TORONTO KIWANIS BOYS AND GIRLS CLUBS

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF TORONTO KIWANIS BOYS AND GIRLS CLUBS

We have audited the accompanying financial statements of Toronto Kiwanis Boys and Girls Clubs, which comprise the balance sheet as at December 31, 2015 and the statements of revenues and expenses, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

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 qualified audit opinion.

Basis for Qualified Opinion

In common with many similar organizations, Toronto Kiwanis Boys and Girls Clubs derives revenues from fund-raising events and 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 Toronto Kiwanis Boys and Girls Clubs and we are not able to determine whether any adjustments might be necessary to revenues, deficiency of revenues over expenses, assets and net assets for the years ended December 31, 2015 and 2014.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, if any, these financial statements present fairly, in all material respects, the financial position of Toronto Kiwanis Boys and Girls Clubs as at December 31, 2015 and its financial performance and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Report on Other Legal and Regulatory Requirements

In accordance with Corporations Act (Ontario), we report that the Canadian accounting standards for not-for-profit organizations have been applied on a basis consistent with that of the preceding year.

Clarke Henning LLP

CHARTERED ACCOUNTANTS
Licensed Public Accountants

Toronto, Ontario
April 20, 2016

TORONTO KIWANIS BOYS AND GIRLS CLUBS

BALANCE SHEET

AS AT DECEMBER 31, 2015

	2015	2014
ASSETS		
Current assets		
Cash *(note 2)*	$ **1,110,958**	$ 959,996
Grants receivable	**65,221**	77,613
HST rebate	**37,126**	44,259
Contributions receivable - current portion *(note 3)*	**225,000**	225,000
Prepaid expenses	**29,821**	22,856
	1,468,126	1,329,724
Contributions receivable - long-term *(note 3)*	**-**	225,000
Property and equipment *(note 4)*	**4,225,579**	4,865,534
	5,693,705	6,420,258
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	**126,860**	113,833
Deferred revenues *(note 5)*	**455,558**	318,235
Current portion of long-term debt *(note 6)*	**115,914**	312,126
	698,332	744,194
Long-term debt *(note 6)*	**782,500**	898,414
Deferred contributions *(note 7)*	**15,000**	30,000
Deferred capital contributions *(note 8)*	**3,998,214**	4,513,391
	5,494,046	6,185,999
NET ASSETS		
Invested in property and equipment	**227,365**	352,143
Unrestricted net assets (deficiency)	**(27,706)**	(117,884)
	199,659	234,259
	$ **5,693,705**	$ 6,420,258

Approved on behalf of the Board:

_______________, Director _______________, Director

TORONTO KIWANIS BOYS AND GIRLS CLUBS

STATEMENT OF REVENUES AND EXPENSES

YEAR ENDED DECEMBER 31, 2015

		2015		2014
Revenues				
Funding from The Kiwanis Club of Toronto sources				
The Toronto Kiwanis T.P. Loblaw Charitable Trust	$	**273,600**	$	273,600
The Kiwanis Club of Toronto Foundation		**12,600**		15,100
		286,200		288,700
Government and other grants *(note 9)*		**1,218,269**		1,179,179
United Way of Greater Toronto grant		**295,268**		289,468
Donations and fundraising		**403,425**		290,668
User fees		**147,442**		183,153
Amortization of deferred capital contributions *(note 8)*		**601,245**		590,486
Other		**60,087**		57,694
		3,011,936		2,879,348
Expenses				
Salaries and benefits		**1,506,553**		1,390,860
Occupancy		**215,173**		207,860
Fundraising		**27,905**		20,379
Program		**506,046**		516,906
Interest on long-term debt		**37,459**		49,283
Depreciation		**639,955**		639,955
General and administrative		**113,445**		111,572
		3,046,536		2,936,815
Deficiency of revenues over expenses for the year	$	**(34,600)**	$	(57,467)

TORONTO KIWANIS BOYS AND GIRLS CLUBS

STATEMENT OF CHANGES IN NET ASSETS

YEAR ENDED DECEMBER 31, 2015

	Invested in Property and Equipment	Unrestricted	Total 2015	Total 2014
Balance - at beginning of year	$ **352,143**	$ **(117,884)**	$ **234,259**	$ 291,726
Deficiency of revenues over expenses for the year	**-**	**(34,600)**	**(34,600)**	(57,467)
Inter-fund transfers representing				
Depreciation	**(639,955)**	**639,955**	**-**	-
Capital contributions	**(86,068)**	**86,068**	**-**	-
Amortization of deferred capital contributions	**601,245**	**(601,245)**	**-**	-
Balance - at end of year	$ **227,365**	$ **(27,706)**	$ **199,659**	$ 234,259

TORONTO KIWANIS BOYS AND GIRLS CLUBS

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2015

	2015	2014
Cash flows from operating activities		
Cash receipts from The Kiwanis Club of Toronto sources	**$ 286,200**	$ 273,700
Cash receipts from government and other grants	**1,646,855**	1,495,617
Cash receipts from fundraising and donations	**404,822**	278,766
Cash receipts from other revenues	**207,529**	240,847
Cash paid to employees and suppliers	**(2,360,464)**	(2,241,290)
Interest paid	**(32,922)**	(45,520)
	152,020	2,120
Cash flows from financing activities		
Contributions received *(note 3)*	**225,000**	350,000
Spruce St. Redevelopment project capital contributions received, net of fundraising costs	**86,068**	133,816
	311,068	483,816
Cash flows from investing activities		
Repayment of long term debt	**(312,126)**	(308,452)
Purchase of vehicle, furniture and equipment	**-**	(4,776)
	(312,126)	(313,228)
Change in cash during the year	**150,962**	172,708
Cash - at beginning of year	**959,996**	787,288
Cash - at end of year	**$ 1,110,958**	$ 959,996

Toronto Kiwanis Boys and Girls Clubs (the "Clubs"), is a voluntary organization providing a wide range of programs and services for children and youth aged 6 to 18 years, through professional staff, part time program staff and volunteers. The Clubs provide a safe and positive environment where children and youth can learn, grow and develop the skills they will need as contributing members of society.

Toronto Kiwanis Boys and Girls Clubs is a registered charitable organization incorporated without share capital under the laws of the Province of Ontario and, as such, is generally exempt from income tax.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared using Canadian accounting standards for not-for-profit organizations and include the following significant accounting policies:

Financial Assets and Liabilities

The Clubs initially measures its financial assets and liabilities at fair value. The Clubs subsequently measures all its financial assets and financial liabilities at amortized cost.

Financial assets and liabilities measured at amortized cost include cash, grants receivable, contributions receivable, accounts payable and accrued liabilities and long-term debt.

Property and Equipment and Depreciation

Property and equipment are recorded at cost. Repairs and maintenance costs are charged to expenses. Betterments which extend the intended life of an asset are capitalized.

Depreciation is provided at the following annual rates on a straight line basis:

Spruce St. Redevelopment	- over the remaining term of the lease plus renewal option
Equipment	- 4 years
Vehicle	- 4 years

The above rates are reviewed annually to ensure still appropriate. Any changes are adjusted for on a prospective basis. If there is an indication that the capital assets may be impaired, an impairment test is performed that compares carrying amount to net recoverable amount. There were no impairment indicators in 2015.

Deferred Contributions

Deferred contributions are amortized over a ten year period on a straight line basis (see note 7 for additional details).

Deferred Capital Contributions

Funds received for the acquisition of property and equipment are deferred in the accounts and amortized to revenue on the same basis as the depreciation on the related property and equipment.

Fundraising revenues included in deferred capital contributions is net of fundraising costs.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition

The Clubs use the deferral method in accounting for grants. Accordingly, grants subject to externally imposed restrictions are initially recorded as deferred revenue and are subsequently recognized as revenue in the period in which the related expenses are incurred.

Contributions from governments, foundations and other funding agencies that are not for a specific purpose are recognized as revenue when received.

Donations are recognized as revenue when received.

Revenues from fundraising events are recognized as revenue in the period in which the event takes place.

User fees and other revenues are recognized as revenue when the service has been performed or revenue has been earned.

Contributed Goods and Services

Contributed goods and services are not recorded in the accounts of the Clubs, except when fair value of such goods and services can reasonably be established and when the goods and services are normally purchased by the Clubs and would be paid for if not donated.

Contributed goods and services consisted of food contributed to the Clubs. Contributed goods and services are recorded in the financial statements at their estimated fair value of $13,200 ($13,200 - 2014).

Use of Estimates

The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year.

Key areas where management has made difficult, complex or subjective judgments, often as a result of matters that are uncertain, include, among others, useful lives for depreciation and amortization of property and equipment, accrued liabilities and other assets and liabilities valuation. Actual results could differ from these and other estimates, the impact of which would be recorded in future periods.

2. BLOCKED BANK ACCOUNT

Under the term loan agreement *(see note 6)* with Ontario Infrastructure and Lands Corporation ("OILC"), the Clubs is required to maintain a blocked bank account into which any funds raised in the fundraising program associated with the Spruce St. Redevelopment project must be deposited. The Clubs have no right of withdrawal or to deal with the funds in the account. OILC is entitled to all of the monies in the account except with respect to The Kiwanis Club of Toronto and the Toronto Kiwanis TP Loblaw Charitable Trust. The funds in the account can be used to repay the annual principal payment of $200,000 due to the Toronto Kiwanis TP Loblaw Charitable Trust credit facility *(see note 6)*.

As security, the Clubs have given OILC a first priority security interest in and a lien on the Clubs right, title and interest in the blocked account. All fees and costs associated with the account are to be incurred by the Clubs.

As of December 31, 2015, the account had $306,965 on deposit ($315,501 - 2014).

3. CONTRIBUTIONS RECEIVABLE

The Clubs entered into an agreement on March 3, 2011 with Miles Nadal regarding a donation commitment of $1,500,000 for the 101 Spruce St. Redevelopment project. The amount receivable is the last instalment due under the agreement.

Under the terms of the amended agreements, funds are due as follows:

	2015	*2014*
By March 15, 2015	$ -	$ 225,000
By March 15, 2016	**225,000**	225,000
	225,000	450,000
Less current portion	**225,000**	225,000
Long term portion	**$ -**	$ 225,000

4. PROPERTY AND EQUIPMENT

The details of property and equipment are as follows:

			Net Book Value	
	Cost	*Accumulated Depreciation*	*2015*	*2014*
Spruce St. Redevelopment	**$ 6,564,925**	**$ 2,385,570**	**$ 4,179,355**	$ 4,776,406
Equipment	**96,845**	**88,007**	**8,838**	33,049
Vehicle	**74,772**	**37,386**	**37,386**	56,079
	$ 6,736,542	**$ 2,510,963**	**$ 4,225,579**	$ 4,865,534

5. DEFERRED REVENUES

The details of deferred revenues are as follows:

	Balance at December 31, 2014	*Funds Received in 2015*	*Transferred to Revenue in 2015*	***Balance at December 31, 2015***
Boys and Girls Clubs	$ 62,362	$ 259,208	$ (154,672)	**$ 166,898**
Miscellaneous	255,873	295,859	(263,072)	**288,660**
	$ 318,235	$ 555,067	$ (417,744)	**$ 455,558**

6. LONG-TERM DEBT

Details of long-term debt are as follows:

	2015	*2014*
1. Credit facility from The Toronto Kiwanis TP Loblaw Charitable Trust with a limit of $800,000 and interest at 4.5% per annum. Interest is payable on the 26th of each month following each quarter end on the outstanding balance during that period. Principal payments of $200,000 are due in March of each year. The facility is unsecured.	**$ -**	$ 200,000
2. Credit facility with Ontario Infrastructure and Lands Corporation ("OILC"). Non-revolving 5 year fixed rate term loan, interest at 3.5% per annum and principal payable semi-annually until maturity on October 15, 2017.	**898,414**	1,010,540
	898,414	1,210,540
Less current portion	**115,914**	312,126
Long term portion	**$ 782,500**	$ 898,414

Maturities of long-term debt in each of the next two years is as follows:

Fiscal year	2016	$ 115,914
	2017	782,500
		$ 898,414

The credit facility with The Toronto Kiwanis TP Loblaw Charitable Trust was used as a bridge loan until the Miles Nadal Spruce St. Redevelopment project donation was received. Payment of the donation is to be used to repay this facility.

The payments on the term loan with OILC is based on a 10 year amortization with full principal amount payable in the amount of $662,670 due on October 15, 2017.

6. LONG-TERM DEBT (continued)

Security for the term loan with OILC is as follows:

1. First ranking leasehold charge/mortgage on 101 Spruce Street
2. First ranking general security agreement on all assets of the project.
3. First priority assignment of all fundraising campaign pledges associated with the Spruce St. Redevelopment project.
4. Assignment of rents receivable.
5. A guarantee signed by Kiwanis Club of Toronto representing 25% of the balance outstanding of the loan amount.
6. OILC to be added to the Clubs' insurance as a loss payee.
7. A blocked bank account which entitles OILC to the funds deposited (see note 2).

The Clubs have agreed to the following covenants:

1. The Clubs will embark on a separate capital fundraising program with all funds raised deposited into a blocked account with no withdrawal privileges. All excess proceeds are to repay the funds advanced under the credit facilities.
2. All operating surpluses will be used to retire the advances under the credit facilities.
3. All HST rebates due on the project are to be used to repay the advances.
4. The Clubs shall not incur additional indebtedness pertaining to the project or make any loans, guarantees to or investment in any affiliated or unaffiliated companies.
5. The Clubs will maintain its status as a not for profit corporation and will maintain sufficient insurance on the property.
6. The Clubs will not incur any additional debt pertaining to the Spruce St. Redevelopment project, without prior consent of OILC.

The Clubs is in compliance with the above covenants.

7. DEFERRED CONTRIBUTIONS

Deferred contributions consist of funds received in 2006 to be used for the funding of the summer camp program over a ten year period. The changes in the deferred contributions are as follows:

	2015	2014
Balance - at beginning of year	**$ 30,000**	$ 45,000
Amortization of deferred contributions	**15,000**	15,000
Balance - at end of year	**$ 15,000**	$ 30,000

8. DEFERRED CAPITAL CONTRIBUTIONS

Deferred capital contributions represent the unamortized amount of contributions received for the purchase of equipment and the construction of 101 Spruce Street Redevelopment project. Changes in the deferred capital contributions are as follows:

	2015	*2014*
Balance - at beginning of year	**$ 4,513,391**	$ 4,970,061
Capital contributions received - Spruce St. Redevelopment project	**86,068**	133,816
Amortization of deferred capital contributions	**(601,245)**	(590,486)
Balance - at end of year	**$ 3,998,214**	$ 4,513,391

9. GOVERNMENT GRANTS AND OTHER GRANTS

The details of government and other grants are as follows:

	2015	*2014*
Human Resources Development Canada, Summer Career Placements	**$ 42,146**	$ 64,237
City of Toronto		
General and Recreational Grants Program	**48,555**	47,555
Community Services	**46,090**	45,140
Children's Services	**19,504**	19,504
Ministry of Health Promotions, After School Program	**539,301**	541,125
Boys and Girls Club of Canada	**127,172**	119,194
Amortization of deferred contributions	**15,000**	15,000
Other miscellaneous grants	**380,501**	327,424
	$ 1,218,269	$ 1,179,179

10. FINANCIAL INSTRUMENTS AND RISK EXPOSURE

The Clubs is exposed to various risks through its financial instruments. The following analysis provides a measure of the Clubs' risk exposure at the balance sheet date.

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Clubs' main credit risks relate to grants receivable and contributions receivable. In order to reduce its credit risk, the Clubs have entered into agreements with the grantors and contributors. Management has included adequate provision for doubtful accounts receivable in these financial statements.

Liquidity Risk

Liquidity risk is the risk that the Clubs will encounter difficulty in meeting obligations associated with financial liabilities. The Clubs is exposed to this risk mainly in respect of its accounts payable and accrued liabilities, long-term debt and commitments. The Clubs expects to meet these obligations as they come due by generating sufficient cash flow from operations and fundraising campaigns.

10. FINANCIAL INSTRUMENTS AND RISK EXPOSURE (continued)

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk. The Clubs is not exposed to currency or other price risk. The Clubs is mainly exposed to interest rate risk.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Clubs is exposed to interest rate risk on its long-term debt.

11. LEASE COMMITMENTS

The Clubs has a lease agreement for its premises, which expires on December 31, 2019. Under the lease agreement, the Clubs have an option to renew the lease for an additional three years and the Clubs have the right of first refusal if the landlord decides to accept an offer to purchase the building. In addition, the Clubs has a lease for office equipment which expires on December 31, 2020.

The minimum annual lease payments for the next five years are as follows:

	Office Equipment	*101 Spruce Street*
2016	$ 21,261	$ 62,040
2017	21,261	65,148
2018	21,261	68,400
2019	21,261	-
2020	21,261	-
	$ 106,305	$ 195,588

In addition to the minimum rent, the Clubs are required to pay the operating costs which amounted to $155,349 in 2015 ($150,073 - 2014).

12. GUARANTEES AND INDEMNITIES

The Clubs have indemnified its past, present and future directors, officers and volunteers against expenses (including legal expenses), judgments and any amount actually or reasonably incurred by them in connection with any action, suit or proceeding, subject to certain restrictions. The Clubs have purchased directors' and officers' liability insurance to mitigate the cost of any potential future suits and actions, but there is no guarantee that the coverage will be sufficient should any action arise.

In the normal course of business, the Clubs have entered into agreements that include indemnities in favour of third parties, either express or implied, such as in service contracts, lease agreements or sales and purchase contracts. In these agreements, the Clubs agree to indemnify the counterparties in certain circumstances against losses or liabilities arising from the acts or omissions of the Clubs. The maximum amount of any potential liability cannot be reasonably estimated.