

Financial statements of

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

December 31, 2012

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

December 31, 2012

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May 16, 2013

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, 2012, and the statements of operations, 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.



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, 2012 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 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 2012	Dec-31 2011
	General		Gift	Endowment		
	Operating	Undesignated	Funds	Funds	Total	Total
	Funds	Gift Funds	Funds	Funds		
	\$	\$	\$	\$	\$	\$
Assets						
Current						
Cash	265,484	-	802,219	68,919	1,136,622	705,469
Accounts receivable (Note 4)	94,738	-	-	-	94,738	94,589
Prepaid expenses	2,846	-	-	-	2,846	644
	363,068	-	802,219	68,919	1,234,206	800,702
Investments (Notes 5 and 6)	-	-	221,420	13,383,053	13,604,473	4,552,638
	363,068	-	1,023,639	13,451,972	14,838,679	5,353,340
Liabilities and fund balances						
Current						
Accounts payable (Notes 4 and 6)	37,084	-	884,925	-	922,009	485,971
Deferred revenue (Notes 5 and 6)	-	-	130,604	-	130,604	132,922
	37,084	-	1,015,529	-	1,052,613	618,893
Fund balances	325,984	-	8,110	13,451,972	13,786,066	4,734,447
	363,068	-	1,023,639	13,451,972	14,838,679	5,353,340

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
for the year ended

					31-Dec 2012	Dec-31 2011
	General		Gift	Endowment		
	Operating	Undesignated	Fund	Funds	Total	Total
	Fund	Gift Funds	Funds	Funds		
	\$		\$	\$	\$	\$
Revenues						
Donations						
General (note 7)	-	65,538	-	-	65,538	73,356
Designated	-	-	1,601,835	8,572,148	10,173,983	2,992,468
Grants	-	-	-	-	-	-
Revenue from co-investment program (Note 8)	198,705	-	-	-	198,705	185,245
Investment income (loss)	1,655	-	5,192	290,390	297,237	127,378
	200,360	65,538	1,607,027	8,862,538	10,735,463	3,378,447
Expenses						
Grants (Note 6)	117,684	-	1,601,094	126,755	1,845,533	2,612,409
Fund development	4,248	-	-	-	4,248	2,905
Resource	535	-	-	-	535	328
Office	4,707	-	-	-	4,707	5,595
Investment fees from co-investment program						
Congregationals	9,369	-	-	-	9,369	23,243
Foundation	59,885	-	-	-	59,885	25,015
Travel and meeting	16,187	-	-	-	16,187	6,690
Professional fees	16,706	-	-	-	16,706	5,556
Property and insurance	3,899	-	-	-	3,899	1,692
	233,220	-	1,601,094	126,755	1,961,069	2,683,433
Surplus (deficit) before the following	(32,860)	65,538	5,933	8,735,783	8,774,394	695,014
Change in fair value of investments	-	-	(3,803)	281,028	277,225	12,364
Surplus (deficit)	(32,860)	65,538	2,130	9,016,811	9,051,619	682,650

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

Statement of changes in fund balances
for the year ended

					31-Dec 2012	Dec-31 2011
	General					
	Operating Fund	Undesignated Gift Funds	Gift Funds	Endowment Funds	Total	Total
	\$		\$	\$	\$	\$
Fund balances, beginning of year	300,497	-	5,980	4,427,970	4,734,447	4,051,796
Surplus (deficit)	(32,860)	65,538	2,130	9,016,811	9,051,619	682,650
Net inter-fund transfers (Note 7)	58,347	(65,538)	-	7,191	-	-
Fund balances, end of period	325,984	-	8,110	13,451,972	13,786,066	4,734,447

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

Statement of cash flows
for the year ended

	31-Dec 2012	Dec-31 2011
	\$	\$
Operating		
Surplus	9,051,619	682,650
Items not affecting cash		
Change in fair value	(277,225)	12,364
	8,774,394	695,014
Changes in non-cash working capital items		
Accounts receivable	(149)	67,483
Prepaid expenses	(2,202)	990
Accounts payable	436,038	90,260
Deferred revenue	(2,318)	132,922
	9,205,763	806,149
Investing		
Purchase of investments, net of sales	(8,774,610)	- 1,194,423
	(8,774,610)	- 1,194,423
Increase in cash	431,153	- 388,274
Cash, beginning of year	705,469	1,093,743
Cash, end of period	1,136,622	705,469

**The United Church of Canada Foundation/
Fondation de l'Église Unie du Canada**
Notes to the financial statements
December 31, 2012

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 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 Endowment Funds.

As of 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 (Note 9). 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 established by The Canadian Institute of Chartered Accountants (CICA) using the restricted fund method of reporting restricted donations.

General Operating Fund

The General Operating Fund records the day-to-day operations of the Foundation. The Foundation also administers a congregational investment project and makes available an investment manager for the congregations. Undesignated gifts are recorded in a separate fund titled "Undesignated Gifts Fund".

Gift Funds

The Gift Funds record donor receipts and disburse the funds based on specific instructions within a twenty-four month period.

**The United Church of Canada Foundation/
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2. Financial statement presentation (continued)

Endowment Funds

The Endowment Funds have specific restrictions placed by donors with respect to the maintenance of the capital of the funds and the use of investment income accruing to the 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. 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 investments of the Foundation do not include instruments that are sensitive to changes in interest rates.

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.

**The United Church of Canada Foundation/
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3. Summary of significant accounting policies (continued)

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 Canadian generally accepted accounting principles 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

Membership on the Board of Directors of the Foundation requires prior approval of the General Council of The United Church of Canada. As such, The United Church exerts significant influence over the Foundation and all transactions between the two entities are conducted at exchange amount, which is the amount agreed to by the parties. The United Church and the Foundation are subject to a relationship and governance agreement, which requires The United Church of Canada to pay for all Foundation expenses, related to salary and benefits, fundraising and governance activities. These expenses are not included in these financial statements.

In 2012 the Foundation issued grants to the Mission and Service and other funds of The United Church totaling \$42,767 (2011 - \$992,631).

The Foundation had nil amounts receivable as at December 31, 2012 (2011 - \$0) and amounts payable totaling \$747 (2011 - \$2,626) from/to The United Church which are included in accounts receivable and in accounts payable, respectively. These amounts are non-interest bearing.

5. Investments

The United Church of Canada Foundation has adopted the policy of socially responsible investing developed by The United Church of Canada. Under that policy, the Foundation has chosen to invest in the Fiera Balanced Fund, which is managed by Fiera Sceptre Inc. (Fiera) and adheres to the socially responsible investment requirements of The United Church of Canada Foundation. As of December 31, 2012, the Foundation holds 1,217,937 (2011 - 425,759) units in the pooled fund with a unit value of \$10.99 as at December 31, 2012 (2011 - \$10.38). At December 31, 2012, The Foundation held two bonds totaling \$130,604 (2011 - \$132,923) which are included in investments in the Gift Funds. The receipt of these bonds was recorded as deferred revenue in the statement of financial positions

**The United Church of Canada Foundation/
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6. Gift Funds

The Foundation receives and issues receipts (and tax receipts) for gifts of securities intended for congregations and other registered charities. These receipts are recorded as designated donations. The sale proceeds, less brokerage and administrative costs, are passed on to the charities of the donors' choice. For each participating donor a personal fund is established, into which flow-through gifts are made. The disbursements made to the charities from the sale of securities are considered flow-through grants and 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. .

7. 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 as required by Fiera Sceptre Inc. for Endowment Funds are charged by the General Operating fund quarterly at 0.25% of the average fund balance and reflected as inter-fund transfers. Administrative fees are charged to Gift Funds at a fixed amount only if the disbursement from the Fund is to a non-United Church related organization. The administrative fees charged to Endowment Funds total \$58,347 (2011 - \$40,760). Undesignated gifts received, totaling \$65,538 (2011 - \$72,035), were included in the Undesignated Gift Fund and transferred to the Endowment Funds.

8. Co-investment program

Under the co-investment program, the Foundation provides the congregations, presbyteries, conferences and partner organizations of The United Church access to its investment manager, Fiera Sceptre Inc., who contracts with each participant for investment management services. The Foundation provides administrative support services with regards to the co-investment program as described in a service agreement with Fiera which was revised effective July 1, 2011. The investment assets of the congregations and other participants are not recorded in the Foundation's financial statements. As part of the revised agreement, the Foundation added its investments to the co-investment program. At December 31, 2012 the investments totaled \$24.6 million (2011 - \$23.1 million). The participants in the co-investment program are charged a fee under this program by Fiera. The fee for each participant is 0.25% of the average quarterly value of the investments included in the co-investment program. Fiera retains 20% of the fee and forwards 80% of the fees earned from the program to the Foundation. The total revenue for the Foundation in 2012 was \$198,705 (2011 - \$185,103) and the expenses incurred in relation to the program total \$69,254 (2011 - \$48,258). Under the revised agreement, the Foundation pays the account maintenance fees for any participant that holds investments whose average market value is less than \$180,000. In 2012 The Foundation paid \$9,369 in account maintenance fees.

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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9. Guarantees (continued)

- (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, and therefore, no amount has been accrued in the statement of financial position with respect to these agreements.

10. Subsequent event

Subsequent to December 31, 2012, the General Council Executive of the United Church of Canada and the Foundation agreed to transfer the majority of the Trust and Endowment Funds of the United Church to the Foundation in 2013.