

REPORT OF THE DIOCESAN TREASURER

As we approach the 2008 fall Synod, this marks the end of my ninth year as your Diocesan Treasurer.

The year end results for 2007 in the General Fund reflect an operating loss of (\$431,998) after depreciation of \$110,452. The two major contributing factors were the poor returns on our investments and the high costs associated with Personnel Transition and Severance. As a result of this loss we were unable to generate the necessary funds, from this source, to make our \$115,010 annual debt repayment to the bank. Subsequently, the payment was made through a decrease in our cash position.

During the year we purchased a 1.6 acre undeveloped site adjacent to St. Luke's Palermo. This required an investment of approximately \$850,000. These funds came from Diocesan investments held in the Diocesan Participation Unit portfolio. The land is reflected in the Statement of Financial Position on the asset side in the Capital assets and is included in note 5. The offsetting entry is included in the Unrestricted category under the General Fund. There are 'new church development' funds included in the Restricted Fund which could have been transferred to the General Fund and the Unrestricted deficit would have appeared significantly better. However at the time of the audit, we did not make this transfer because we were expecting to sell the property as our development plans with the Evangelical Lutheran Church in Canada were unsuccessful.

Our Unrestricted deficit deteriorated significantly as we saw it rise from (\$1,263,082) to (\$2,534,469). Both the land purchase as well as the operating loss contributed to this change.

Our Participation Unit investment with the Russell Investment Group performed quite poorly this past year. Unit values rose marginally from \$16.83671 to \$16.95926 during calendar 2007. This increase represents an approximate 0.73% rate of return.

Year-to-date financial operating results for 2008 indicate a potential loss of approximately \$600,000. There are several contributing factors, not all of which are under our control. The major contributing factors include; lost DM&M income from the breakaway parishes, negative investment returns, unbudgeted increase to Diocesan share of Cathedral Place operating costs, and over budget spending in Personnel Transition and Severance.

As mentioned previously, our Synod long term debt continues to reduce at the rate of \$115,010 per year. We are committed to this repayment plan for quite a few years to come. It is encouraging to note that CIBC, our banker, has not expressed any concern with our overall performance for 2007 and no changes have been made to the Synod's bank operating line.

The 2009 proposed budget, as presented, is a balanced budget and any changes are identified in the budget notes. No provision has been made for any costs related to the Bishop's vision or to address the Cathedral deficit. There has been concern for a number of years with the division of property costs at Cathedral Place. Synod Council agreed to an increased Diocesan share of the operating costs for 2008 while the Cathedral Place operating structure is reviewed. This review is necessary because the projected loss for the Cathedral, over the next five years, cumulatively exceeds one million dollars.

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The most significant challenge currently facing our Diocese is maintaining an adequate cash flow. Operating losses, poor investment returns and costs associated with the breakaway parishes have seriously impacted our current cash position. The mandatory PAP parish payroll plan, approved by Synod Council on October 14th, will help to ensure the availability of sufficient funds to meet Diocesan payroll.

We will be challenged in the years to come by a loss of DM&M revenue. However, we anticipate the high costs associated with Personnel Transition & Severance to subside as we have responded to pressing transitional needs at a number of parishes. We will need to ensure we have the necessary funds to repay our Synod bank loans and reduce our Fund Balance deficit.

On a positive note the Financial Advisory Committee, the various Sub-Committees of the FAC and the Audit Committee deserve our thanks for their diligent work over the past year. Their efforts have proved invaluable to me in the carrying out of my responsibilities as Diocesan Treasurer. My personal thanks to the Chairs and members of these various committees for the time they have given to the Diocese and for their collective insight. Also a heartfelt thanks to everyone that has stepped forward and helped whenever a need arose.

My personal thanks to everyone, at the Synod office, for joining in and helping each other when there was a need. This type of cooperation encourages a team environment and makes for a pleasant workplace.

I would like to give special thanks to the great staff in the Finance area for their hard work, exceptional performance, loyalty and dedication. Thank you Wendy Duncan, Debbie Young, Nancy Clause and Kim Waltmann.

Respectfully submitted,
Mr. Robert L. McKinnell
Diocesan Treasurer & CFO