

REPORT OF THE DIOCESAN TREASURER

First, as your newly appointed Diocesan Treasurer, I would like to thank you for allowing me the opportunity to serve the Diocese and work with all of you in fulfilling the Diocesan Vision. I look forward to assisting the Diocesan staff, Synod Council and its committee volunteers overcome the challenges that lie ahead; whether they are strictly financially driven or the result of other needs. As a newcomer, I hope that what I can bring to the table in terms of new ideas or approaches will make up for any shortcomings I have coming from outside the not-for-profit world.

While I arrived at the end of the process of compiling the 2009 Financial Statements, I have spent much time reviewing the results and becoming familiar with the details that make up the financial statements. Judy Conning, Chair of the FAC Committee has presented the results to you, so I will not elaborate further on the specifics of the 2009 Diocesan results at this time.

I would, however, like to comment on the Anglican Church Ministries Foundation, Niagara 2009 Operating Statements. The ACMF holds 2 types of funds. In brief, the first group of funds is held to assist the Synod of the Diocese of Niagara to preach, promote, and advance the spiritual teachings of the Christian faith. The second group of funds held are Rectory funds, created from the sale or disposal of rectories in the Diocese. Each parish that has a rectory fund may use the funds to fund a mortgage loan to their rector or to self-mortgage their capital expenditures. In order to ensure funds are not depleted, the total amount invested plus any loans outstanding must equal the original endowment amount plus or minus the cumulative investment gains or losses.

The market crash of late 2008 had a significant impact on the endowment value of the funds held. Although the market has made significant gains since 2008, the full impact of this decrease was not reversed by December 2009. Unit values for the funds were: May 2008 \$17.095 (high for 2008), Dec 2008 \$13.425, Dec 2009 \$15.841. As of September 2010 the Unit values are \$16.566, or 96.9% of their 2008 high value. The impact of the drop in values of the funds is that some parishes have borrowed more than the allowed amount from their fund based on the agreed formula. As of September 2010, 35 parishes are in this position. That is, their rectory fund is overdrawn vs. the original Endowment value. Until such time as additional funds are added, loans are paid back and / or the market returns to its pre crash level, some parishes will remain in this deficit position and be unable to borrow against these funds.

The Interim September 2010 Diocesan Financial Statements (unaudited) reported a positive surplus. Barring unforeseen expenses, the Dec 2010 surplus (excluding Diocese Investment Gains or Losses) is expected to be in the range of \$200 to \$225k. This surplus is the result of a focused effort to reduce expenditures vs. both the 2009 Operating Statements and the 2010 Budget. The most significant cost reductions have occurred in the areas of:

- Diocesan Operations (Parish Support, Severance & Transition costs, Communications, Web Support & Niagara Anglican, Episcopal Expenses)
\$41k under budget, \$242k less than 2009 expenses
- Diocesan Staff (Salary & Benefits)
\$42k under budget, \$43k less than 2009 expenses

- Cathedral Place Building (Rental Income, Staff costs related to cleaning and maintenance, Utilities, Insurance, Repairs)
\$87k under budget \$43k less than 2009 expenses
- Ministry Support (Divinity Students, Vocations, Ordinations, Clergy / Archdeacon Training, Conferences and Continuing Education)
\$30k under budget \$17k less than 2009 expenses

Although the 2010 Financial Statements suggest a much better picture than prior years, there are still challenges ahead that need to be addressed. As the Bishop's Financial Task Force outlined in their report to the Bishop, Diocesan Cash Flow needs to remain a major focus for 2011 and 2012. The 2009 Diocesan Surplus of \$407k was largely the result of a cash injection from the ACMF of \$400,000. In addition, the Diocese borrowed \$200,000 from its own investments in 2009, a direct reduction of the fund balances reported on the Diocese Financial Statement. While the Diocesan Operating line of credit was reduced on a comparative year vs. year basis (2009 \$858k, 2008 \$950), the need for a cash infusion from Diocesan investment funds in 2009 highlights the cash flow challenges faced by the Diocese.

In order to pay back these cash injections, without increasing the line of credit and incurring additional expenses related to increased borrowings, the Diocese will need to reduce the current amounts due from parishes by a substantial amount. As of October 2010 the Diocese was owed \$660,330 relating to 2010 Payroll, DMM and Insurance for the period Jan to September. If these debts were brought up to date, the entire cash flow injection received in 2009 could be immediately repaid. If the 2009 debts still included in current Amounts Receivable were paid up, the Diocese would be able to reduce its operating line by \$120,400. The annual cost to the Diocese of carrying these amounts is over \$25,000.

While there is a plan to reduce the Diocesan debt in 2011 and repay borrowed funds, it will not happen unless all past debts are paid and all balances (Payroll, DMM, Insurance) due are paid on time, each month.

To borrow from a well known saying, if we can put all of our oars in the water together and pull in the same direction, we can reduce our operating line, and look to reducing our long term debts as cash flows allow.

In addition to reducing debts owed to the Diocese, the Bishop's Financial Task Force looked at other ways to ensure the long term financial health of the Diocese.

Suggestions made, and currently being acted upon include:

- Reviewing all Diocesan Capital assets to determine which are no longer needed and can be liquidated to improve the Diocesan Cash Position
- Finding ways to create long term income opportunities from parish lands. The Palermo project has overcome some of its earlier obstacles and is expected to begin construction in 2011.
- Reducing costs at the Diocese in 2010. As mentioned above, this has happened and a surplus is expected for 2010.
- To create a realistic, achievable and break-even budget for 2011. This budget has been presented to you today for approval. As shown below, the 2011 Budget does reflect significant reduced expenditures, vs. 2010 and prior years.

| | 2007 | 2008 | 2009 | 2010 Pro Forma | 2011 <i>Budget</i> |
|---------------------------------|-----------|-----------|-----------|-------------------|-----------------------|
| EXPENDITURES: | | | | | |
| BEYOND NIAGARA | 719,453 | 709,961 | 710,101 | 643,824 | 638,043 |
| REGIONAL PROJECTS | 250 | 250 | 0 | 0 | 0 |
| CANTERBURY HILLS | 137,338 | 136,940 | 120,000 | 85,000 | 55,000 |
| DIOCESAN OPERATIONS | 1,118,480 | 1,536,031 | 1,010,555 | 768,395 | 767,260 |
| DIOCESAN STAFF | 976,466 | 832,394 | 764,181 | 720,988 | 804,195 |
| CATHEDRAL PLACE ADMINISTRATION | 110,890 | 137,376 | 120,978 | 144,788 | 112,000 |
| CATHEDRAL PLACE BUILDING | 242,022 | 257,313 | 278,416 | 235,352 | 281,000 |
| OUTREACH DIVISION | 97,088 | 103,653 | 100,576 | 88,428 | 28,939 |
| CONGREGATIONAL SUPPORT DIVISION | 132,004 | 140,765 | 139,786 | 123,103 | 108,000 |
| MINISTRY SUPPORT DIVISION | 73,716 | 49,164 | 45,081 | 28,245 | 30,500 |
| FINANCING COSTS & BAD DEBTS | 62,670 | 45,854 | 70,761 | 45,852 | 35,000 |
| TOTAL FOR EXPENDITURES | 3,670,376 | 3,949,700 | 3,360,436 | 2,883,975 | 2,859,937 |

A secondary goal of the Finance department is to support Management and Synod Council by providing timely, accurate and full reporting of the Diocesan financial picture. This process has already begun, and will continue through 2012. By providing clear and consistent information on a regular basis, stakeholders can make decisions with confidence and a higher level of certainty of the expected outcome. Lastly, I would like to thank all of you who have so warmly welcomed me to the Diocese and assisted me as I have made the transition into my new position. I look ahead to the challenges of 2011 with optimism and enthusiasm.

Respectfully submitted,
 Joanna (Jody) Beck
 Treasurer & Director of Finance