

Notes to Financial Statements (In thousands of dollars)

1. Purpose of the Organization:

The mission of United Way of Greater Toronto ("United Way") is to meet urgent human needs and improve social conditions by mobilizing the community's volunteer and financial resources in a common cause of caring.

United Way is registered as a charitable organization under the *Income Tax Act* (Canada) (the "Act") and, as such, is exempt from income taxes and is able to issue donation receipts for income tax purposes. In order to maintain its status as a registered charity under the Act, United Way must meet certain requirements within the Act. In the opinion of management, these requirements have been met.

2. Significant accounting policies:

The financial statements have been prepared in accordance with generally accepted accounting principles applied within the framework of the significant Canadian accounting policies summarized below:

(a) Revenue recognition:

United Way follows the deferral method of accounting for campaign revenue.

The campaign revenue reported in these financial statements represent amounts received or receivable in connection with the 2006 campaign and the related distributions made from the proceeds of that campaign in 2007. This includes pledges and donations which the donors designate for payment to partners and member agencies, other United Ways and non-United Way charities. The results of the 2007 campaign will be reported in the 2008 financial statements. Funds received from the 2007 campaign to December 31, 2007 are shown as deferred campaign revenue. Fundraising costs applicable to this campaign are deferred and included in prepaid expenses.

United Way is requested by certain employers and employee groups, to act as the coordinator of their national campaigns, to receive and disburse funds on behalf of other United Ways within their local communities. Funds received under these centrally coordinated campaigns are included in the Campaign Revenue amount on the statement of operations. Funds disbursed on behalf of other United Ways, under centralized campaigns, are reported as a reduction to revenue in these financial statements. Funds received by United Way from other United Ways under similar campaigns are reported separately in the revenue section of these financial statements.

Designated donations and funds received under flowthrough arrangements for other charities that have not been disbursed at year end are recorded as designated and flowthrough gifts payable.

Grant revenue reported in these financial statements represents funds received from provincial and municipal governments. Other income reported in these financial statements represents funds received from foundations and utilities. Government grant revenue and other income are received for programs administered by United Way. The related program expenses and grant disbursements are included in the distributions and community programs section of the financial statements.

Endowment contributions and capital appreciation on investments that must be added to the principal are recognized as direct increases in net assets in the year in which they are received.

Contributions for capital assets are deferred and amortized into revenue at a rate corresponding with the amortization rate for the related capital asset.

Investment income includes dividends, interest, income distributions from pooled funds, realized gains (losses), and the net change in unrealized gains (losses) for the year.

(b) Cash and cash equivalents:

The United Way considers deposits in banks, certificates of deposit and short-term investments with original maturities of three months or less as cash and cash equivalents.

(c) Financial instruments:

Cash and cash equivalents and investments are classified as held for trading and stated at fair value. Campaign pledges receivable and other receivables are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities and designated and flowthrough gifts payable are classified as other financial liabilities, which are measured at amortized cost.

In determining fair values, adjustments have not been made for transaction costs as they are not considered significant. The unrealized gain or loss on investments, being the difference between book value and fair value, is included in investment income in the statement of operations.

Transactions are recorded on a trade date basis.

Fair values of investments are determined as follows:

- (i) Fixed income securities and equities are valued at year-end quoted market prices, where available. Pooled funds are valued based on reported unit values. Where quoted market prices are not available, estimated fair values are calculated using comparable securities.
- (ii) Short-term notes, treasury bills and term deposits maturing within a year are stated at cost, which together with accrued interest income approximates fair value given the short-term nature of these investments.

(d) *Capital assets:*

Purchased capital assets are stated at acquisition cost and are amortized over their useful lives. Amortization is provided on the following bases and the estimated useful lives of the assets as follows:

Assets	Basis	Rate
Computer equipment and software	Straight line	3-5 years
Furniture and fixtures	Declining balance	15%
Leasehold improvements	Straight line	Term of lease
Delivery van	Declining balance	25%

(e) *Volunteer services:*

United Way benefits from substantial services in the form of volunteer time. Since these invaluable donated services are not purchased by United Way, they are not recorded in these financial statements.

(f) *Employee future benefits:*

United Way has a combined registered defined benefit and defined contribution pension plan covering substantially all of its employees and an unregistered defined benefit pension plan. The benefits are based on years of service. The cost of the defined benefit and defined contribution program is currently being funded. The unregistered plan is unfunded; the cost is expensed and accrued annually.

United Way accrues its obligations under its employee pension plans as the employee renders the services necessary to earn the pension. United Way has adopted the following policies:

- (i) The cost of pensions earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation, and retirement ages.
- (ii) For the purpose of calculating expected return on plan assets, those assets are valued at fair value. The most recent actuarial valuation of the pension plan for funding purposes was as of January 1, 2007. The date of the next required valuation is January 1, 2010.
- (iii) The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees, which for the pension plan is 20 years.
- (iv) The unamortized transitional asset is amortized over 20 years.

(g) *Calculation of cost revenue ratios:*

United Way uses the following method to calculate cost revenue ratios:

	2007	2006
Total gifts	\$ 106,261	\$ 96,308
Breakdown of fundraising expenses on statement of operations:		
Direct fundraising expenses	\$ 11,074	\$ 10,703
General management and administrative expenses	2,686	2,559
Total fundraising expenses	\$ 13,760	\$ 13,262
Direct fundraising expenses as a percentage of total gifts	10.4%	11.1%
General management and administrative expenses as a percentage of total gifts	2.5%	2.7%
Total fundraising expenses as a percentage of total gifts	12.9%	13.8%

(h) *Allocation of expenses:*

General management and administrative expenses are allocated between fundraising expenses and allocations and needs assessment based on effort.

General management and administrative expenses are allocated as follows:

	2007	2006
Fundraising	84.3%	84.9%
Allocations and needs assessment	15.7%	15.1%

(i) *Use of estimates:*

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent 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.

3. Future accounting changes:

The Canadian Institute of Chartered Accountants ("CICA") has issued two new accounting standards on financial instruments that revise and enhance the current disclosure requirements but do not change the existing presentation requirements for financial instruments. These new standards will be effective for United Way commencing January 1, 2008. The new disclosures will provide additional information on the nature and extent of risks arising from financial instruments to which United Way is exposed and how it manages those risks.

The CICA has also issued a revised standard relating to intangible assets, effective for years commencing on or after October 1, 2008. This revised standard will require the expensing of certain prepaid fundraising expenses as they are incurred.

Notes to Financial Statements (In thousands of dollars)

4. Youth Challenge Fund (YCF):

The Province of Ontario (the Province) established the YCF in 2006 and appointed United Way as the trustee. The Province advanced United Way the sum of \$15,000 and set up an independent board to oversee the operation of the program over the next three years. As the trustee, United Way is responsible for the operation of the program and financial stewardship of the funds on behalf of the Province.

The financial activities of the YCF are not reported on these financial statements. A separate set of audited financial statements for YCF are produced and filed with the Province.

5. Prepaid expenses:

	2007	2006
Prepaid fundraising expenses related to 2007 campaign	\$ 12,234	\$ –
Prepaid fundraising expenses related to 2006 campaign	–	11,141
Other	190	197
	\$ 12,424	\$ 11,338

6. Investments:

	2007		2006	
	Book value	Fair value	Book value	Fair value
Canadian fixed income securities	\$ 7,650	\$ 7,800	\$ 11,770	\$ 11,866
Canadian equities	–	–	4,865	6,385
Pooled fund investments with The Toronto Community Foundation:				
Canadian fixed income securities and cash	22,492	22,492	18,186	18,186
Canadian equities	14,685	14,685	13,045	13,045
U.S. and global equities	24,785	24,785	14,352	14,352
	61,962	61,962	45,583	45,583
	\$ 69,612	\$ 69,762	\$ 62,218	\$ 63,834

The Canadian fixed income securities produce a yield to maturity of 4.1% (2006: 4.4%) and have a weighted average term to maturity of 2.8 years (2006: 10.0 years).

Investments held for The Tomorrow Fund total \$51,405 (2006: \$51,377) (note 11).

7. Capital assets:

	2007			2006
	Cost	Accumulated amortization	Net book value	Net book value
Computer equipment and software	\$ 4,460	\$ 3,653	\$ 807	\$ 463
Furniture and fixtures	1,008	641	367	283
Leasehold improvements	1,451	950	501	358
Delivery van	36	23	13	17
	\$ 6,955	\$ 5,267	\$ 1,688	\$ 1,121

8. Other deferred revenue:

During the year, United Way received a \$9,000 legal settlement related to a class action against a utility. The United Way was charged with investing the \$9,000 and an amount, equal to the estimated annual income from the funds, to be used to assist specific utility customers who qualify under the Winter Warmth Fund program operated by the United Way and its affiliates, with their bills. The Winter Warmth Fund provides assistance with utility bills to qualifying low-income individuals and families. The Winter Warmth Fund receives other funds in addition to the estimated annual income on the \$9,000.

In the event the Winter Warmth Fund ceases operation, all available funds shall be distributed to Ontario United Way organizations for charitable purposes as each Ontario United Way sees fit. United Way will be entitled to 52% of the distribution and 44 United Way organizations will be entitled to the remaining 48%. United Way's 52% portion of the original \$9,000 settlement is recorded as investments with the offset to other deferred revenue. The remaining 48% of the investments, that are held in trust on behalf of the United Way organizations, are not recorded in these financial statements. The other deferred revenue will be recorded as revenue, in order to match specified expenditures, in the event the Winter Warmth Fund ceases operations.

Investment income related to the \$9,000 will be used to fund the Winter Warmth Fund program needs, if required. Of investment income on the entire \$9,000, \$327 has been recorded as accounts payable and accrued liabilities in these financial statements. The \$327 of investment income will be recorded as revenue as specified expenditures of the Winter Warmth Fund are incurred in 2008.

9. Accrued pension liability:

Information about United Way's defined benefit pension plans is as follows:

	2007	2006
Accrued pension obligation:		
Balance, beginning of year	\$ 6,668	\$ 5,990
Current service cost	567	474
Interest cost	369	333
Benefits paid	(585)	(542)
Past service cost	–	186
Actuarial losses (gains)	(529)	227
Balance, end of year	6,490	6,668
Plan assets:		
Fair value, beginning of year	4,722	4,292
Annual return on plan assets, net of administrative expense	542	491
Employer contributions	583	481
Benefits paid	(585)	(542)
Fair value, end of year	5,262	4,722
Funded status - deficit	(1,228)	(1,946)
Unamortized net actuarial loss	156	939
Unamortized past service cost	171	186
Unamortized transitional asset	(214)	(233)
Accrued pension liability	\$ (1,115)	\$ (1,054)

United Way's deficit amounted to \$177 (2006: \$947) for its registered defined benefit plan and \$1,051 (2006: \$999) for its unregistered defined benefit pension plan.

The accrued pension liability amounted to \$535 (2006: \$538) for the registered plan and \$580 (2006: \$516) for the unregistered defined benefit plan.

The significant actuarial assumptions adopted in measuring United Way's accrued pension obligations are as follows:

	2007	2006
Accrued benefit obligation:		
Discount rate	5.50%	5.25%
Rate of compensation increase	4.25%	4.50%
Benefit costs:		
Discount rate	5.50%	5.25%
Expected long-term rate of return on plan assets	6.00%	6.00%
Rate of compensation increase	4.25%	4.50%

Plan assets consist of:

	2007	2006
Equity securities	58%	59%
Debt securities	40%	39%
Other	2%	2%
	100%	100%

United Way's net defined benefit pension plan expense is as follows:

	2007	2006
Current service cost, net of employees' contributions	\$ 567	\$ 474
Interest cost	369	333
Expected return on plan assets	(1,072)	(264)
Amortization of transitional asset	(19)	(19)
Amortization of unrecognized net actuarial loss	799	24
Net pension plan expense	\$ 644	\$ 548

United Way contributed \$122 (2006: \$105) to its defined contribution plan.

10. Invested in capital assets:

Invested in capital assets is comprised of the following:

	2007	2006
Capital assets	\$ 1,688	\$ 1,121
Deferred capital contributions	–	(64)
	\$ 1,688	\$ 1,057

The change in invested in capital assets is calculated as follows:

	2007	2006
Excess (deficiency) of revenue over distributions and expenses:		
Amortization of capital assets	\$ (448)	\$ (515)
Amortization of deferred capital contributions	64	128
	(384)	(387)
Net change in invested in capital assets:		
Purchase of capital assets	1,015	415
	\$ 631	\$ 28

11. The Tomorrow Fund Endowment:

The Tomorrow Fund Endowment represents internally and externally restricted amounts. Externally restricted amounts refer to those gifts which have been specifically directed to The Tomorrow Fund™ by the donor. Internally restricted amounts are those which were given by donors to United Way without such a direction, and have been transferred to The Tomorrow Fund™ by the Board.

The Tomorrow Fund Endowment consists of the following:

	2007	2006
Externally restricted	\$ 15,479	\$ 14,831
Internally restricted	35,926	36,546
	\$ 51,405	\$ 51,377

The following amounts were transferred between Unrestricted and The Tomorrow Fund Endowment:

	2007	2006
Investment income on:		
Internally restricted funds	\$ 423	\$ 2,554
Externally restricted funds	187	945
Bequests	935	3,327
Distributions	(2,188)	(1,777)
Transfer from (to) Unrestricted to (from) The Tomorrow Fund Endowment	\$ (643)	\$ 5,049

Endowment contributions of \$798 (2006: \$3,663) and capital appreciation on investments that must be added to the principal of \$127 (2006: \$124) have been added to The Tomorrow Fund Endowment. These amounts are not included in revenue in the statement of operations, but have been added directly to The Tomorrow Fund Endowment assets as stated in note 2(a).

12. Unrestricted net assets:

Unrestricted net assets, which are comparable to the retained earnings of a for-profit organization, are available to sustain operations and funding to member agencies in the event of unforeseen conditions, such as a significant shortfall in fundraising efforts. The Board of Trustees also has the authority to make the internally restricted portion of The Tomorrow Fund™ available, should the circumstances warrant. The Board has balanced this need for stability of operations and agency funding with a desire to maximize current funding to the community. As a result, the Board has directed that the balance in unrestricted net assets be reduced to a target of \$3,000 to \$5,000 over the next two years through specific community programs.

13. One-time donor specified donations to United Way of Greater Toronto programs, agency projects, and grant programs:

United Way receives special one-time gifts from donors. These special gifts are targeted to specific programs, capital projects or grant programs managed by United Way or its member agencies. United Way works with special gifts donors to match their specific giving interest to United Way funding priorities in the community.

Notes to Financial Statements (In thousands of dollars)

14. Commitments:

(a) Multi-year funding agreements:

United Way has entered into agreements with certain member agencies and partners to set their allocations over two to five-year terms. The agreements can be renewed by mutual consent.

Funding commitments for the next three years are as follows:

2008	\$ 39,416
2009	21,119
2010	3,590
	<u>\$ 64,125</u>

(b) Long-term lease:

United Way leases office premises and certain computer equipment under long-term operating leases expiring up to April 30, 2015. Rental payments, excluding operating costs and realty taxes, over the next five years and thereafter are as follows:

2008	\$ 821
2009	848
2010	865
2011	890
2012	756
Thereafter	1,937
	<u>\$ 6,117</u>

(c) Specific project funding:

In 2007, United Way approved financial support of \$1,800 to establish facilities primarily for community and social services and community development planning grants. These projects are anticipated to be completed by 2010.

15. Flowthrough arrangements:

United Way received and distributed \$4,963 (2006: \$4,927) under the flowthrough arrangements described in note 2(a) relating to the 2006 campaign (prior year amounts related to the 2005 campaign).

16. Financial instruments:

The fair value of investments is equal to the quoted market value, as disclosed in note 6. The fair values of other financial assets and liabilities, being cash and cash equivalents, campaign pledges receivable, other receivables, accounts payable and accrued liabilities and designated and flowthrough gifts payable, approximate their carrying values due to the relatively short-term nature of these financial instruments.

Campaign pledges receivable and other receivables are subject to credit risk. Cash and cash equivalents are held in credit-worthy financial institutions.

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 companies or governments 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. The value of securities denominated in a currency other than Canadian dollars will be affected by changes in the value of the Canadian dollar in relation to the value of the currency in which the security is denominated.

United Way mitigates these risks with an investment policy designed to limit exposure and concentration while achieving optimal return within reasonable risk tolerances.

17. Disclosure in compliance with the Ethical Fundraising and Financial Accountability Code:

During 2007, United Way adopted the "Ethical Fundraising and Financial Accountability Code" (the "Code") of Imagine Canada. During calendar year 2007, United Way issued \$97,439 of charitable tax receipts. Other financial disclosures required by the Code are located elsewhere in these financial statements.

18. Comparative figures:

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