

Financial statements of

The United Church of Canada
Foundation/Fondation de l'Église
Unie du Canada

December 31, 2017

The United Church of Canada Foundation/ Fondation de l'Église Unie du Canada

December 31, 2017

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May 17, 2018

Independent Auditor's Report

To the Board of Directors of The United Church of Canada Foundation/Fondation de l'Église Unie du Canada

We have audited the accompanying financial statements of The United Church of Canada Foundation/Fondation de l'Église Unie du Canada, which comprise the statement of financial position as at December 31, 2017 and the statements of operations and changes in fund balances and cash flows for the year then ended, and the related notes, which comprise 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 audit opinion.

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Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of The United Church of Canada Foundation/Fondation de l'Église Unie du Canada as at December 31, 2017 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

**The United Church of Canada Foundation/
Fondation de l'Église Unie du Canada**

Statement of financial position

as at

						December 31,	December 31,
						2017	2016
	General Operating Funds	Gift Funds	Endowed Capital	Internally Restricted Funds	Externally Restricted Funds	Total	Total
	\$	\$	\$	\$	\$	\$	\$
Assets							
Current							
Cash	487,536	506,797	414,286	716,695	785,200	2,910,514	1,505,130
Accounts receivable (Note 4)	10,013	-	-	-	-	10,013	11,801
Prepaid expenses	10,507	-	-	-	-	10,507	8,993
Gift of securities in transit (Note 2)	-	15,918	713,631	-	-	729,549	37,222
Sub-total	508,056	522,715	1,127,917	716,695	785,200	3,660,583	1,563,146
Investments (Note 5)	-	-	26,536,797	913,382	35,461,483	62,911,662	57,136,776
Total Assets	508,056	522,715	27,664,714	1,630,077	36,246,683	66,572,245	58,699,922
Liabilities and fund balances							
Current							
Accounts payable (Note 4)	144,242	522,715	-	-	38,657	705,614	762,850
Deferred revenue	-	-	-	-	-	-	-
Sub-total	144,242	522,715	-	-	38,657	705,614	762,850
Fund balances (Notes 2 and 7)	363,814	-	27,664,714	1,630,077	36,208,026	65,866,631	57,937,072
Total liabilities and fund balances	508,056	522,715	27,664,714	1,630,077	36,246,683	66,572,245	58,699,922

Approved on behalf of The United Church of Canada Foundation

_____ Chairperson, Board of Director

_____ Member of the Board of Director

**The United Church of Canada Foundation/
Fondation de l'Église Unie du Canada**

Statement of operations and changes in fund balances
For the year ended

						December 31,	December 31,
						2017	2016
	General Operating Funds	Gift Funds	Endowed Capital	Internally Restricted Funds	Externally Restricted Funds	Total	Total
	\$	\$	\$	\$	\$	\$	\$
Revenues							
Donations							
General	-	-	-	1,351,936	-	1,351,936	250,078
Designated	-	3,032,726	2,311,621	-	426,225	5,770,572	4,636,009
Investment income	5,067	-	-	-	57	5,124	2,417,238
Other income	-	-	-	71,369	-	71,369	-
	5,067	3,032,726	2,311,621	1,423,305	426,282	7,199,001	7,303,325
Expenses							
Grants (Note 4)	-	2,969,148	-	93,487	2,526,806	5,589,441	5,776,561
Salaries and benefits	233,832	-	-	-	-	233,832	228,635
Fund development	-	-	-	-	-	-	2,451
Marketing and communications	120,498	-	-	-	-	120,498	80,545
Office	170,097	-	-	-	-	170,097	171,564
Investment fees	125,314	-	-	-	-	125,314	114,266
Travel and meeting	16,910	-	-	-	-	16,910	12,328
Professional fees	60,287	-	-	-	-	60,287	38,092
Property and insurance	5,854	-	-	-	-	5,854	5,128
	732,792	2,969,148	-	93,487	2,526,806	6,322,233	6,429,570
Surplus (deficit) before the following	(727,725)	63,578	2,311,621	1,329,818	(2,100,524)	876,768	873,755
Change in fair value of investments	-	(5,076)	-	-	5,616,807	5,611,731	1,277,946
Surplus (deficit)	(727,725)	58,502	2,311,621	1,329,818	3,516,283	6,488,499	2,151,701
Fund balances, beginning of year	363,814	-	25,353,093	299,835	31,920,330	57,937,072	54,559,951
Transfer from the United Church	-	-	-	-	1,441,060	1,441,060	1,225,420
Net inter-fund transfers (Note 6)	727,725	(58,502)	-	424	(669,647)	-	-
Fund balances, end of year	363,814	-	27,664,714	1,630,077	36,208,026	65,866,631	57,937,072

The United Church of Canada Foundation/ Fondation de l'Église Unie du Canada

Statement of cash flows

For the year ended

	December 31, 2017	December 31, 2016
	\$	\$
Operating		
Surplus	6,488,499	2,151,701
Item not affecting cash		
Change in fair value of investments	(5,611,731)	(1,277,946)
Surplus without non-cash items	876,768	873,755
Changes in non-cash working capital items		
Accounts receivable	1,788	(3,257)
Prepaid expenses	(1,514)	(8,255)
Accounts payable	(57,236)	(136,117)
Deferred revenue	-	(30,854)
Other non-cash item		
Gift of securities in transit	(692,327)	-
	127,479	695,272
Investing		
Transfer from the United Church	1,441,060	1,225,420
Change of investments	(163,155)	(1,531,115)
	1,277,905	(305,695)
Increase in cash	1,405,384	389,577
Cash, beginning of year	1,505,130	1,115,553
Cash, end of year	2,910,514	1,505,130

The United Church of Canada Foundation/ Fondation de l'Église Unie du Canada

Notes to the financial statements

December 31, 2017

1. The United Church of Canada Foundation

The United Church of Canada Foundation (the Foundation) was incorporated as a non-share corporation in 2002 under Part II of the *Canada Corporations Act* and began operations in 2003. It received its certificate of continuance under the *Canada Not-for-Profit Corporations Act* in 2014. It is registered as a charitable organization under the *Income Tax Act (Canada)*, and is not subject to income taxes provided certain disbursement requirements are met.

The purpose of the Foundation is to receive and maintain funds, and to apply all or part of the principal and income thereof, to support the mission of The United Church of Canada (The United Church), and other registered charities.

As a not-for-profit entity, the Foundation's operations are reliant on revenues generated annually. The Foundation has complied with the external restrictions on the Gift Funds and the Endowment and Externally Restricted Funds.

On July 1, 2009, the Foundation entered into a relationship and governance agreement with The United Church. The agreement specifies how the two entities will work together in the areas of: fundraising, fund management, fund disbursement and grants oversight, staffing and budget, and governance. This agreement is reviewed periodically and was updated in 2015 to reflect the fact that the Foundation pays for all of its operating costs.

2. Financial statement presentation

General

These financial statements include the assets, liabilities, revenues, expenses, and cash flows under the direct administration of the Foundation. Contributed goods and services are not recorded in the financial statements of the Foundation. Volunteers make a contribution of time each year to assist the Foundation by serving on the board and its committees. Due to the difficulty in determining the fair value of such contributed services, they are not recognized in these financial statements.

Fund accounting

These financial statements have been prepared in accordance with Accounting Standards for Not-for-profit Organizations (ASNPO) established by the Chartered Professional Accountants of Canada (CPA Canada) using the restricted fund method of reporting restricted donations.

General - Operating Fund

The Operating Fund records the day-to-day operations of the Foundation.

Gift Funds

The Foundation receives and issues tax receipts for gifts, including gifts of securities intended for congregations and other registered charities. These receipts are recorded as designated donations. The sale proceeds, less brokerage costs, are passed on to the charities of the donors' choice. For each participating donor a personal fund is established, into which gifts are made. The gift of securities in transit is valued at the closing bid price. The disbursements made to the charities from the sale of securities are recorded as a grant expense. Undisbursed proceeds are recorded in deferred revenue and accounts payable until such time, not to exceed twenty-four months, the donor designates a congregation or charity to which the proceeds are to be disbursed.

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Endowed Capital and Restricted Funds

The Foundation holds a number of restricted long-term funds that provide grants in support of the work of all courts of the church. Within these restricted granting funds are:

Endowed Capital Funds: a group of funds with the instructions to invest the capital in perpetuity and the use of the investment income earned for specific purposes which is included in the Other Restricted Funds.

Internally Restricted Funds: a group of funds that have been internally restricted by the board or management (as itemized in note 7) for a stated purpose.

Externally Restricted Funds: a group of funds that have been externally restricted by donors, or other entities that have gifted or transferred funds for a stated purpose. See note 7 for a listing of the largest restricted funds.

3. Summary of significant accounting policies

The significant accounting policies followed by the Foundation are as follows:

Revenue recognition

Restricted donations are recorded as restricted funds. Unrestricted contributions are recorded in the General Operating Fund and are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Net proceeds from the sale of gifted securities to the Gift Funds are recorded as revenue and expense in the period in which the proceeds are received. Undisbursed proceeds are recorded in deferred revenue and accounts payable until such time, not to exceed twenty-four months, the donor designates a congregation or charity to which the proceeds are to be disbursed.

Investments

Investments are stated at fair value, with changes in fair value recognized in the statement of operations and changes in fund balances. Fair value is determined based on the closing bid price.

Financial instruments

The Foundation has classified each of its financial instruments into the following accounting categories. The category for an item determines its accounting.

<u>Asset/Liability</u>	<u>Measurement</u>
Cash	Fair value
Investments	Fair value
Accounts receivable	Amortized cost
Accounts payable	Amortized cost

Liquidity risk

Liquidity risk is the risk the Foundation could encounter difficulty in meeting its obligations as they come due. The Foundation uses its working capital to mitigate such risk.

Interest rate risk

The Foundation does not have any direct investment in instruments that are sensitive to changes in interest rates. The pooled investments of the Foundation, however, include instruments that are sensitive to changes in interest rates. Fluctuations in price are inverse to fluctuation in future yields and so these instruments can stabilize investment income available for distribution.

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Concentration of credit risk

The Foundation has no direct or specific concentration of credit risk because the investments comprise units of a pooled balance fund.

Market risk

Market risk arises from the possibility that changes in market prices will affect the value of the financial instruments of the Foundation. The investments of the Foundation are exposed to fair value fluctuations. The Foundation's short-term instruments (accounts receivable and accounts payable) are not subject to market risk.

Use of estimates

The preparation of financial statements in conformity with ASNPO requires the Foundation to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

4. Related parties

The United Church and the Foundation are subject to a relationship and governance agreement. All transactions between the two entities are conducted at the exchange amount, which is the amount agreed to by the parties.

In 2017, the Foundation reimbursed The United Church for all direct and indirect costs (including salaries, rent, IT support, etc.). This is consistent with the prior year. All direct and indirect costs incurred in 2017 are reflected in these financial statements.

In 2017, the Foundation issued grants to the General Council of the United Church of Canada totaling \$1,618,554 (2016 - \$1,673,596) comprised of grants for: Mission & Service totaling \$925,111 (2016 - \$1,214,867), The United Church funds and programs totaling \$641,911 (2016 - \$435,126), and The United Church for its projects and overseas projects totaling \$51,532 (2016 - \$23,603). The Foundation had \$0 amounts receivable as at December 31, 2017 (2016 - \$0) and amounts payable totaling \$133,699 (2016 - \$155,680). These amounts are non-interest bearing.

5. Investments

On February 15, 2017, the Foundation changed its investment from the Fiera Balanced Fund to the Fiera Balanced EFT Fund (Endowment, Foundation, and Trust), which adheres as closely as possible to the socially responsible investment policy requirements of the Foundation. As at December 31, 2017, the Foundation holds 103,261.339 units in the pooled fund with a unit value of \$609.2379. The Foundation held 5,793,571 units in the Fiera Balanced Fund with a unit value of \$9.8621 as at December 31, 2016.

There are no cash distributions from the Fiera Balanced EFT Fund during the year. All income distributions have been reinvested within the Fund.

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6. Net inter-fund transfers

The Foundation accounts for its fund administrative fees in the net inter-fund transfer accounts. The administrative fees for Endowment Capital and Externally Restricted Funds are charged by the General Operating Fund quarterly based on the average fund balance and are reflected as inter-fund transfers. Funds transferred from The United Church in 2013 that support the program work of the church are charged at 0.25% per quarter. All other funds are charged at 0.375% per quarter.

The administrative fees charged to Externally Restricted Funds were \$839,659 (2016 - \$770,365). The Board approved the transfer of excess amounts not required for operations back to the externally restricted funds in the amount of \$111,934 (2016 - \$120,451). This resulted in a net transfer of \$727,725 (2016 - \$649,914) for the year and reduced the effective rate for the administrative fees from 1.50% to 1.265%.

In 2017, some donors with Gift Funds requested that the balance of their funds totaling \$58,502 be transferred to an Externally Restricted Fund as they plan to request the assets be disbursed over a longer time period than originally anticipated.

Further, there is a transfer of \$1,387,512 from The United Church representing 50% of non-recurring gifts from planned gifts (e.g. bequests) and property sales The United Church received for Mission & Service (2016 - \$1,225,420 representing 40%).

7. Restricted Funds

			2017	2016
	Externally restricted	Internally restricted	Total	Total
	\$	\$	\$	\$
Compassionate Assistance Fund	3,263,021	-	3,263,021	3,100,419
GCO Mission & Service Fund	3,183,919	-	3,183,919	1,602,899
Estate of Reginald Watkins Fund	2,121,063	-	2,121,063	2,168,031
Good Samaritan Fund for Senior's Ministry Fund	1,460,187	-	1,460,187	1,150,818
Estate of Dorothy Jenkins Fund	1,136,898	-	1,136,898	1,084,700
New Ministries Fund (i)	1,102,841	456,691	1,559,532	1,384,307
New Development Learnings Fund (i)	-	456,692	456,692	-
The Wesley C. Smith Fund (i)	81,044	456,691	537,735	51,101
Grants Fund (ii)	-	260,003	260,003	299,835
Other funds (iii)	23,859,053	-	23,859,053	21,378,055
	36,208,026	1,630,077	37,838,103	32,220,165

- i) During the year, the Foundation received an unrestricted gift-in-kind of real estate property from a donor and disposed it for proceeds of \$1,370,074. On December 5, 2017, the Board designated two-thirds of the sales proceeds to two funds – one-third to New Ministries Fund and one-third to The Wesley C. Smith Fund, with the remaining one-third to a new fund for New Development Learnings.

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- ii) The Grants Fund consists of undesignated gifts internally restricted for granting purposes. Grants are made at the discretion of the Joint Grants Committee and the Board.
- iii) Other externally restricted funds include 505 funds with individual balances of less than \$1,000,000.

8. Guarantees

In the normal course of business, the Foundation enters into agreements that meet the definition of a guarantee. The Foundation's primary guarantees are as follows:

- (a) Indemnity has been provided to all trustees, directors, officers and volunteers of the Foundation for various items including, but not limited to, all costs to settle suits or actions due to association with the Foundation, subject to certain restrictions. The Foundation has purchased directors' and officers' liability insurance to mitigate the cost of any potential future suits or actions. The term of the indemnification is not explicitly defined, but is limited to the period over which the indemnified party served as a trustee, director, officer or volunteer of the Foundation. The maximum amount of any potential future payment cannot be reasonably estimated.
- (b) In the normal course of business, the Foundation has entered into agreements that include indemnities in favour of third parties, such as confidentiality agreements as well as engagement letters with advisors and consultants. These indemnification agreements may require the Foundation to compensate counterparties for losses incurred by the counterparties as a result of breaches in representation and regulations or as a consequence of the transaction. The terms of these indemnities are not explicitly defined and the maximum amount of any potential reimbursement cannot be reasonably estimated.

The nature of these indemnification agreements prevents the Foundation from making a reasonable estimate of the maximum exposure due to the difficulties in assessing the amount of liability that stems from the unpredictability of future events and the unlimited coverage offered to counterparties. Historically, the Foundation has not made any significant payments under such or similar indemnification agreements; therefore, no amount has been accrued in the statement of financial position with respect to these agreements.