

Financial statements of

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

December 31, 2016

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

December 31, 2016

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May 23, 2017

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, 2016, 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, 2016 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 positions

as at

31-Dec
2016

31-Dec
2015

	General					Total	Total
	Operating Funds	Unrestricted Funds	sub-total	Gift Funds	Endowed Capital		
	\$	\$	\$	\$	\$	\$	\$
Assets							
Current							
Cash	489,575	299,835	789,410	498,888	27,700	189,132	1,505,130
Accounts receivable	11,801	-	11,801	-	-	-	11,801
Prepaid expenses	8,993	-	8,993	-	-	-	8,993
sub-total	510,369	299,835	810,204	498,888	27,700	189,132	1,525,924
Investments	-	-	-	37,222	25,353,093	31,783,683	57,173,998
Total Assets	510,369	299,835	810,204	536,110	25,380,793	31,972,815	58,699,922
Liabilities and fund balances							
Current							
Accounts payable	146,555	-	146,555	536,110	27,700	52,485	762,850
Deferred revenue	-	-	-	-	-	-	-
sub-total	146,555	-	146,555	536,110	27,700	52,485	762,850
Fund balances	363,814	299,835	663,649	-	25,353,093	31,920,330	57,937,072
Total Liabilities and fund balances	510,369	299,835	810,204	536,110	25,380,793	31,972,815	58,699,922

Approved on behalf of The United Church of Canada Foundation

_____ Chairperson, Board of Directors

_____ Member of the Board of Directors

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

31-Dec 2016 31-Dec 2015

	General					Total	Total
	Operating Funds	Unrestricted Granting Funds	sub-total	Gift Funds	Other Restricted Funds		
	\$					\$	\$
Revenues							
Donations							
General	-	250,078	250,078	-	-	-	250,078
Designated	-	-	-	3,080,118	185,212	1,370,679	4,636,009
Grants	-	-	-	-	-	-	-
Recovery of investment fees	-	-	-	-	-	-	-
Investment income	3,095	17	3,112	2,026	2,412,100	-	2,417,238
	3,095	250,095	253,190	3,082,144	2,597,312	1,370,679	7,303,325
Expenses							
Grants	-	70,069	70,069	3,069,069	2,637,423	-	5,776,561
Salaries and benefits	228,635	-	228,635	-	-	-	228,635
Fund development	2,451	-	2,451	-	-	-	2,451
Resource	80,545	-	80,545	-	-	-	80,545
Office	171,564	-	171,564	-	-	-	171,564
Investment fees	114,266	-	114,266	-	-	-	114,266
Travel and meeting	12,328	-	12,328	-	-	-	12,328
Professional fees	38,092	-	38,092	-	-	-	38,092
Property and insurance	5,128	-	5,128	-	-	-	5,128
	653,009	70,069	723,078	3,069,069	2,637,423	-	6,429,570
Surplus (deficit) before the following	(649,914)	180,026	(469,888)	13,075	(40,111)	1,370,679	873,755
Change in fair value of investments	-	111	111	(13,075)	1,290,910	-	1,277,946
Surplus (deficit)	(649,914)	180,137	(469,777)	-	1,250,799	1,370,679	2,151,701
Fund balances, beginning of year	363,814	124,698	488,512	-	30,089,025	23,982,414	54,559,951
Transfer (to)/from the United Church	-	-	-	-	1,225,420	-	1,225,420
Net inter-fund transfers	649,914	(5,000)	644,914	-	(644,914)	-	-
Fund balances, end of year	363,814	299,835	663,649	-	31,920,330	25,353,093	57,937,072
							54,559,949

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

Statement of cash flows

For the year ended

	31-Dec 2016	31-Dec 2015
	\$	\$
Operating		
Surplus	2,151,701	528,831
Items not affecting cash		
Change in fair value	(1,277,946)	(1,378,278)
Surplus without non-cash items	873,755	(849,447)
Changes in non-cash working capital items		
Accounts receivable	(3,257)	88,677
Prepaid expenses	(8,255)	2,108
Accounts payable	(136,117)	453,135
Deferred revenue	(30,854)	(99,750)
	695,272	(405,277)
Investing		
Transfer from the United Church	1,225,420	465,082
Change of investments	(1,531,114)	385,385
	(305,694)	850,467
Increase in cash	389,578	445,190
Cash, beginning of year	1,115,552	670,362
Cash, end of year	1,505,130	1,115,552

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

Notes to the financial statements

December 31, 2016

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 are included in the general operating fund balance in the statement of operations and changes in 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 Other 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, and exclude those under the administration of the congregations, presbyteries, Conferences and partner organizations of The United Church. 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 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.

General - Unrestricted Granting Fund

The Unrestricted Granting Fund includes 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

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Fondation de l'Église Unie du Canada**
Notes to the financial statements
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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 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.

Endowed Capital and Other 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: Endowment funds have specific restrictions placed by donors with respect to the perpetual maintenance of the original capital of the funds and the use of only the investment income accruing to the funds which is included in the Other Restricted Funds.

Other Restricted Funds: Restricted funds have specific restrictions placed by donors with respect to the maintenance of the capital of the funds, the use of investment income accruing to the funds and the length of time the funds are to be held.

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.

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Summary of significant accounting policies (continued)

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.

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 2016, 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 2016 are reflected in these financial statements.

In 2016, the Foundation issued grants to the Mission & Service totaling \$1,214,867 (2015 - \$1,093,548), to The United Church funds and programs totaling \$435,126 (2015 - \$479,851) and to The United Church for its projects and overseas projects totaling \$23,603 (2015 - \$12,934). The Foundation had \$0 amounts receivable as at December 31, 2016 (2015 - \$399) and amounts payable totaling \$155,680 (2015 - \$119,792). These amounts are non-interest bearing.

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 99% to the socially responsible investment requirements of the Foundation in 2015. As at December 31, 2016, the Foundation holds 5,793,571 (2015 - 4,482,911) units in the pooled fund with a unit value of \$9.8621 (2015 - \$12.10).

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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 Restricted Granting 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 Other Restricted Granting Funds was \$770,365 (2015 - \$755,819). The Board approved the transfer of excess amounts not required for operations back to the restricted funds in the amount of \$120,451 (2015 - \$108,283). This resulted in a net transfer of \$649,914 (2015 - \$647,536) for the year and reduced the effective rate for the administrative fees from 1.50% to 1.27%.

Further, there is a transfer of \$1,225,420 from The United Church representing 40% of non-recurring gifts from planned gifts (e.g. bequests) and property sales The United Church received for Mission & Service (2015 -\$465,082 representing 30%).

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.