues for the subsequent fiscal year. Accordingly, campaign revenue of the current year is deferred to the subsequent fiscal year. All allocations that are scheduled to be disbursed more than twelve months after the current year-end are financed from the subsequent year's campaign.

Pledges receivable at the end of the year reflect amounts outstanding from the preceding campaign, less an allowance for pledge losses. Allowances are provided for amounts estimated to be uncollectible. This policy conforms to that adopted by the majority of United Way organizations.

Other unrestricted contributions are recognized as revenue in the year received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Primary sources of other unrestricted contributions recognized as revenue during the year are funds transferred to and from other United Ways, community special events and investment income.

Restricted contributions other than endowment contributions are recognized as revenue in the year in which the related expenses are recognized.

UNITED WAY OF KFL&A

Notes to Financial Statements (continued)

Year ended December 31, 2015

1. Significant accounting policies (continued):

(a) Revenue recognition (continued):

Endowment contributions are recognized as direct increases in endowment net assets.

Restricted investment income is recognized as revenue in the year in which the related expenses are recognized. Unrestricted investment income is recognized as revenue when earned.

(b) Capital assets:

Purchased capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the date of contribution. Repairs and maintenance costs are charged to expense. Betterments which extend the estimated life of an asset are capitalized. When a capital asset no longer contributes to United Way of KFL&A's ability to provide services, its carrying amount is written down to its residual value.

Capital assets are amortized using the following annual rates:

	Rate
Furniture and equipment	20% diminishing balance or 10 years straight-line basis
Telephone system	30% diminishing balance basis
Computer equipment	30% diminishing balance or 2 to 3 years straight-line basis
Computer software	2 years straight-line basis
Leasehold improvements	10 years straight-line basis

(c) Contributed services:

Volunteers contribute a substantial number of hours each year to assist United Way of KFL&A in carrying out its activities. Because of the difficulty of determining the fair value, contributions of such services are not recognized in the financial statements.

United Way of KFL&A receives gifts in kind from some donors, primarily for campaign costs of printing, supplies, advertising and public relations. These amounts are excluded from revenue and expenses.

(d) Use of estimates:

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates. These estimates are reviewed annually and as adjustments become necessary, they are recognized in the financial statements in the period in which they become known.

UNITED WAY OF KFL&A

Notes to Financial Statements (continued)

Year ended December 31, 2015

1. Significant accounting policies (continued):

(e) Net asset reserves:

(i) Contingency Reserve:

There is a requirement for United Way of KFL&A to be fiscally responsible in its operations, which requires United Way of KFL&A to be in a position to meet outstanding obligations to staff and third parties under any unexpected circumstances. These funds are intended for contingency purposes, to be accessed only after formal approval of United Way of KFL&A's Board of Directors.

(ii) United Way Agency Funding Reserve:

United Way of KFL&A recognizes the possibility that there could be a year where the state of the economy may be the determining factor in United Way of KFL&A not being able to reach its established goal. A significant shortfall would then reflect on the availability of funding to agencies. These funds are internally restricted and are intended for agency allocation purposes, to be accessed only after formal approval of United Way of KFL&A's Board of Directors.

(iii) Endowment Reserve:

The endowment reserve is an Eternity Fund managed by the Community Foundation for Kingston & Area and is externally restricted with the principal being preserved in perpetuity. The income earned from the Eternity Fund is internally restricted and is used to support essential programs ensuring donations to the Eternity Fund will benefit future generations.

(iv) Unrestricted Reserve:

This reserve is the cumulative surplus/deficit of United Way of KFL&A activities and it is up to the discretion of the United Way of KFL&A Board of Directors regarding the use of these funds.

(f) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. United Way of KFL&A has elected to carry all of its short-term investments and all of its long-term investments, excluding the investment in a joint venture, at fair value.

UNITED WAY OF KFL&A

Notes to Financial Statements (continued)

Year ended December 31, 2015

1. Significant accounting policies (continued):

(f) Financial instruments (continued):

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, United Way of KFL&A determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount United Way of KFL&A expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

2. Short-term investments:

	2015	2014
Royal Premium Money Market Fund	\$ 61,772	\$ 61,589
RBC Guaranteed Investment Certificate - 0.75% (2014 - 1%) maturing in December 2016	500,000	400,000
	<u>\$ 561,772</u>	<u>\$ 461,589</u>

Short-term investments are invested in a manner to allow the organization to access funds for operational needs on short-term notice with minimal investment risk.

3. Pledges receivable:

	2015	2014
2014 Campaign	\$ 286,619	\$ -
2013 Campaign	9,873	333,525
2012 Campaign	-	9,502
Less allowance for pledge losses	(60,000)	(60,000)
	<u>\$ 236,492</u>	<u>\$ 283,027</u>

UNITED WAY OF KFL&A

Notes to Financial Statements (continued)

Year ended December 31, 2015

4. Long-term investments:

(a) Investment in 417 Bagot Group:

United Way of KFL&A has a one-half interest in a joint venture, the 417 Bagot Group ("Group"), together with another agency (K3C Community Counselling Centres) to own and manage the building in which the two agencies carry on their operations. The investment in the joint venture is recorded on the equity basis which reflects the net income or loss of the Group for the year ended December 31, 2015. The following information represents United Way of KFL&A's proportionate share of the assets, liabilities, revenue, expenses, excess of revenue over expenses and cash flows in this joint venture:

	2015	2014
Assets		
Cash	\$ 49,461	\$ 37,040
Accounts receivable	4,098	11,136
Due from related parties	—	1,681
Capital assets	400,679	408,422
	\$ 454,238	\$ 458,279

	2015	2014
Liabilities and Co-tenants' Capital		
Accounts payable and accrued liabilities	\$ 4,731	\$ 5,179
Current portion of long-term debt	7,657	7,317
Due to related parties	2,500	—
Long-term debt	132,119	139,776
Co-tenant's capital	307,231	306,007
	\$ 454,238	\$ 458,279

Excess of revenue over expenses:

	2015	2014
Revenue	\$ 68,236	\$ 82,087
Expenses	67,012	59,427
	\$ 1,224	\$ 22,660

UNITED WAY OF KFL&A

Notes to Financial Statements (continued)

Year ended December 31, 2015

4. Long-term investments (continued):

(a) Investment in 417 Bagot Group (continued):

Cash provided by (used in):

	2015	2014
Operating activities	\$ 28,120	\$ 6,441
Financing activities	(8,213)	116,324
Investing activities	(7,486)	(116,288)

There are no significant differences in accounting policies between 417 Bagot Group and United Way of KFL&A. The amount reported as long-term investment on the Statement of Financial Position is determined as follows:

	2015	2014
Contributions since commencement	\$ 146,086	\$ 146,086
Gain in earnings since commencement	81,722	80,498
Reallocation of co-tenants' capital up to one-half share	101,960	101,960
Payment of market value in excess of book value for one-third share up to one-half share	98,040	98,040
Major repairs funded by the replacement reserve	(22,537)	(22,537)
	\$ 405,271	\$ 404,047

The two participants in the joint venture are jointly and severally liable for a loan. As at December 31, 2015, the principal balance of the loan in aggregate is \$279,552 (2014 - \$294,186).

(b) Financial investments:

	2015	2014
Mutual funds	\$ 913,145	\$ 1,281,553
Investments held with the Community Foundation for Kingston & Area	697,202	726,561
	\$ 1,610,347	\$ 2,008,114

UNITED WAY OF KFL&A

Notes to Financial Statements (continued)

Year ended December 31, 2015

4. Long-term investments (continued):

As per the United Way of KFL&A's Investment Policy, short-term needs require short-term solutions, such as cash accounts (extremely liquid cash) or low risk fixed income type of investments. Longer term needs, may allow time to invest in equities, which generally have higher short-term risks but better long-term growth potential.

Unrestricted reserves are to be invested in a manner that when needed, the investments can be converted to cash on short-term notice with minimal investment risk.

Restricted reserves may be invested in longer term investments to grow the investment pool by at least the annual rate of inflation.

Endowment Fund will follow the investment strategy as per Community Foundation for Kingston & Area.

5. Capital assets:

	Cost	Accumulated amortization	2015 Net book value	2014 Net book value
Furniture and equipment	\$ 79,041	\$ 70,298	\$ 8,743	\$ 10,363
Telephone system	43,537	39,139	4,398	6,282
Computer equipment	169,450	131,813	37,637	902
Computer software	77,035	61,488	15,547	23,683
Leasehold improvements	8,999	8,717	282	682
	\$ 378,062	\$ 311,455	\$ 66,607	\$ 41,912

Cost and accumulated amortization of capital assets at December 31, 2014 amounted to \$332,750 and \$290,838, respectively.

6. Accounts payable and accrued liabilities:

	2015	2014
Accounts payable and accrued liabilities	\$ 110,077	\$ 117,774
Donor designations	441,127	472,962
Grants payable	156,986	25,140
	\$ 708,190	\$ 615,876

Included in accounts payable and accrued liabilities are government remittances payable of \$6,793 (2014 - \$6,146), which includes amounts payable for harmonized sales tax and payroll-related taxes.

UNITED WAY OF KFL&A

Notes to Financial Statements (continued)

Year ended December 31, 2015

7. Monies held in trust:

In 2007, United Way of KFL&A entered into a contract with the Corporation of the City of Kingston (the "City") to provide services, on a trust basis, to administer the Healthy Community Fund. The services include:

- (a) administration of the Healthy Community Fund application process;
- (b) determination and approval of grants from the Healthy Community Fund;
- (c) contracting with successful applicants as an agent of the City; and
- (d) issuing approved grants and tracking fulfillment of conditions of each grant.

	2015	2014
Opening balance	\$ -	\$ 5,150
Receipts	360,320	-
Disbursements	(160,034)	(5,150)
Ending balance	\$ 200,286	\$ -

8. Invested in capital assets:

- (a) Investment in capital assets is calculated as follows:

	2015	2014
Capital assets	\$ 66,607	\$ 41,912

- (b) Change in net assets invested in capital assets is calculated as follows:

	2015	2014
Excess of expenses over revenue:		
Amortization of capital assets	\$ (20,618)	\$ (16,150)
Net change in investment in capital assets:		
Purchase of capital assets	\$ 45,313	\$ 14,409

UNITED WAY OF KFL&A

Notes to Financial Statements (continued)

Year ended December 31, 2015

9. Reserves:

Reserves consist of:

	2015	2014
Contingency Reserve Fund	\$ 130,000	\$ 130,000
United Way Agency Funding Reserve	125,167	125,167
Youth Homelessness Reserve	–	163,500
Balance, December 31	\$ 255,167	\$ 418,667

(a) Contingency Reserve Fund:

In accordance with policy, the balance in the reserve is to be maintained at a maximum of 10% of the operating budget or three months of payroll commitments, whichever is higher. Contingency reserve funds are intended for contingency purposes, to be accessed only after formal approval by United Way of KFL&A's Board of Directors.

(b) United Way Agency Funding Reserve:

In accordance with policy, the balance in the reserve fund is to be maintained at a maximum of \$300,000 or three months of funding whichever is greater. United Way Agency Funding Reserve funds are internally restricted and are intended for agency allocation purposes, to be accessed only after formal approval by United Way of KFL&A's Board of Directors.

In 2014, a withdrawal of \$200,000 was made from the United Way Agency Funding Reserve to fund an additional investment in 417 Bagot Group. In 2014, United Way of KFL&A purchased one-half of the one-third share of 417 Bagot Group that was previously held by Home Base Housing. It is the intention of United Way of KFL&A to repay this reserve over the next ten years. In 2015, no repayments were made to this reserve.

(c) Youth Homelessness Reserve:

In 2014, the Board of Directors approved an allocation of \$163,500 to a reserve to support youth homelessness projects in the future. During 2015, grants in the amount of \$163,500 were approved and disbursed by the United Way KFL&A Board of Directors.

UNITED WAY OF KFL&A

Notes to Financial Statements (continued)

Year ended December 31, 2015

10. Campaign revenue:

(a) Direct expenses in revenue:

United Way of KFL&A has netted direct expenses related to specific events that are run by United Way of KFL&A against revenue. The total direct expenses included in revenue on the Statement of Operations are as follows:

	Events revenue	Direct expenses	2015 Net	2014 Net
Campaign revenue	\$ 41,092	\$ 22,673	\$ 18,419	\$ 21,834

(b) Community special events:

In 2014, United Way of KFL&A's Community special events revenue included 2014 campaign revenue from Kingston Penitentiary tours in the amount of \$174,000. This was a one-time event.

11. Pledge loss:

	2015	2014
Pledge loss - current year campaign	\$ (60,000)	\$ (60,000)
Pledge loss - relating to 2013 and earlier campaigns	(60,939)	(5,884)
	\$ (120,939)	\$ (65,884)

In 2015, United Way of KFL&A experienced a larger than normal one-time pledge loss related to 2013 campaign pledges.

12. Areas of service designations:

The amount of \$226,930 (2014 - \$187,092) represents designations to areas of service through the Campaign 2013 Donor Choice program. These designations were collected through payroll pledge received through the calendar year 2014, and were paid out during the 2015 process of determining agency allocations.

UNITED WAY OF KFL&A

Notes to Financial Statements (continued)

Year ended December 31, 2015

13. Commitments:

United Way of KFL&A has entered into a lease with the 417 Bagot Group, a related joint venture, for use of its premises at 417 Bagot Street, Kingston. This lease requires monthly payments of \$4,586 and has no pre-determined expiration date.

United Way of KFL&A also leases various office equipment under various leases.

The minimum annual lease payments on all existing lease agreements for the next five years are as follows:

2016	\$	62,322
2017		59,779
2018		59,145
2019		56,135
2020		55,030
		<hr/>
		\$ 292,411

14. Related party transactions:

United Way of KFL&A has a one-half interest in a joint venture, the 417 Bagot Group, as detailed in note 4 to these financial statements. United Way of KFL&A rents premises from the joint venture as disclosed in note 13.

These transactions are in the normal course of operations and are measured at the exchange amount, being the amount of consideration established and agreed to by the relevant party.

15. Employer-employee group plan:

United Way of KFL&A is a participant in a group registered retirement savings plan. United Way of KFL&A contributes, on behalf of each eligible employee, an amount equal to the employee's contribution to a maximum of 5% earnings. During the year, United Way of KFL&A expensed \$34,107 (2014 - \$36,117) under this group registered retirement savings plan arrangement.

UNITED WAY OF KFL&A

Notes to Financial Statements (continued)

Year ended December 31, 2015

16. Financial risks and concentration of risk:

As a result of holding financial instruments, United Way of KFL&A is exposed to investment risk, market risk, interest risk and credit risk. The following is a description of those risks and how United Way of KFL&A manages its exposure to them.

(a) Investment risk management:

Risk management relates to the understanding and active management of risks associated with all areas of the business and the associated operating environment. Investments are primarily exposed to interest rate and market risk. United Way of KFL&A mitigates these risks with an investment policy designated to limit exposure and concentration while achieving optimal return within reasonable risk tolerances.

(b) Market and interest rate risk:

The risks associated with the investments are the risks associated with the securities in which the funds are invested. The value of equity securities changes with stock market conditions, which are affected by general economic and market conditions. The value of securities will vary with developments within the specific entities which issue the securities. The value of fixed income securities will generally rise if interest rates fall and fall if interest rates rise. Changes in interest rates may also affect the value of equity securities.

(c) Credit risk:

Credit risk refers to the risk that a counterparty may default on its contractual obligations resulting in a financial loss. United Way of KFL&A is exposed to credit risk with respect to the pledges receivable, accounts receivable, short-term investments and certain of its long-term investments. United Way of KFL&A assesses, on a continuous basis, pledges receivable, accounts receivable, short-term investments and certain of its long-term investments and provides for any amounts that are not collectible. United Way of KFL&A has provided for certain pledges receivable as disclosed in note 3. United Way of KFL&A has determined that there is no impairment to the accounts receivable or the relevant investment balances as at December 31, 2015.

UNITED WAY OF KFL&A

Notes to Financial Statements (continued)

Year ended December 31, 2015

17. Re-allocation of administration expenses:

General management and administrative expenses are re-allocated between fundraising expenses, Community investment programs expenses, and Community impact initiatives expenses based on the organization's budget allocation at the beginning of the year in which the administrative expenses are incurred. This re-allocation is based on pro-rated staff time.

	2015	2014
Fundraising	44%	33%
Community investment programs	23%	28%
Community impact initiatives	33%	39%
	100%	100%

18. Management of capital:

United Way of KFL&A defines its capital as the amounts included in its net assets.

Contributions restricted for endowment consist of externally restricted donations received by United Way of KFL&A. The endowment principal is required to be maintained intact. The investment income must be used in accordance with the various purposes established by the donors. United Way of KFL&A ensures, as part of its fiduciary responsibilities, that all funds received with a restricted purpose are expended for the purpose for which they were provided.

United Way of KFL&A manages the net asset structure and makes adjustments in light of changes in economic conditions and the risk characteristics of the underlying assets.

United Way of KFL&A's objective when managing capital is to safeguard its ability to sustain itself as a going concern so that it can continue to provide the appropriate level of benefits and services to its beneficiaries and stakeholders. A portion of United Way of KFL&A's capital is restricted in that the organization is required to meet certain requirements to utilize its externally and internally restricted net assets, as described in note 9 for Reserves. United Way of KFL&A has internal control processes to ensure that the restrictions are met prior to the utilization of these resources and has been in compliance with these restrictions throughout the year.

Management and the Board of Directors carefully considers fundraising campaigns, grants, sponsorship and investment income to ensure that sufficient funds will be available to meet United Way of KFL&A's short and long-term objectives.

United Way of KFL&A monitors its financial performance against an annual budget. In the event that revenue declines, United Way of KFL&A will budget for reduced distributions and reduced operational expenses.

UNITED WAY OF KFL&A

Notes to Financial Statements (continued)

Year ended December 31, 2015

19. Comparative information:

Certain comparative information has been reclassified to conform with the financial statement presentation adopted in the current year.

20. Subsequent event:

In early 2016, a donor made a commitment of \$1.2 million through the United Way of KFL&A. This gift will be paid over 5 years and will support a home for homeless youth, age 16 to 19 years. These funds will be designated, through the United Way of KFL&A, to the Kingston Youth Shelter to establish an additional transitional home with beds and full-time staff.

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Schedule 1 - Administration, Fundraising and United Way Community Investments Programs Expenses

Year ended December 31, 2015, with comparative information for 2014

	Administration	Fundraising	Community Investment Programs	2015 Total	2014 Total
Direct costs:					
Salaries and benefits	\$ 148,116	\$ 367,174	\$ 161,314	\$ 676,604	\$ 711,747
Other direct costs	53,771	99,158	21,170	174,099	174,614
	201,887	466,332	182,484	850,703	886,361
Amortization of capital assets	20,618	–	–	20,618	16,150
Occupancy costs	8,255	20,636	10,703	39,594	34,292
Total expenses before reallocation of administrative expenses and cost recovery	230,760	486,968	193,187	910,915	936,803
Reallocation of administrative expenses (note 17)	(230,760)	101,534	53,075	(76,151)	(126,819)
Cost recovery	–	(31,532)	–	(31,532)	(27,392)
Total expenses	\$ –	\$ 556,970	\$ 246,262	\$ 803,232	\$ 782,592