Financial Statements of

FREDERICTON YMCA ENDOWMENT FUND INC.

Year ended December 31, 2018

FREDERICTON YMCA ENDOWMENT FUND INC.

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KPMG LLP
Frederick Square, TD Tower
77 Westmorland Street, Suite 700
Fredericton New Brunswick E3B 6Z3
Canada
Tel (506) 452-8000
Fax (506) 450-0072

INDEPENDENT AUDITORS' REPORT

To the Directors of Fredericton YMCA Endowment Fund Inc.

Qualified Opinion

We have audited the financial statements of Fredericton YMCA Endowment Fund Inc. (the Fund), which 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 net assets for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, except for the possible effects of the matter described in the **"Basis for Qualified Opinion"** section of our auditors' report, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2018 and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for profit organizations.

Basis for Qualified Opinion

In common with many not-for-profit organizations, the Fund derives revenue from contributions, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, our verification of these revenues was limited to the amounts recorded in the records of the Fund.

Therefore, we were not able to determine whether any adjustments might be necessary to:

- the current assets reported in the statement of financial position as at December 31, 2018 and December 31, 2017
- the endowment contributions and the net assets reported in the statements of changes in net assets for the years ended December 31, 2018 and December 31, 2017
- the endowment contributions reported in the statements of cash flows for the years ended December 31, 2018 and December 31, 2017.

Our opinion on the financial statements for the year ended December 31, 2018 was qualified accordingly because of the possible effects of this limitation in scope.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the **Auditors' Responsibilities for the Audit of the Financial Statements** section of our auditors' report.

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

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

Responsibilities of Management 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.

In preparing the financial statements, management is responsible for assessing the Fund'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 Fund or to cease operations, or has no realistic alternative but to do so.

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

Auditors' 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 auditors' 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 the 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 Fund'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 Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Fund 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
- 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.

KPMG LLP

Chartered Professional Accountants

Fredericton, Canada

March 20, 2019

FREDERICTON YMCA ENDOWMENT FUND INC.

Statement of Financial Position

December 31, 2018

		2018		2017
Assets				
Current assets:				
Cash	$	73,590	$	8,592
Contributions receivable		-		4,000
Prepaid expenses		363		-
		73,953		12,592
Investments (note 2)		1,981,800		2,139,560
	$	2,055,753	$	2,152,152
Liabilities				
Current liabilities:				
Accounts payable and accrued liabilities	$	5,750	$	6,325
Payable to the Fredericton YMCA Inc.		65,824		64,063
		71,574		70,388
Net assets (note 3):				
Unrestricted		(119,531)		4,268
Restricted for endowment		2,103,710		2,077,496
		1,984,179		2,081,764
	$	2,055,753	$	2,152,152

See accompanying notes to financial statements.

On behalf of the Board:

______________________ Member ______________________ Member

FREDERICTON YMCA ENDOWMENT FUND INC.

Statement of Operations

Year ended December 31, 2018, with comparative information for 2017

	2018	2017
Revenue:		
Investment income	$ 89,537	$ 95,078
Net realized gain on sale of investments	24,466	8
Insurance premiums	3,125	3,125
Unrealized gain (loss) on investments	(123,497)	32,181
	(6,369)	130,392
General and administrative expenses:		
Investment management fees	23,074	23,250
Administrative support	7,500	7,500
Professional fees	5,175	9,175
Life insurance	4,552	4,301
Directors and officers insurance	1,492	1,611
Office and general	637	287
	42,430	46,124
Excess (deficiency) of revenues over expenses before the undernoted items	(48,799)	84,268
Distribution to the Fredericton YMCA Inc. (note 4):		
Capital Campaign	75,000	75,000
Strong Kids	-	5,000
	75,000	80,000
Excess (deficiency) of revenues over expenses	$ (123,799)	$ 4,268

See accompanying notes to financial statements.

FREDERICTON YMCA ENDOWMENT FUND INC.

Statement of Changes in Net Assets

Year ended December 31, 2018, with comparative information for 2017

	Unrestricted	Restricted for endowment (note 3)	Total 2018	Total 2017
Balance, beginning of year	$ 4,268	$ 2,077,496	$ 2,081,764	$ 2,052,849
Excess (deficiency) of revenues over expenses	(123,799)	-	(123,799)	4,268
Endowment contributions	-	26,214	26,214	24,647
Balance, end of year	$ (119,531)	$ 2,103,710	$ 1,984,179	$ 2,081,764

See accompanying notes to financial statements.

FREDERICTON YMCA ENDOWMENT FUND INC.

Statement of Cash Flows

Year ended December 31, 2018, with comparative information for 2017

		2018		2017
Cash provided by (used in):				
Operations:				
Excess (deficiency) of revenues over expenses	$	(123,799)	$	4,268
Items not involving cash:				
Reinvested distributions		(89,537)		(95,078)
Net realized gain on sale of investments		(24,466)		(8)
Net unrealized loss (gain) on investments		123,420		(28,164)
Cash surrender value of life insurance		77		(4,017)
Change in non-cash operating working capital:				
Contributions receivable		4,000		(4,000)
Prepaid expense		(363)		-
Accounts payable and accrued liabilities		(575)		(1,176)
Payable to the Fredericton YMCA Inc.		1,761		(15,535)
		(109,482)		(143,710)
Financing and investing:				
Endowment contributions		26,214		24,647
Proceeds from sale of pooled funds		148,266		23,911
Purchase of pooled funds		-		(784)
		174,480		47,774
Increase (decrease) in cash		64,998		(95,936)
Cash, beginning of year		8,592		104,528
Cash, end of year	$	73,590	$	8,592

See accompanying notes to financial statements.

Fredericton YMCA Endowment Fund Inc. (the "Fund") was incorporated on November 13, 1986 and was registered by Canada Revenue Agency as a charitable public foundation effective January 1, 1987. The purpose of the Fund is to raise and invest funds to earn income to be used to assist the operations of the Fredericton YMCA Inc., including the funding of special projects, and to generally assist in providing for the future financial stability of the Fredericton YMCA Inc.

1. Significant accounting policies:

The financial statements have been prepared by management in accordance with Canadian accounting standards for not-for-profit organizations in Part III of the CPA Canada Handbook.

(a) Foreign currency translation:

All accounts in the statement of financial position are translated into Canadian dollars at the year-end rate of exchange with any gain or loss reported in the statement of operations and all accounts in the statement of operations are translated at the average exchange rate for the year.

(b) Revenue recognition:

The Fund follows the deferral method of accounting for contributions.

Externally restricted contributions other than endowment contributions are recognized as revenue in the year in which the related expenses are recognized. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Endowment contributions are recognized as direct increases in endowment net assets.

Restricted investment income is recognized as revenue in the year in which the related expenses are recognized. Unrestricted investment income is recognized as revenue when earned. The net realized gain on sale of investments is the difference between the proceeds received and the average cost of investments sold. All changes in fair value are recognized in the statement of operations as part of the net unrealized gain (loss) on investments.

1. Significant accounting policies (continued):

(c) Contributed services:

A substantial number of volunteers contribute a significant amount of their time each year. Due to the difficulty of determining the fair value, contributed services are not recognized in the financial statements.

(d) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Freestanding derivative instruments that are not in a qualifying hedging relationship and equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. The Fund has not elected to carry any such financial instruments at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the Fund determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Fund expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

(e) Use of estimates:

The preparation of the financial statements requires management 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 revenue and expenses during the year. Actual results could differ from those estimates.

2. Investments:

	2018		2017	
	Fair value	Cost	Fair value	Cost
Pooled funds:				
Fixed income	$ 864,551	$ 922,159	$ 875,012	$ 917,512
Canadian income equity	413,515	385,352	512,662	423,186
US equity	268,041	219,605	286,039	225,442
International equity	178,473	143,294	200,217	138,545
Hedge strategies	201,199	232,952	209,532	232,952
	1,925,779	1,903,362	2,083,462	1,937,637
Cash surrender value of life insurance	56,021	56,021	56,098	56,098
	$ 1,981,800	$ 1,959,383	$ 2,139,560	$ 1,993,735

3. Net assets:

Contributions restricted for endowments consist of externally restricted donations received by the Fund and contributions internally restricted by the Board of Directors, in exercising its discretion. The endowment principal is required to be maintained intact. The investment income generated from endowments must be used in accordance with the various purposes established by donors or the Board of Directors. The Fund ensures, as part of its fiduciary responsibilities, that all funds received with a restricted purpose are expended for the purpose for which they were provided.

As explained in Note 4, in 2009, the Board approved a pledge of $750,000 to the Fredericton YMCA Capital Campaign to be paid in equal installments over a period of 10 years. It was recognized at the time of the pledge that this significant commitment could lead to a temporary encroachment on capital. This temporary encroachment is subject to the approval of the Board of Directors and is consistent with the Board's Endowment Fund Disbursement Policy ("the Policy"). The purpose of the Policy is to provide a long-term smoothing approach that will protect the original donation amount, protect the purchasing power of the original donation, and provide a steady and predictable stream of funds that can be transferred annually to the Fredericton YMCA. The long-term target is to annually disburse 3.5% of the market value of the endowment funds to the Fredericton YMCA.

3. Net assets (continued):

At December 31, 2018, there is a deficit of $119,531 in the unrestricted net assets of the Fund which represents a temporary encroachment on capital. The two factors that contributed to this deficit in 2018 is the Board's decision to disburse $75,000 in accordance with its prior capital campaign commitment to the Fredericton YMCA and challenging investment markets which contributed to investment returns being below long term expectations. The 10 year commitment of $750,000 is expected to be fulfilled by the end of 2019. At that time, the Board will review the financial status of the Fund in accordance with the Policy, and establish an appropriate plan to address the deficit in the unrestricted net assets of the Fund and to position the Fund to achieve the long-term purposes set out in the Policy.

The restricted net assets for endowment are as follows:

	2018	2017
Externally endowed	$ 78,998	$ 52,784
Internally endowed - Strong Kids	552,852	552,852
Internally endowed	1,471,860	1,471,860
	$ 2,103,710	$ 2,077,496

The endowment of Strong Kids represents the unspent balance of funds contributed by donors for use towards financial accessibility and related activities of the Fredericton YMCA Inc.

4. Related party transactions:

The Fund raises and manages funds in support of the Fredericton YMCA Inc.

The Fredericton YMCA Inc. performs management activities for the Fund. These fees amounted to $7,500 (2017 - $7,500).

In 2009, the Board approved a pledge of $750,000 to the Fredericton YMCA Capital Campaign to be paid over a period of 10 years. During the year, the ninth instalment of $75,000 was paid under this agreement.

5. Financial risks:

(a) Market risk:

Market price risk is the risk that the value of an instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market. As investments are carried at fair value with fair value changes recognized in the statement of operations, all changes in market conditions will directly result in an increase (decrease) in excess (deficiency) of revenues over expenses. Market price risk is managed by the construction of a diversified portfolio using pooled funds with underlying securities being traded on various markets and across various industries.

(b) Liquidity risk:

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. A significant portion of the investments are held in pooled funds and are readily available on short notice. Although market events could lead to some investments becoming illiquid, the diversity of the pooled funds should ensure that liquidity is available.

(c) Foreign currency risk:

Foreign currency risk is the risk that the value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund primarily invests in financial instruments and enters into transactions denominated in foreign currencies. Consequently, the Fund is exposed to risk that the exchange rates may change in a manner that has an adverse effect on the value of the portion of the Fund's assets denominated in currencies other than the Canadian dollar.

(d) Credit risk:

Credit risk is the risk that an issuer or counterparty will be unable or unwilling to meet a commitment that it has entered. Exposure to credit risk is mitigated through the Fund's use of investment diversification.