

Financial statements of

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

December 31, 2014

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

December 31, 2014

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May 6, 2015

Independent Auditor's Report

To the Board of Directors of The United Church of Canada Foundation

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, 2014, 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, 2014 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

31-Dec 31-Dec
2014 2013

	General			Gift Funds	Endowment and Trust Funds	Total	Total
	Operating Fund	Grant Fund	Sub-total				
	\$	\$	\$	\$	\$	\$	\$
Assets							
Current							
Cash	216,583	72,227	288,810	381,552	-	670,362	1,083,020
Accounts receivable (Note 4)	97,221	-	97,221	-	-	97,221	355,934
Prepaid expenses	2,846	-	2,846	-	-	2,846	3,516
sub-total	316,650	72,227	388,877	381,552	-	770,429	1,442,470
Investments (Note 5)	92,226	-	92,226	149,822	53,129,995	53,372,043	49,671,879
Total Assets	408,876	72,227	481,103	531,374	53,129,995	54,142,472	51,114,349
Liabilities and fund balances							
Current							
Accounts payable (Notes 4 and 5)	45,062	-	45,062	400,770	-	445,832	1,828,798
Deferred revenue (Note 5)	-	-	-	130,604	-	130,604	130,604
sub-total	45,062	-	45,062	531,374	-	576,436	1,959,402
Fund balances	363,814	72,227	436,041	-	53,129,995	53,566,036	49,154,947
Total Liabilities and fund balances	408,876	72,227	481,103	531,374	53,129,995	54,142,472	51,114,349

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

	General			Gift Funds	Endowment and Trust Funds	31-Dec 2014	31-Dec 2013
	Operating Fund	Grant Funds	Sub-total			Total	Total
	\$	\$	\$	\$	\$	\$	\$
Revenues							
Donations							
General	-	90,780	90,780	-	-	90,780	-
Designated	-	-	-	2,182,165	1,912,212	4,094,377	3,360,440
Recovery of investment fees	-	-	-	-	-	-	202,682
Revenue from co-investment program	-	-	-	-	-	-	153,770
Investment income	8,758	-	8,758	777	1,278,086	1,287,621	1,135,605
	8,758	90,780	99,538	2,182,942	3,190,298	5,472,778	4,852,497
Expenses							
Grants (Note 4)	352,000	35,409	387,409	2,180,113	2,071,159	4,638,681	3,391,370
Salaries and benefits	239,768	-	239,768	-	-	239,768	-
Fund development	-	-	-	-	-	-	3,049
Resource	47,324	-	47,324	-	-	47,324	23,674
Office	7,820	-	7,820	-	-	7,820	2,125
Investment fees							
Foundation	95,776	-	95,776	-	-	95,776	322,719
Co-investment program	-	-	-	-	-	-	4,416
Travel and meeting	27,811	-	27,811	-	-	27,811	19,872
Professional fees	42,350	-	42,350	-	-	42,350	78,588
Property and insurance	3,775	-	3,775	-	-	3,775	3,166
	816,624	35,409	852,033	2,180,113	2,071,159	5,103,305	3,848,979
Surplus (deficit) before the following	(807,866)	55,371	(752,495)	2,829	1,119,139	369,473	1,003,518
Change in fair value of investments	-	16,856	16,856	(2,829)	4,027,590	4,041,617	5,160,134
Surplus (deficit)	(807,866)	72,227	(735,639)	-	5,146,729	4,411,090	6,163,652
Fund balances, beginning of year	652,495	-	652,495	8,110	48,494,341	49,154,946	13,786,066
Transfer from the United Church	-	-	-	-	-	-	29,205,229
Net inter-fund transfers (Note 6)	519,185	-	519,185	(8,110)	(511,075)	-	-
Fund balances, end of year	363,814	72,227	436,041	-	53,129,995	53,566,036	49,154,947

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

Statement of cash flows

For the year ended

	31-Dec 2014	31-Dec 2013
	\$	\$
Operating		
Surplus	4,411,090	6,163,652
Item not affecting cash		
Change in fair value of investments	(4,041,617)	(5,160,134)
Surplus without non-cash items	369,473	1,003,518
Changes in non-cash working capital items		
Accounts receivable	258,712	(261,196)
Prepaid expenses	670	(670)
Accounts payable	(1,382,966)	906,789
	(754,111)	1,648,441
Investing		
Change in investments	341,453	(1,702,043)
	341,453	(1,702,043)
Decrease in cash	(412,658)	(53,602)
Cash, beginning of year	1,083,020	1,136,622
Cash, end of year	670,362	1,083,020

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

Notes to the financial statements

December 31, 2014

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. In addition, it relies on The United Church to provide support services as described in a relationship and governance agreement (described below). The Foundation has accumulated unrestricted funds over its history, which is included in the general operating fund balance in the statement of fund balances. A portion of the accumulated unrestricted funds is retained as working capital (current assets less current liabilities). The remaining unrestricted funds are available for the use of the Foundation at the Board's discretion. The Foundation has complied with the external restrictions on the Gift Funds and the Endowment and Trust 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.

2. Financial statement presentation

General

These financial statements include the assets, liabilities, revenues, expenses, and cash flows under the direct administration of the Foundation, and exclude those under the administration of the congregations, presbyteries, conferences and partner organizations of the United Church of Canada. Contributed goods and services are not recorded in the financial statements of the Foundation. Volunteers make a substantial contribution of time each year to assist the Foundation in carrying out its activities. 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 Chartered Professional Accountants of Canada (CPA Canada) using the restricted fund method of reporting restricted donations.

General - Operating Fund

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

General - Grant Fund

Grant fund include unrestricted donations that are to be used for grants at the discretion of the Joint Grants Committee and the Board.

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 disbursements made to the charities from the sale of securities are

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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.

Endowment and Trust Funds

Endowment Funds

Endowment Funds have specific restrictions placed by donors with respect to the maintenance of the capital and only the use of investment income accruing to the funds.

Trust Funds

Trust Funds are restricted funds to be spent based on specific donor's restrictions.

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. 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 and contributions receivable	Amortized cost
Accounts payable and accrued liabilities	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, included 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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Summary of significant accounting policies (continued)

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 Church'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 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 2014, the Foundation reimbursed the United Church for staffing related costs (salary and benefits) while the United Church covered indirect operating costs such as rent, IT support, etc. The indirect costs are not reflected in these financial statements.

In 2014, the Foundation issued grants to the Mission and Service totaling \$1,187,996 (2013 - \$651,828) to the United Church funds and programs totaling \$619,272 (2013 - \$194,414) and to The United Church for its projects and overseas projects totaling \$56,220 (2013 - \$177,828). The Foundation had \$90,367 amounts receivable as at December 31, 2014 (2013 - \$0) and amounts payable totaling \$0 (2013 - \$699,611) from/to The United Church which are included in accounts receivable and in accounts payable, respectively. These amounts are non-interest bearing.

The Board has approved a one-time grant representing a fiscal 2013 operating surplus of \$352,000 to the United Church.

5. Investments

The Foundation has adopted the policy of socially responsible investing developed by The United Church. Under that policy, the Foundation has chosen to invest in the Fiera Balanced Fund, which is managed by Fiera Capital Inc. (Fiera) and adheres as closely as possible to a compliance level of at least 99% to the socially responsible investment requirements of the Foundation in 2014. As of December 31, 2014, the Foundation holds 4,345,238 (2013 - 4,126,937) units in the pooled fund with a unit value of \$12.25 (2013 - \$11.99). At December 31, 2014, the Foundation held two bonds totaling \$130,604 (2013 - \$130,604), which are included in investments in the Gift Funds. The receipt of these bonds was recorded as deferred revenue in the statement of financial position.

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6. Net inter-fund transfers

The Foundation accounts for its fund administrative fees and donor undesignated general donations in the net inter-fund transfer accounts. The administrative fees for Endowment and Trust Funds are charged by the General Operating Fund quarterly at 0.25% of the average fund balance and reflected as inter-fund transfers. The administrative fees charged to Endowment and Trust Funds total \$511,075 (2013 -\$449,065).

7. 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.