

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

Financial Statements
December 31, 2018



Independent auditor's report

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

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of The United Church of Canada Foundation (the Foundation) as at December 31, 2018 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.

What we have audited

The Foundation's financial statements comprise:

- the statement of financial position as at December 31, 2018;
- the statement of operations and changes in fund balances for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under these standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Foundation in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Responsibilities of management and those charged with governance for the financial statements

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

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PwC refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership



In preparing the financial statements, management is responsible for assessing the Foundation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Foundation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Foundation's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they would reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Foundation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Foundation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the foundation to cease to continue as a going concern.



- **Reason:** the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Concord, Ontario
May 24, 2019

The United Church of Canada Foundation / Fondation de l'Église Unie du Canada
 Statement of Financial Position
 As at December 31, 2018

						2018	2017
	General Operating Funds \$	Gift Funds \$	Retained Capital \$	Internally Restricted Funds \$	Externally Restricted Funds \$	Total \$	Total \$
Assets							
Current assets							
Cash	347,811	788,240	-	830,614	4,714	1,967,245	2,810,614
Accounts receivable	31,880	-	-	-	-	31,880	10,713
Prepaid expenses	6,750	-	-	-	-	6,750	10,007
Gifts of securities in transit	-	84,900	-	-	-	84,900	729,549
	385,441	873,140	-	830,614	4,714	2,119,909	3,660,883
Investments	285,293	-	28,620,047	1,035,393	34,050,740	34,390,473	87,811,762
	670,734	873,140	28,620,047	1,866,007	34,055,454	36,485,182	96,472,645
Liabilities							
Current liabilities							
Accounts payable	860,258	702,540	-	-	4,714	1,567,512	1,053,614
Deferred revenue	540,288	782,540	-	-	4,714	1,327,542	785,514
Fund Balances	285,813	-	28,620,047	1,835,093	34,050,740	65,791,703	83,060,321
	670,734	873,140	28,620,047	1,866,007	34,055,454	65,002,131	96,472,645

Approved on Behalf of The United Church of Canada Foundation

Blackton Chairman, Board of Directors

[Signature]

Member of the Board of Directors

The accompanying notes are an integral part of these financial statements.

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, 2018

						2018	2017
	General Operating Funds	GRF Funds	Endowed Capital	Internally Restricted Funds	Externally Restricted Funds	Total	Total
	\$	\$	\$	\$	\$	\$	\$
Revenues							
Contributions							
General	-	-	-	258,562	-	258,562	1,871,756
Designated	-	1,425,467	521,075	-	1,412,805	3,469,847	2,772,552
Investment income	10,270	-	-	1,441	-	11,711	5,114
Other income	-	-	-	-	1,442	1,442	1,259
	<u>10,270</u>	<u>1,425,467</u>	<u>521,075</u>	<u>267,047</u>	<u>1,414,247</u>	<u>3,469,847</u>	<u>4,651,930</u>
Expenses							
GRF	-	1,355,450	25,610	66,003	8,227,657	9,724,520	7,772,141
Scholarship benefits	570,266	-	-	-	-	570,266	235,352
Fund development	1,202	-	-	-	-	1,202	-
Working and communications	122,527	-	-	-	-	122,527	124,496
Repairs	143,572	-	-	-	-	143,572	75,397
Investment fees	153,467	-	-	-	-	153,467	126,314
Travel and meeting	25,753	-	-	-	-	25,753	25,210
Professional fees	56,371	-	-	-	-	56,371	59,257
Property and insurance	7,002	-	-	-	-	7,002	5,775
	<u>1,182,793</u>	<u>1,355,450</u>	<u>25,610</u>	<u>66,003</u>	<u>8,227,657</u>	<u>9,917,915</u>	<u>8,202,332</u>
Surplus (deficit) before the following	(182,493)	69,016	275,465	200,077	(4,813,410)	(4,759,017)	1,449,600
Change in fair value of investments	-	18,790	-	9,123	(257,296)	(229,383)	1,014,351
Surplus (deficit) for the year	(182,493)	87,806	275,465	209,199	(5,070,706)	(4,069,235)	2,463,951
Fund balances – Beginning of year	168,014	-	27,651,714	1,821,107	16,201,236	36,860,871	37,015,172
Transfer to (from) the United Church	-	-	601,700	-	1,201,024	1,802,724	1,441,080
Net inter-fund transfers made to	(82,493)	(82,810)	-	133	(712,375)	(977,565)	1,111,111
Fund balances – End of year	<u>85,521</u>	<u>-</u>	<u>28,253,414</u>	<u>1,821,240</u>	<u>14,488,980</u>	<u>34,772,255</u>	<u>39,570,364</u>

(The accompanying notes are an integral part of these financial statements.)

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

Statement of Cash Flows

For the year ended December 31, 2018

	2018 \$	2017 \$
Cash provided by (used in)		
Operating activities		
Surplus (deficit) for the year	(2,084,238)	8,488,496
Change in fair value of investments	304,816	(5,911,731)
	<u>(1,750,318)</u>	<u>876,768</u>
Changes in non-cash working capital items		
Accounts receivable	(21,886)	1,755
Prepaid expenses	4,148	(1,514)
Accounts payable	476,928	(57,256)
Deferred revenue	-	-
Other non-cash item		
Gift securities in transit	645,249	(652,327)
	<u>(654,876)</u>	<u>127,476</u>
Investing		
Transfer from The United Church	1,968,199	1,441,060
Change in investments	(2,220,585)	(180,155)
	<u>(258,386)</u>	<u>1,277,905</u>
Increase (decrease) in cash during the year	(813,266)	1,405,384
Cash – Beginning of year	<u>2,910,514</u>	<u>1,505,130</u>
Cash – End of year	<u>1,997,249</u>	<u>2,910,514</u>

The accompanying notes are an integral part of these financial statements.

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

Notes to Financial Statements

December 31, 2018

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: fund-raising, 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.

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

Notes to Financial Statements

December 31, 2018

• 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 donor's 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 as the donor designates a congregation or charity to which the proceeds are to be disbursed.

• 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 detailed 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.

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Notes to Financial Statements

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Financial instruments

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

Asset/liability	Measurement
Cash	fair value
Investments	fair value
Accounts receivable	amortized cost
Accounts payable	amortized cost

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 concluded at the exchange amount, which is the amount agreed to by the parties.

In 2018, 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 2018 are reflected in these financial statements.

In 2018, the Foundation issued grants to the General Council of the United Church of Canada totaling \$1,615,397 (2017 – \$1,618,557) comprised of grants for Mission & Service totaling \$1,169,372 (2017 – \$995,911); The United Church funds and programs totaling \$446,152 (2017 – \$641,912); and The United Church for its projects and overseas projects totaling \$29,873 (2017 – \$81,532). The Foundation had \$nil amount receivable as at December 31, 2018 (2017 – \$nil) and amounts payable totaling \$404,321 (2017 – \$393,699). 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 MFT Fund (Enhancement, Foundation and Trust), which adheres as closely as possible to the socially responsible investment policy requirements of the Foundation. As at December 31, 2018, the Foundation holds 107,143,931 units in the pooled fund with a unit value of \$605.1084. The Foundation held 104,261,339 units in the pooled fund with a unit value of \$609.2379 as at December 31, 2017.

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

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 2017 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 \$900,353 (2017 – \$839,659). The Board approved the transfer of excess amounts not required for operations back to the Externally Restricted Funds to the amount of \$137,086 (2017 – \$11,934). This resulted in a net transfer of \$763,468 (2017 – \$827,725) for the year and reduced the effective rate for the administrative fees from 1.30% to 1.22%.

In 2018 there is a transfer of \$1,568,199 from The United Church, \$1,285,021 representing 50% of non-recurring gifts from planned gifts (e.g. bequests) and property sales The United Church received for Mission & Service (2017 – \$1,887,318 representing 50%), \$683,178 representing an estate donation made through The United Church.

7 Restricted Funds

			2018	2017
	Externally restricted \$	Internally restricted \$	Total \$	Total \$
Compassionate Assistance Fund	3,133,953	-	3,133,953	3,263,021
GO Mission & Service Fund	4,392,685	-	4,392,685	2,122,919
Estate of Reginald Watkine Fund	1,800,410	-	1,800,410	2,121,033
Good Samaritan Fund for Serin's Ministry Fund	1,110,274	-	1,110,274	1,480,187
Estate of Dorothy Jenkins Fund	1,081,224	-	1,081,224	1,136,898
New Ministries Fund (i)	658,212	448,056	1,106,267	1,559,632
New Development Learnings Fund (i)	-	458,692	458,692	458,092
The Wesley C. Smith Fund (i)	66,912	480,303	547,215	557,785
Grants Fund (i)	-	478,093	478,093	280,003
Other funds (ii)	22,706,820	-	22,706,820	23,858,053
	<u>34,850,790</u>	<u>1,835,343</u>	<u>36,755,655</u>	<u>37,886,103</u>

- (i) In 2017, 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.

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

Notes to Financial Statements

December 31, 2018

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 495 funds with individual balances of less than \$1,000,000.

8 Risk

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 prices are inversely proportional to fluctuations 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.

9 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.

**The United Church of Canada Foundation/
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- 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 warranties 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.

