

**The National Accounts of  
The United Church of  
Canada**

Financial Statements  
**December 31, 2018**



## *Independent auditor's report*

To the General Council of The United Church of Canada

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### *Our opinion*

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of The United Church of Canada (the Organization) 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 Organization's financial statements comprise:

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

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those 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 Organization 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.

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### *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 Organization'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 Organization or to cease operations, or has no realistic alternative but to do so.

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

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### *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 could 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 Organization'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 Organization'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 Organization to cease to continue as a going concern.



- Evaluate 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  
June 11, 2019

# The National Accounts of The United Church of Canada

## Statement of financial position

as at

(amounts in thousands of Canadian dollars)

					December 31, 2018	December 31, 2017
	General Operating Funds	Trust and Endowment Funds	Annuity Funds	Property and Building Funds	Total	Total
	\$	\$	\$	\$	\$	\$
<b>Assets</b>						
Current						
Cash	10,415	-	150	-	10,565	8,650
Accounts receivable (Note 6 and 7)	3,855	-	21	-	3,876	2,103
Short-term investments (Note 5)	1,200	-	-	-	1,200	1,000
Inventory	396	-	-	-	396	348
Other	546	-	-	-	546	664
	<b>16,412</b>	<b>-</b>	<b>171</b>	<b>-</b>	<b>16,583</b>	<b>12,765</b>
Investments (Note 10)	39,760	8,062	18,831	32,839	99,492	111,887
Capital loans (Note 11)	-	-	-	8,656	8,656	8,510
Capital assets (Note 12)	-	38	-	2,602	2,640	3,556
	<b>56,172</b>	<b>8,100</b>	<b>19,002</b>	<b>44,097</b>	<b>127,371</b>	<b>136,718</b>
<b>Liabilities and fund balances</b>						
Current						
Accounts payable and accrued liabilities (Notes 6 and 7)	1,239	42	2	-	1,283	2,292
Payable to annuitants (Note 8)	-	-	6,210	-	6,210	6,673
Group insurance benefits plan liability (Note 9)	18,107	-	-	-	18,107	22,720
Fund balances	36,826	8,058	12,790	44,097	101,771	105,033
	<b>56,172</b>	<b>8,100</b>	<b>19,002</b>	<b>44,097</b>	<b>127,371</b>	<b>136,718</b>

Commitments, guarantees and contingencies (Notes 16, 17 and 18)

Approved on behalf of the General Council Executive



Member of the Executive



Member of the Executive

# The National Accounts of The United Church of Canada

## Statement of Operations

For the year ended December 31, 2018

(in thousands of Canadian dollars)

					2018	2017
	General Operating Funds \$	Trust and Endowment Funds \$	Annuity Funds \$	Property and Building Funds \$	Total \$	Total \$
<b>Revenue</b>						
Contributions (note 6)						
Congregations	21,124	-	-	-	21,124	21,919
United Church Women	1,129	-	-	-	1,129	1,206
United Church of Canada Foundation	1,896	-	-	-	1,896	1,672
Legacies	1,724	406	-	-	2,130	3,453
Donations	3,449	168	-	-	3,617	3,531
Total contributions	29,322	574	-	-	29,896	31,781
Recovery of administrative costs (note 6)	2,466	-	-	-	2,466	1,890
Investment income	498	156	439	903	1,996	4,784
Retail sales	739	10	-	-	749	857
Annuities	-	-	279	-	279	340
Other revenue	5,911	545	-	115	6,571	4,418
	38,936	1,285	718	1,018	41,957	44,070
<b>Expenses</b>						
Grants (note 6)	12,315	635	-	523	13,473	14,456
Staff costs	15,116	216	-	-	15,332	14,659
Resources	2,197	18	-	-	2,215	1,983
Travel and meeting	2,469	109	-	11	2,589	2,105
Office	1,629	12	-	930	2,571	3,454
Annuities	-	-	1,068	-	1,068	1,226
Professional fees	1,176	26	-	111	1,313	1,716
Property and insurance	693	-	-	309	1,002	1,380
Investment	458	95	99	425	1,077	1,067
Other	-	1	-	26	27	-
	36,053	1,112	1,167	2,335	40,667	42,046
<b>Surplus (deficit) before the following</b>	2,883	173	(449)	(1,317)	1,290	2,024
<b>Change in fair value of investments</b>	(489)	(285)	(361)	(957)	(2,092)	3,885
<b>Church restructuring costs</b> (note 19)	(950)	-	-	-	(950)	-
<b>Change in payable to annuitants</b> (note 8)	-	-	463	-	463	21
<b>Surplus (deficit) – End of year</b>	1,444	(112)	(347)	(2,274)	(1,289)	5,930

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

# The National Accounts of The United Church of Canada

## Statement of Changes in Fund Balances

For the year ended December 31, 2018

(in thousands of Canadian dollars)

					2018	2017
	General Operating Funds \$	Trust and Endowment Funds \$	Annuity Funds \$	Property and Building Funds \$	Total \$	Total \$
<b>Fund balances – Beginning of year</b>	37,506	7,822	13,008	46,697	105,033	100,545
Transfer to the Foundation (note 13)	(1,968)	-	(5)	-	(1,973)	(1,442)
Surplus (deficit) for the year	1,444	(112)	(347)	(2,274)	(1,289)	5,930
Justice Fund transfers to the General Fund (note 14)	(236)	236	-	-	-	-
Net interfund transfers (note 14)	80	112	134	(326)	-	-
<b>Fund balances – End of year</b>	<b>36,826</b>	<b>8,058</b>	<b>12,790</b>	<b>44,097</b>	<b>101,771</b>	<b>105,033</b>

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

# The National Accounts of The United Church of Canada

## Statement of Cash Flows

For the year ended December 31, 2018

(in thousands of Canadian dollars)

	2018 \$	2017 \$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Surplus (deficit) for the year	(1,289)	5,930
Items not involving cash		
Change in fair value of investments	2,092	(3,885)
Provision for capital loans	(6)	(221)
Deferred lease inducement		
Investment interest earned	(1,996)	(4,784)
Change in payable to annuitants	(463)	(21)
Amortization	935	1,064
	(727)	(1,917)
Changes in non-cash working capital items		
Accounts receivable	(1,773)	(240)
Short-term investments	(200)	-
Inventory	(48)	50
Other	118	(117)
Accounts, demand loan payable and accrued liabilities		
Accounts payable and accrued liabilities	(1,009)	(110)
Demand loans payable (forgiven)	-	(1,000)
Group insurance benefits plan liability	(4,613)	(3,011)
	(8,252)	(6,345)
<b>Investing activities</b>		
Cash withdrawal from investments	12,500	11,238
Short-term investments	(200)	-
Capital loans issued	(1,657)	(1,825)
Capital loan repayments	1,516	2,222
Capital asset additions	(455)	(3,520)
	11,704	8,115
<b>Financing activities</b>		
Transfer of funds to the Foundation	(1,973)	(1,442)
Landlord financing	436	-
	(1,537)	(1,442)
<b>Increase in cash and cash in transit during the year</b>	<b>1,915</b>	<b>328</b>
<b>Cash and cash in transit – Beginning of year</b>	<b>8,650</b>	<b>8,322</b>
<b>Cash and cash in transit – End of year</b>	<b>10,565</b>	<b>8,650</b>

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



# The National Accounts of The United Church of Canada

## Notes to Financial Statements

December 31, 2018

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(in thousands of Canadian dollars)

### 1 The United Church of Canada (see also note 19)

The United Church of Canada (The United Church) was formed in 1925 through the union of three denominations – Congregationalist, Methodist and part of the Presbyterian Church in Canada. The United Church's legal form is set out in the federal United Church of Canada Act of 1925. The United Church is registered as a charitable organization under the Income Tax Act of Canada (the Act) and is in compliance with the requirements of the Act to maintain its non-taxable status.

The purpose of The United Church is: (i) to offer the resources of faith to the people of Canada and Bermuda; (ii) to gather people into congregations for the public worship of God, for the proclamation of the Gospel of Jesus Christ, for a witness to justice and service in their communities; and (iii) to promote unity and justice among all people in Canada and throughout the world.

As a not-for-profit entity, The United Church's operations are reliant on revenues generated annually. The United Church has accumulated unrestricted funds over its history, which are included in the General Operating Funds balance in the statement of changes in fund balances. A portion of the accumulated unrestricted funds is retained as working capital (current assets less current liabilities), which may be required from time to time due to timing delays in receiving its primary funding. The remaining unrestricted funds are available for the use of The United Church at the discretion of the General Council.

### 2 Financial statement presentation

#### General

These financial statements include the assets, liabilities, revenues, expenses and cash flows under the administration of The Investment Committee Finance, General Council Office, on behalf of the General Council (National Accounts) of The United Church and exclude the financial statements of certain institutions under the general supervision of various units of The United Church, Conferences, presbyteries and individual congregations (see note 6).

#### Fund accounting

These financial statements have been prepared in accordance with Canadian 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. The funds are described as follows:

- General Operating Funds

These funds record the day-to-day operations of the activities under the control of the General Council Office. They include contributions, donations, bequests, grants and other receipts of The United Church for specific and general purposes, including services. The funds that have a specific purpose in this category have no restrictions on the use of capital. Half of the annual bequests and one-time donations received in the year are transferred to The Foundation of The United Church of Canada (the Foundation) in the subsequent year.

# The National Accounts of The United Church of Canada

## Notes to Financial Statements

December 31, 2018

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(in thousands of Canadian dollars)

- Trust and Endowment Funds

The Trust and Endowment Funds have specific restrictions placed by the donors/settlers on the capital of the fund and the use of investment income accruing to the fund. On January 1, 2013, The United Church transferred all of its Endowment Funds and a large portion of its Trust Funds to the Foundation.

- Annuity Funds

The Annuity Funds record The United Church's gift annuity program, under which donors, wishing to give to The United Church, its congregations or programs, purchase a life annuity valued by an actuary. To minimize exposure to fluctuating market rates, the funds are invested in bonds held to maturity. Regular annuity payments are made and a liability for all such future payments is recognized on the statement of financial position under payable to annuitants. Any residual amounts remaining on the annuitant's death are paid to The United Church or related beneficiaries, as designated by the donor.

- Property and Building Funds

These are funds accumulated from: gifts; bequests; allocations from the General Operating Funds; and contributions from the founding churches at the time of union. These funds are used to provide capital assistance, by grant or loan, to congregations, camps, training centres, and other entities. These funds also include the capital assets of the General Council Office.

### 3 Summary of significant accounting policies

The significant accounting policies followed by The United Church with respect to The National Accounts are as follows.

#### **Basis of accounting**

The National Accounts of The United Church are prepared using the accrual basis of accounting.

#### **Inventory**

Inventory is stated at the lower of cost and net realizable value. Cost is determined on the first-in, first-out basis. Inventory, to be distributed at a nominal or no charge, is stated at the lower of cost and current replacement cost.

#### **Financial instruments**

The United Church has classified each of its financial instruments into the following accounting categories, which determines how the carrying value of each instrument is measured and accounted for.

# The National Accounts of The United Church of Canada

## Notes to Financial Statements

December 31, 2018

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(in thousands of Canadian dollars)

<b>Asset/liability</b>	<b>Measurement</b>
Cash and cash in transit	fair value
Accounts receivable	amortized cost
Pooled investment	fair value
Segregated investments	fair value
Designated investments	cost/amortized
Capital loans	amortized cost
Accounts, demand loan payable and accrued liabilities	amortized cost
Payable to annuitants	fair value
Group insurance benefits plan liability	fair value

The fair value of pooled and segregated investments is determined using quoted prices in active markets.

### **Capital assets**

Capital assets consist of leasehold improvements, office furniture and equipment, studio equipment, real property, mobile homes and vehicles. Capital assets for office operations costing in excess of \$1 have been capitalized; those costing less than \$1 are treated as expenses in the year of acquisition. Leasehold improvements, office furniture, and leased equipment are being amortized on a straight-line basis over the term of the applicable lease. Computer equipment is being amortized on a straight-line basis over four years. Capital assets for real property and mobile homes costing in excess of \$5 have been capitalized; those costing less than \$5 are treated as expenses in the year of acquisition. Real property and mobile homes are being amortized on a straight-line basis at various rates ranging from 10 to 20 years.

### **Group insurance benefits plan liability**

The group insurance benefits plan is accounted for as a liability. As such, all remitted premiums exceeding claims, accepted under the terms of the plan, and all administrative costs are included in this balance. Investment income, expenses and change in fair value arising from the investment of the excess premiums are also included in the group insurance benefits plan liability.

### **Contributions**

Contributions from congregations, The United Church Women and the Foundation, legacies and donations are recorded as revenue of the appropriate fund in the period when received or receivable, based on appropriate evidence as to collectability.

Donations include revenue from KAIROS, a program of the United Church, comprising donations from other denominations, religious communities and individuals.

### **Investment income, retail sales, annuities and other revenue**

Investment income, retail sales and other revenue are recognized when earned. Purchased annuities are recognized in the period in which the proceeds are received. Other revenue includes miscellaneous revenue, grants from government and other entities.

# The National Accounts of The United Church of Canada

## Notes to Financial Statements

December 31, 2018

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(in thousands of Canadian dollars)

### **Gifts in kind**

Donated capital assets are recorded at fair value when such value can be reasonably determined. The United Church has elected not to record the fair value of donated materials and services.

### **Translation of foreign currencies**

Transactions in foreign currencies are recorded at the rates of exchange on the transaction date. Monetary assets and liabilities and the carrying value of investments are translated at the year-end rates of exchange.

### **Pension plan disclosure**

As The United Church of Canada is the sponsor of a multi-employer defined benefits pension plan whose participants include the conferences, the presbyteries, its congregations and various affiliated entities, The United Church has elected to use financial statement disclosure compliant with that required for a defined contribution pension plan. (see note 15)

### **Use of estimates**

The preparation of financial statements in conformity with ASNPO requires The United Church 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 revenue and expenses during the reporting period. Actual results could differ materially from such estimates. Significant estimates include the recoverability of capital loans, the carrying value of capital assets and the determination of the payable to annuitants based on actuarial assumptions and formulae.

### **Guarantees**

The United Church, when acting as a guarantor, discloses the nature of the guarantees, the maximum potential amount of future payments and the current carrying amount of the liability for the non-contingent component of the guarantee, which is the obligation to stand ready to perform in the event that specified triggering events or conditions occur. The disclosure is made even if it is not probable that payment will be required under the guarantee or if the guarantee was issued with a premium payment or as part of a transaction with multiple elements.

## **4 Financial instruments risk disclosures**

The main risks The United Church's financial instruments are exposed to consist of market risk (including interest rate risk, price risk and currency exchange risk), credit risk and liquidity risk. Finance was formed by the Permanent Committee on Finance of the General Council Office of The United Church of Canada and has established a Statement of Investment Policies and Procedures (SIPP), which it uses to manage the above-noted risks.

# The National Accounts of The United Church of Canada

## Notes to Financial Statements

December 31, 2018

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(in thousands of Canadian dollars)

The following describes the various risks and how The United Church addresses such risks.

### Market risk

Market risk is the risk the value of an investment will fluctuate as a result of changes in market prices. To mitigate the impact of market risk, The United Church invests in a diversified portfolio of investments within limits set out in the SIPP approved by the Permanent Committee on Finance. Market risk is comprised of the following:

- Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the future cash flows or fair values of financial instruments. The United Church invests in interest bearing financial instruments, the values of which will fluctuate due to changes in the prevailing levels of market interest rates. There is minimal sensitivity to interest rate fluctuations on cash and cash in transit invested at short-term interest rates.

The United Church utilizes investment limits set out in the SIPP for fixed income investments that assist in controlling interest rate risk relative to a recognized bond benchmark in Canada.

- Price risk

Price risk is the risk the value of investments will fluctuate as a result of changes in market prices, other than those arising from interest rate or currency risk, whether those changes are specific to an individual investment or factors affecting a broader range of investments traded in the market. The maximum price risk for an individual investment is that its value could decline to \$nil.

To address price risk, The United Church invests in a prudent manner employing diversification by asset class, country, industry sector and by issuer within sectors relative to accepted benchmark indices. The short-term financial instruments (accounts receivable, accounts payable and accrued liabilities) are not subject to market risk.

- Currency exchange risk

Currency exchange risk is the risk the fair value of a financial instrument will fluctuate due to changes in foreign currency exchange rates relative to the Canadian dollar. The United Church holds 23% (2017 – 23%) of its investments in US dollars and, therefore, is subject to currency exchange risk. The portfolio construction policies used by the investment manager limits the total exposure to any one currency while ensuring investments are held in a number of different currencies. This diversification policy limits the currency risk exposure. The currency exchange risk is assessed as moderate.

# The National Accounts of The United Church of Canada

## Notes to Financial Statements

December 31, 2018

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(in thousands of Canadian dollars)

### **Credit risk**

Credit risk is the risk one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The United Church is exposed to credit risk on accounts receivable and capital loans. The United Church has adopted a credit policy that includes the analysis of the financial position of its potential debtors. Management reviews the credit limits of its existing debtors regularly. The credit risk for accounts receivable is assessed as low.

### **Liquidity risk**

Liquidity risk is the risk The United Church could encounter difficulty in meeting obligations associated with operations as they come due. The United Church manages liquidity risk by identifying its expected cash requirements over the next twelve months and selling investments as required. The United Church also holds cash and short-term securities to further ensure it meets its immediate obligations. The United Church believes it has moderate to low liquidity risk.

## **5 Short-term investments**

Short-term investments comprise a \$1,200 guaranteed investment certificate used as collateral for an overdraft facility and is restricted to this purpose.

## **6 Related entity transactions** (see also note 19)

Within the councilor structure of The United Church, there are 13 regionally based bodies called Conferences, which exercise certain local responsibilities under The United Church of Canada Act and The United Church's bylaws. The Conferences are registered charities under the Income Tax Act. They have no other independent legal status as they are part of the national corporation, The United Church. The only exception is the Newfoundland and Labrador Conference, which is separately incorporated. The United Church's General Council has oversight and significant influence over the Conferences and is ultimately responsible for any liabilities of the Conferences, with the possible exception of the Newfoundland and Labrador Conference. The United Church provides grants and various payroll, accounting, human resource and administrative services to these related parties at exchange amount as part of normal operations.

In addition, The United Church has a relationship and governance agreement with the Foundation, a separate not-for-profit Canadian registered charity, which receives specific services from The United Church at exchange amount as part of normal operations. The Foundation receives and maintains funds used to support the mission of The United Church with grants.

# The National Accounts of The United Church of Canada

## Notes to Financial Statements

December 31, 2018

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(in thousands of Canadian dollars)

	2018 \$	2017 \$
Revenue		
Contributions	29,215	31,781
Recovery of administrative costs		
The United Church of Canada Pension Plan	1,464	1,124
Ontario Conferences – archives	209	209
The United Church of Canada Foundation	440	410
Pastoral charges	23	24
Other	6	-
	<u>2,142</u>	<u>1,767</u>
Expenses – grants		
Operating grants to Conferences	1,084	2,358
Mission support grants to pastor charges and other missions' units (including staff costs)	3,171	3,212
	<u>4,255</u>	<u>5,570</u>

Contributions are received, for the most part, from related parties of the United Church including conferences, presbyteries, pastoral charges, individual congregations, all committees, councils and members of the church at large.

As at year-end, total: accounts receivable from related parties were \$2,615 (2017 – \$1,656); accounts payable to related parties were \$nil (2017 – \$nil); and capital loans were \$8,656 (2017 – \$8,510). Related parties provide virtually all contributions on the statement of operations.

### 7 Government remittances

Government remittances consist of amounts such as sales taxes and payroll withholding taxes required to be paid to government authorities and are recognized when the amounts come due. As at year-end, the accounts payable and accrued liabilities balance included a net receivable totaling \$197 for the current year-end and \$377 for the prior year.

### 8 Payable to annuitants

Donors wishing to give to The United Church, its congregations, courts or other programs have the option of purchasing a life annuity, valued by an actuary. To minimize exposure to fluctuating market rates, the funds are invested in bonds, which are held to maturity. A portion of the funds is invested in the pooled investment portfolio for liquidity purposes (see note 10). A liability is recognized with respect to future contractual annuity payments to all annuitants and is included in payable to annuitants in the statement of financial position.

# The National Accounts of The United Church of Canada

## Notes to Financial Statements

December 31, 2018

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(in thousands of Canadian dollars)

	2018 \$	2017 \$
Investments	18,831	19,641
Cash	150	7
Accounts receivable	21	33
Fund balances	(12,792)	(13,008)
	<hr/>	<hr/>
Present value of payments to all annuitants – End of year	6,210	6,673
Present value of payments to all annuitants – Beginning of year	6,673	6,694
	<hr/>	<hr/>
Decrease in payable to annuitants	463	21
	<hr/>	<hr/>

The most recent actuarial valuation was undertaken as at September 30, 2018, the results of which have been extrapolated to December 31, 2018 using actuarial practices. No adjustment to revenue or expenses has been made for decretion of existing annuities or for the difference between fair value and the principal balance for new annuities purchased in the current year. The table below summarizes the results of the actuarial valuation report, extrapolated to December 31, 2018, to determine the actuarial liability, which is different from the accounting liability.

	2018 \$	2017 \$
Present value of annuity payments to all annuitants	6,210	6,673
Present value of gift remainders payable to parties other than the General Council Office	6,542	5,905
Present value of gift remainders payable to the General Council Office	4,533	5,119
Present value of future administrative expenses	769	984
	<hr/>	<hr/>
Total actuarially determined liability	18,054	18,681
	<hr/>	<hr/>

### 9 Group insurance benefits plan liability

The United Church is the sponsor for the group insurance benefits plan. All personnel working for The United Church and its affiliates and participating employers are required to support the group insurance benefits plan by remitting premiums that are used to pay claims accepted under the terms of the plan and all administrative costs. The accumulated unused balance has been invested in The United Church's pooled investment portfolio and all investment income, expenses and change in fair value are included in the group insurance benefits plan liability in the statement of financial position.



# The National Accounts of The United Church of Canada

## Notes to Financial Statements

December 31, 2018

(in thousands of Canadian dollars)

The change in the liability is described below.

	2018 \$	2017 \$
Balance – Beginning of year	22,720	25,731
Premiums received	15,403	14,868
Claims paid	(17,749)	(18,506)
Administration costs	(1,428)	(1,650)
Investment income	397	1,325
Investment expenses	(239)	(293)
Change in fair value of investments	(576)	1,245
Systems development costs	(421)	-
	<hr/>	<hr/>
Balance – End of year	18,107	22,720

### 10 Investments

The United Church maintains three separate investment portfolios, which consist of the following:

	2018				
	General Operating Funds \$	Trust and Endowment Funds \$	Annuity Funds \$	Property and Building Funds \$	Total \$
Pooled	38,698	8,062	7,631	32,839	87,230
Segregated	-	-	11,200	-	11,200
Designated	1,062	-	-	-	1,062
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	39,760	8,062	18,831	32,839	99,492
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	2017				
	General Operating Funds \$	Trust and Endowment Funds \$	Annuity Funds \$	Property and Building Funds \$	Total \$
Pooled	48,735	7,822	7,852	34,631	99,040
Segregated	-	-	11,789	-	11,789
Designated	1,058	-	-	-	1,058
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	49,793	7,822	19,641	34,631	111,887

# The National Accounts of The United Church of Canada

## Notes to Financial Statements

December 31, 2018

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### Pooled investments

The pooled investments are summarized as follows:

	2018		2017	
	\$	%	\$	%
Pooled funds				
Bonds	15,811	18	18,402	19
Equities				
United States of America	19,703	23	22,962	23
Canadian	29,554	34	28,160	28
	65,068	75	69,524	70
Equities				
Canadian	17,841	20	20,172	20
Short-term securities	4,569	5	9,184	10
Currency contracts	(248)	-	160	-
	87,230	100	99,040	100

### Segregated investments

Certain investments are segregated to provide for annuity payments resulting from The United Church's Gift Annuity Program. These investments exclude the pooled investments that are used to manage liquidity risk (see the first table of this note). These segregated investments are carried at fair value and are summarized as follows:

	2018		2017	
	\$	%	\$	%
Bonds				
Provincial	6,152	55	7,233	61
Government of Canada	3,748	33	3,880	33
Public utilities and corporations	1,300	12	676	6
	11,200	100	11,789	100

### Designated investments

Designated investments are investments to which normal investment criteria cannot be applied. They are therefore accounted for separately. Income earned on these investments, as well as any gains or losses realized on their sale, is applied to the specific funds for which the investments are designated. These investments include specific securities given to The United Church with restrictions on their sale, and investments made for the purposes of The United Church, which have non-market rates of return or degrees of risk. The designated investments are summarized as follows:

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	2018		2017	
	\$	%	\$	%
Oiko credit (EDCS)	1,001	94	1,001	95
Stocks	16	1	16	1
Stripped bonds	44	4	41	4
	<u>1,061</u>	<u>100</u>	<u>1,058</u>	<u>100</u>

### 11 Capital loans (see also note 6)

Capital loans for congregational development have been made for the purposes of new churches, improving existing buildings, or for other mission purposes of the congregation.

	2018	2017
	\$	\$
Congregational	8,547	8,328
New church development/redevelopment	1,294	1,329
Other	155	168
Allowance for capital loans	<u>(1,340)</u>	<u>(1,315)</u>
	<u>8,656</u>	<u>8,510</u>

### 12 Capital assets

Capital assets are comprised of the following:

	2018		
	Cost	Accumulated	Net
	\$	amortization	\$
		\$	
Leasehold improvements	1,649	640	1,009
Office furniture and equipment	768	199	569
Studio equipment	25	6	19
Real property	1,718	1,186	532
Mobile homes	97	46	51
Vehicle	42	8	34
Computer	1,016	590	426
	<u>5,315</u>	<u>2,675</u>	<u>2,640</u>

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	2017		
	Cost \$	Accumulated amortization \$	Net \$
Leasehold improvements	2,124	522	1,602
Office furniture and equipment	782	92	690
Studio equipment	25	5	20
Real property	1,713	1,050	663
Mobile homes	97	45	52
Computer	881	352	529
	5,622	2,066	3,556

### 13 Net transfers to the Foundation

During the year, The United Church transferred \$1,285 to the Foundation being 50% of the one-time mission and service and other gifts received in 2017.

### 14 Net interfund transfers

The most significant transfers in the statement of changes in fund balances relate to the transfer of: proceeds of matured annuity funds to General Operating Funds; and grants from the General Fund to the Healing Fund in Trust and Endowment Funds. Transfers from/to General Operating Funds are used to support the activities of The United Church including program development and delivery and grants to church sponsored charities. Other transfers include the distribution of investment income, change in fair value and investment management fees from the General Fund for all funds participating in the pooled investments.

During the year, a transfer totaling \$236 was made from the General Fund to the Justice Fund to adjust the investment balance to equal 110% of total cumulative contributions to December 31, 2018. An additional transfer of \$174 from the General Fund to the KAIROS Global Partnership Fund (included in Trust and Endowment Funds) was made as required under a joint project funding agreement with Global Affairs Canada.

### 15 The Pension Plan of The United Church of Canada (the Plan)

The United Church is the sponsor of a multi-employer defined benefit pension plan. Members of the Plan include employees of congregations of The United Church, the employees of the General Council, and employees of various other organizations who are members of the Order of Ministry of The United Church of Canada and whose ministry is recognized by the courts of The United Church.

The cost of funding the Plan is shared by Plan members and participating employers. The rate of employer contributions to the fund in 2018 was 9.00% (2017 – 9.00%) of the pensionable earnings of each Plan member. The employer contributions paid in respect of current services rendered by employees of the General Council Office amounted to \$1,720 in 2018 (2017 – \$1,775). At the date of the most recent actuarial valuation on December 31, 2017, there was a surplus totaling \$308 million, determined on a going concern basis and a surplus of \$200 million, determined on a solvency basis as required under pension legislation.

# The National Accounts of The United Church of Canada

## Notes to Financial Statements

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(in thousands of Canadian dollars)

### 16 Commitments

The United Church has extended its lease agreement at 3250 Islington, Toronto to occupy approximately 17,718 square feet expiring on July 31, 2023. Additional office space is occupied by KAIROS at 310 Dupont Street, Toronto where the lease was renewed expiring August 31, 2023, and the Bronson Centre, Ottawa. The lease at the Bronson Centre is renewed annually.

Lease payments for basic rent are payable as follows:

	3250 Islington, Toronto \$	40 Oaks Community Hub, Toronto \$	310 Dupont, Toronto \$	Bronson Centre, Ottawa \$	Total basic rent \$
2019	368	149	132	15	664
2020	368	151	143	-	662
2021	381	154	149	-	684
2022	381	157	154	-	692
2023	222	160	92	-	474
	1,720	771	670	15	3,176

### 17 Guarantees

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

- a) The United Church has provided indemnities under lease agreements for the use of various operating facilities. Under the terms of these agreements, The United Church agrees to indemnify the counterparties for various items including, but not limited to, all liabilities, lawsuits and damages arising during, on, or after the term of the agreement. The maximum amount of any potential future payment cannot be reasonably estimated.
- b) Indemnity has been provided to all trustees, directors, officers and volunteers of The United Church for various items including, but not limited to, all costs to settle suits or actions due to association with The United Church, subject to certain restrictions. The United Church 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 United Church. The maximum amount of any potential future payment cannot be reasonably estimated.

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(in thousands of Canadian dollars)

- c) In the normal course of business, The United Church has entered into agreements that include indemnities in favour of third parties, such as purchase and sale agreements, confidentiality agreements, engagement letters with advisors and consultants, outsourcing agreements, leasing contracts, information technology agreements and service agreements. These indemnification agreements may require The United Church 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.
- d) The United Church has provided performance guarantees for debts and liabilities resulting from various capital projects (2018 – 1 project; 2017 – 1 project) involving bank financing totaling \$1,000 (2017 – \$1,000) of which \$79 (2017 – \$87) would be payable if The United Church were required to act on the outstanding guarantees. No liability has been recorded in these financial statements as a result of these guarantees. The United Church did not receive a fee nor does it hold any collateral assets. In the event the guarantees are called on by all or any of the banks, The United Church is obligated to pay all outstanding debt, related interest and other costs. The United Church is not entitled to any recourse assets under the guarantee agreements.

The nature of these indemnification agreements prevents The United Church 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 United Church 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.

### 18 Contingencies

The United Church is named as a defendant in lawsuits related to its activities. These claims are at various stages and therefore it is not possible to determine the merits of these claims or to estimate the possible financial liability, if any, to The United Church. Management believes these claims should not have a material adverse effect on the financial position of The United Church and, accordingly, no provision for loss in these financial statements has been recorded.

### 19 Subsequent events

The United Church implemented an internal restructuring on January 1, 2019. Conferences and presbyteries have been replaced by 16 regional councils, with the indigenous church yet to determine its structure within The United Church. The General Council continues as the national decision-making body for The United Church, and has been assigned two more responsibilities: collecting an annual assessment from each United Church congregation for denominational governance costs, and oversight and regulation of ministry personnel.

# **The National Accounts of The United Church of Canada**

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The United Church was formed pursuant to federal legislation, The United Church of Canada Act 1925, and this legislation was recently amended to reflect the restructuring.

In order to effect these changes, The United Church incurred one-time nonoperational costs totaling \$950 in 2018, as noted in the statement of operations.

### **20 Comparative figures**

Certain comparative figures in the prior year's statement of cash flows have been reclassified to conform to the presentation in the current year's financial statements.