

Financial Statements of

**SYNOD OF THE DIOCESE OF
NIAGARA**

Year ended December 31, 2010



KPMG LLP
Chartered Accountants
One St. Paul Street, Suite 901
St. Catharines Ontario L2R 7L2
Canada

Telephone (905) 685-4811
Fax (905) 682-2008
Internet www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Bishop and the Members of the Synod of the Diocese of Niagara

We have audited the accompanying financial statements of the Synod of the Diocese of Niagara, which comprise the statement of financial position as at December 31, 2010, the statements of operations, changes in net assets and cash flows for the year then ended, and notes, comprising 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 generally accepted accounting principles, and for financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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 our 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, we consider 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 qualified audit opinion.

Basis for Qualified Opinion

In common with many charitable organizations, the Synod of the Diocese of Niagara derives revenue from donations, 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 Synod of the Diocese of Niagara and we were not able to determine whether any adjustments might be necessary to revenues, excess of revenues over expenses, current assets and net assets.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Synod of the Diocese of Niagara as at December 31, 2010, and its results of operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

Hamilton, Canada
April 4, 2011

SYNOD OF THE DIOCESE OF NIAGARA

Statement of Financial Position

December 31, 2010, with comparative figures for 2009

	2010	2009
Assets		
Current assets:		
Restricted cash (note 2)	\$ 167,865	\$ 11,881
Due from parishes (note 3)	654,590	391,407
Other receivables	48,362	58,665
Prepaid expenses	9,380	15,470
Loans receivable (note 4)	777,886	1,011,868
	<u>1,658,083</u>	<u>1,489,291</u>
Investments (note 5)	1,346,827	1,145,546
Long-term receivables (note 6)	1,400,906	1,349,147
Capital assets (note 7)	1,442,909	1,485,598
	<u>\$ 5,848,725</u>	<u>\$ 5,469,582</u>

Liabilities

Current liabilities:		
Bank indebtedness (note 8)	\$ 1,122,876	\$ 857,902
Due to parishes	245,789	373,407
Accounts payable and accrued liabilities	461,228	454,009
Bank loans - special purposes (note 9)	1,534,910	1,728,978
	<u>3,364,803</u>	<u>3,414,296</u>
Supplemental insurance reserve (note 10)	357,680	346,288
Long-term liabilities	249,934	246,434

Fund Balances (Deficit)

Invested in capital assets	1,442,909	1,485,598
Externally restricted (note 11)	1,147,254	1,151,354
Internally restricted	1,180,515	1,193,321
General	(1,894,370)	(2,367,709)
	<u>1,876,308</u>	<u>1,462,564</u>
Contingencies (note 12)		
	<u>\$ 5,848,725</u>	<u>\$ 5,469,582</u>

See accompanying notes to financial statements.

On behalf of the Board:

Director

Director

SYNOD OF THE DIOCESE OF NIAGARA

Statement of Operations

Year ended December 31, 2010, with comparative figures for 2009

	2010	2009
Revenue:		
Diocesan assessment	\$ 3,095,407	\$ 3,044,139
Gifts and bequests	227,305	408,885
Administrative fees and rental income	166,365	182,553
Programs	150,343	111,060
Investment income	97,970	113,014
Sundry	64,467	141,260
Interest income	17,343	36,490
Insurance premiums from parishes	777,297	802,983
Parish wages	10,682,179	10,635,145
	<u>15,278,676</u>	<u>15,475,529</u>
Expenses:		
General and Provincial Synod:		
Commitments	648,924	710,101
Programs:		
Congregation support	124,429	60,087
Outreach	87,108	101,389
Canterbury Hills	85,000	120,000
Ministry support	60,525	64,957
Operations:		
Diocesan staff	857,092	925,386
Office, building & committees	813,027	846,300
Building	179,708	164,165
Building wages	171,700	212,771
Other:		
Parish subsidies	198,945	256,732
Depreciation	88,253	99,516
Bad debts	73,220	40,359
Interest	30,224	30,402
Restricted fund expenses	4,100	3,700
Insurance	760,498	797,471
Parish wages	10,682,179	10,635,145
Total expenses	<u>14,864,932</u>	<u>15,068,481</u>
Excess of revenue over expenses	<u>\$ 413,744</u>	<u>\$ 407,048</u>

See accompanying notes to financial statements.

SYNOD OF THE DIOCESE OF NIAGARA

Statement of Changes in Net Assets

Year ended December 31, 2010, with comparative figures for 2009

	Invested in capital assets	Externally restricted	Internally restricted	General fund	2010	Total	2009
Fund balance (deficit), beginning of year	\$ 1,485,598	\$ 1,151,354	\$ 1,193,321	\$(2,367,709)	\$ 1,462,564	\$	1,055,516
Excess of revenue over expenses (expenses over revenue) for the year	(88,253)	(4,100)	17,261	488,836	413,744		407,048
Interfund transfers:							
Net change in invested in capital assets	45,564	-	-	(45,564)	-		-
Other	-	-	(30,067)	30,067	-		-
Fund balance (deficit), end of year	\$ 1,442,909	\$ 1,147,254	\$ 1,180,515	\$(1,894,370)	\$ 1,876,308	\$	1,462,564

See accompanying notes to financial statements.

SYNOD OF THE DIOCESE OF NIAGARA

Statement of Cash Flows

Year ended December 31, 2010, with comparative figures for 2009

	2010	2009
Cash provided by (used in):		
Operations:		
Excess of revenue over expenses for the year	\$ 413,744	\$ 407,048
Adjustments for non-cash items		
Change in supplemental insurance	11,392	22,955
Depreciation	88,253	99,516
	<u>513,389</u>	<u>529,519</u>
Change in non-cash operating working capital:		
Restricted cash	(155,984)	483
Due from parishes	(263,183)	916,257
Other receivables	10,303	72,150
Prepaid expenses	6,090	8,480
Due to parishes	(127,618)	9,830
Accounts payable and accrued liabilities	7,219	(17,911)
	<u>(9,784)</u>	<u>1,518,808</u>
Investing:		
Purchases of capital assets	(45,564)	(55,477)
Change in investments, net	(201,281)	110,671
Change in long-term receivable	(51,759)	(1,452,910)
Collection of loans receivable	243,982	290,881
Advances of loan receivable	(10,000)	(345,092)
	<u>(64,622)</u>	<u>(1,451,927)</u>
Financing:		
Changes in long-term liabilities	3,500	-
Repayment of bank loans - special purposes	(194,068)	(295,995)
Issuance of bank loans - special purposes	-	321,009
	<u>(190,568)</u>	<u>25,014</u>
Change in bank indebtedness	(264,974)	91,895
Bank indebtedness, beginning of year	(857,902)	(949,797)
Bank indebtedness, end of year	<u>\$ (1,122,876)</u>	<u>\$ (857,902)</u>
Bank indebtedness is comprised of:		
Cash	\$ 355,544	\$ 244,386
Bank indebtedness	(1,478,420)	(1,102,288)
Bank indebtedness, end of year	<u>\$ (1,122,876)</u>	<u>\$ (857,902)</u>

See accompanying notes to financial statements.

SYNOD OF THE DIOCESE OF NIAGARA

Notes to Financial Statements

Year ended December 31, 2010

The Synod of the Diocese of Niagara (the "Diocese") is a Christian community of faith that geographically encompasses the area of the Niagara Peninsula, Greater Hamilton, the Region of Halton and portions of Wellington and Dufferin Counties, and which includes approximately 100 Anglican parishes (congregations). The governance of the Diocese is done through the Synod of the Diocese of Niagara which was incorporated by an act of the Provincial Government of Ontario, assented to on February 10, 1876 and is a registered charity under the Income Tax Act. The Synod is comprised of the bishop, clergy and designated representatives from each parish. The Bishop is the Chief Officer of the Diocese and, as such, provides oversight for the clergy and parishes who comprise the Synod and the Diocese.

1. Significant accounting policies:

(a) Basis of presentation:

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. These financial statements do not include the operations nor the assets and liabilities of the individual parishes.

From time to time, the Diocese assumes the management of the Church properties from parishes or congregations (former parish properties). This can occur when a church is closed; when a parish or congregation is disestablished or amalgamated with another parish or congregation; or, when the Diocesan Council deems such action necessary.

(b) Fund accounting:

The Diocese follows the restricted fund method of accounting for contributions.

The General Fund reports revenues and expenses related to program delivery and administrative activities. All investment income is recorded in the General Fund.

The Restricted Funds report resources contributed for which the use is restricted by the donors or management.

(c) Investments:

The value of pooled fund units are recorded at market value with gains and losses recognized through the statement of operations in the year.

Interest revenue on term deposits and investment certificates are recorded on the accrual basis.

SYNOD OF THE DIOCESE OF NIAGARA

Notes to Financial Statements (continued)

Year ended December 31, 2010

1. Significant accounting policies (continued):

(d) Revenue recognition:

Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. 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.

(e) Capital assets:

Land and buildings (churches, rectories, etc.), which are under the administration of the parishes, are not included in these financial statements.

Capital assets are recorded at cost less accumulated depreciation. Depreciation is provided for over the estimated useful lives of the assets using the straight-line basis at the following rates:

Asset	Basis
Palmero	10 to 40 years
Caterbury Hills	5 to 10 years
Leasehold improvements	2 years
Furniture and fixtures	3 to 5 years
Canterbury Hills	5 years
Website	2 years

(f) Contributed services:

Because of the difficulty in determining their fair value, contributed services are not recognized in these financial statements.

SYNOD OF THE DIOCESE OF NIAGARA

Notes to Financial Statements (continued)

Year ended December 31, 2010

1. Significant accounting policies (continued):

(g) Supplemental insurance benefits:

The Diocese provides its active members and retirees with a life insurance benefit of \$10,000 for active members and \$8,000 for retirees. The Diocese maintains funds within their investments to fund the obligation. These funds are held by the Diocese and not as a segregated trust. As a result, these funds and the related investment income are not included in the actuarial valuation and subsequent extrapolations. Active employees contribute to the fund at a rate of \$0.60 per employee per pay cycle.

The Diocese accrues its obligation using the accrued benefit method. The measurement date of the obligation coincides with the year end of the Diocese. The most recent full actuarial valuation was December 31, 2009 with an update for December 31, 2010.

Actuarial gains (losses) on the accrued benefit obligation arise from differences between actual and expected experience and from changes in the actuarial assumptions used to determine the accrued benefit obligation. The excess of the net accumulated actuarial gains (losses) over 10% of the accrued benefit obligation is amortized over the average remaining service period of active employees.

(h) Financial instruments:

Financial assets and liabilities classified as held-for-trading are measured at fair value with changes in fair value recorded in the statement of operations. Financial assets classified as held-to-maturity or loans and receivables and financial liabilities classified as other liabilities are subsequently measured at amortized cost using the effective interest method. Available-for-sale financial assets that have a quoted price in an active market are measured at fair value with changes in fair value recorded in changes in net assets. Such gains or losses are reclassified to the statement of operations when the related financial asset is disposed of or when the decline in value is considered to be other-than-temporary.

The Diocese has classified its financial instruments as follows:

- Restricted cash, bank indebtedness and investments are classified as held-for-trading
- Due from parishes, other receivables, loans receivable and long-term receivables are classified as loans and receivables
- Due to parishes, accounts payable and accrued liabilities and bank loans - special purposes are classified as other liabilities

The Diocese has elected to continue to disclose and present financial instruments under handbook section 3861 "Financial Instruments - Disclosures and Presentation" for the year ended December 31, 2010.

SYNOD OF THE DIOCESE OF NIAGARA

Notes to Financial Statements (continued)

Year ended December 31, 2010

1. Significant accounting policies (continued):

(i) Use of estimates:

The preparation of 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 revenues and expenses during the year. Actual results could differ from those estimates.

2. Restricted cash:

Restricted cash consists of monies held in term deposits which will be forwarded to a rectory fund held by the Foundation upon maturity.

3. Due from parishes:

Amounts receivable from parishes consist of:

	2010	2009
Payroll due from parishes	\$ 276,930	\$ 176,808
Diocesan Mission and Ministries	345,761	202,818
Other	81,899	38,784
Provision for doubtful accounts	(50,000)	(27,003)
	<u>\$ 654,590</u>	<u>\$ 391,407</u>

4. Loans receivable:

Loans receivable are comprised as follows:

(a) Employees:

Loans receivable from employees totalling \$154,774 (2009 - \$176,416) represent funds advanced to clergy and other employees at the Diocese. The loans are for terms not exceeding 48 months. Interest is charged at the quarterly prescribed rate as set by Canada Revenue Agency.

SYNOD OF THE DIOCESE OF NIAGARA

Notes to Financial Statements (continued)

Year ended December 31, 2010

4. Loans receivable (continued):

(b) Church extension:

Church extension loans totalling \$623,112 (2008 - \$835,452) represent funds loaned to parishes for land, buildings and additions. The Diocese has borrowed money that has been re-loaned to the parishes to finance these church extension projects.

5. Investments:

Investments are comprised as follows:

	2010	2009
Mutual and pooled funds	\$ 961,582	\$ 761,305
Shares	576	576
Mortgage loans	384,669	383,665
	\$ 1,346,827	\$ 1,145,546

Investments include \$359,741 (2009 - \$346,288) set aside to fund the supplemental insurance benefits (see note 10).

6. Long-term receivables:

Parish	2010	2009
Church of the Incarnation, Oakville	\$ 149,949	\$ 133,102
St. Matthias, Guelph	62,089	62,261
St. Luke, Hamilton	112,665	113,990
St. Paul, Jarvis	92,985	101,118
All Saints, Ridgeway	66,428	69,003
St. Barnabas, St. Catharines	87,162	96,517
All Saints, Hamilton	85,498	86,218
Church of the Ascension, Hamilton	151,327	161,804
Cathedral Place, Hamilton	195,784	196,035
St. Luke, Palermo	85,215	85,215
Other	311,804	243,884
Total	\$ 1,400,906	\$ 1,349,147

The amounts due from parishes are unsecured with no fixed terms of repayment and bear interest at rates ranging between 0% and 5%.

SYNOD OF THE DIOCESE OF NIAGARA

Notes to Financial Statements (continued)

Year ended December 31, 2010

7. Capital assets:

			2010	2009
	Cost	Accumulated amortization	Net book value	Net book value
Land				
Palmero	\$ 994,641	\$ -	\$ 994,641	\$ 961,609
Caterbury Hills	35,749	-	35,749	35,749
Buildings				
Leasehold improvements	1,157,142	880,008	277,134	333,627
Canterbury Hills	207,268	207,268	-	-
Building Improvements	309,007	192,671	116,336	139,762
Computer equipment and software	185,472	184,795	677	1,432
Furniture and fixtures	108,595	101,400	7,195	13,419
Other	15,370	15,370	-	-
Website	11,177	-	11,177	-
	\$ 3,024,421	\$ 1,581,512	\$ 1,442,909	\$ 1,485,598

8. Bank indebtedness:

The Diocese has a line of credit to a maximum of \$1,500,000 (2009 - \$1,500,000) for operating purposes. The operating loan is due on demand and bears interest at prime.

SYNOD OF THE DIOCESE OF NIAGARA

Notes to Financial Statements (continued)

Year ended December 31, 2010

9. Bank loans - special purposes:

	2010	2009
Loans obtained on behalf of parishes, due on demand, bearing interest at prime plus 0.25%, maturing from 2016 to 2018, with minimum annual repayments of \$21,500	\$ 143,565	\$ 179,595
Loan obtained on behalf of parish, due on demand, bearing interest at prime plus 0.25%, maturing in 2019, with a minimum annual repayment of \$54,000	448,742	606,777
Other special purpose loans for parish renovations and extensions, due on demand, bearing interest at prime plus 0.25%, with a minimum annual repayment of \$115,000	942,603	942,606
	<u>\$ 1,534,910</u>	<u>\$ 1,728,978</u>

Principal repayments over the next five years are as follows:

2011	\$ 190,500
2012	190,500
2013	190,500
2014	190,500
2015	190,500
Thereafter	582,410
	<u>\$ 1,534,910</u>

10. Supplemental insurance benefits:

The Diocese self insures certain life insurance benefits for current and retired employees. Current employees are entitled to \$10,000 if actively employed at the time of death and retirees are entitled to \$8,000 upon death. If a current employee leaves the Diocese before retirement their benefit is forfeited. The estimated liability for 2010 is \$357,680 (2009 - \$346,288).

The Diocese measures its benefit obligation for accounting purposes based on the most recent actuarial valuation at December 31, 2010.

SYNOD OF THE DIOCESE OF NIAGARA

Notes to Financial Statements (continued)

Year ended December 31, 2010

10. Supplemental insurance benefits (continued):

Information about the Diocese's supplemental insurance plan is as follows:

	2010	2009
Current service costs	\$ 6,327	\$ 8,549
Interest cost	21,065	20,139
Benefit expense	\$ 27,392	\$ 28,688

	2010	2009
Accrued benefit obligation:		
Balance, beginning of year	\$ (379,858)	\$ (262,179)
Current service costs	(6,327)	(8,549)
Interest cost	(21,065)	(20,139)
Less benefits paid	16,000	24,000
Experience loss	(65,951)	(112,991)
Balance, end of year	(457,201)	(379,858)
Unamortized net actuarial loss (gain)	99,521	33,570
Employee future benefits obligation	\$ (357,680)	\$ (346,288)

Included in current service costs is \$ nil (2009 - \$2,714) of amortized actuarial gains.

The significant actuarial assumptions adopted in estimating the Diocese's accrued benefit obligation for the supplemental insurance plan are as follows:

	2010	2009
Accrued benefit obligation (at end of year):		
Discount rate	5.20 %	6.10 %
Assumed retirement at age 60, for those active employees less than 60	20 %	20 %

SYNOD OF THE DIOCESE OF NIAGARA

Notes to Financial Statements (continued)

Year ended December 31, 2010

11. Externally restricted fund balances:

Major categories of fund balances with externally imposed restrictions are as follows:

	2010	2009
Episcopal support	\$ 347,333	\$ 347,333
Mission work	151,803	151,803
Other	221,520	222,520
Theological education	411,598	414,698
Youth and children's work	15,000	15,000
	<u>\$ 1,147,254</u>	<u>\$ 1,151,354</u>

12. Contingencies:

The Diocese had been named as a defendant in legal actions. In early 2011 a settlement was reached in regards to one of these issues. A provision for the payment made has been included in these financial statements.

The Diocese may also benefit from the future recovery of legal costs that have been incurred as a result of a number of legal issues that have arisen during the past two years.

13. Financial instruments:

(a) Fair value of financial assets and financial liabilities:

For certain of the Diocese's financial instruments, including cash and cash equivalents, and accounts payable and due from parishes the carrying values approximate the fair values due to their short term maturity. The fair values of investments are determined based on quoted market values.

(b) Risk exposure:

The Diocese is subject to market risk, foreign currency risk and interest rate risk with respect to the Diocese's investments. To manage these risks, the Diocese has established a target mix of investment types designed to achieve the optimal return with reasonable risk tolerances. The Diocese employs diversification of assets across various industries and markets including Canadian, U.S. and International to manage the risk.

SYNOD OF THE DIOCESE OF NIAGARA

Notes to Financial Statements (continued)

Year ended December 31, 2010

14. Parish funds:

From time to time, parishes deposit funds through the Diocese for investment purposes. The funds are not reflected in the financial statements of the Diocese. The capital and income earned thereon remain the property of the contributing parish. At December 31, 2010, the fair market value of the parish, Diocese, and Anglican Church Ministries Foundation funds invested through the Diocese amounted to \$22,401,016 (2009 - \$20,242,877).

15. Related party transactions:

The Diocese is affiliated with the Anglican Church Ministries Foundation (the "Foundation") by virtue of their joint control by the Synod Council. The Foundation was established to raise funds for the use of the Diocese and its Bishop in their mission work. The Foundation is incorporated by an act of the Provincial Government of Ontario, assented to on January 1, 1999 and is a registered charity under the Income Tax Act. At December 31, 2010, the Foundation held net assets in the amount of approximately \$12 million, the benefit of which will accrue to the Diocese in the future.

During the year, the Foundation donated \$ nil (2009 - \$400,000) to the Diocese and the amount was recorded in the total gifts and bequests on the statement of operations.

16. Comparative figures:

Certain 2009 comparative figures have been reclassified to conform with the financial statement presentation adopted for the current year.