Financial Statements of

SYNOD OF THE DIOCESE OF NIAGARA

Year ended December 31, 2009

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AUDITORS' REPORT

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

We have audited the statement of financial position of the Synod of the Diocese of Niagara (the "Diocese") as at December 31, 2009 and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Diocese's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In common with many non-profit organizations, the Diocese reports revenue from donations, the completeness of which is not susceptible of satisfactory audit verification. Accordingly, our verification of this revenue was limited to the amount recorded in the records of the Diocese and we were not able to determine whether any adjustments might be necessary to donation revenue, excess of revenue over expenditure, current assets and fund balances.

In our opinion, except for the effect of the adjustment, if any, which we might have determined to be necessary had we been able to satisfy ourselves concerning the completeness of revenue from donations referred to in the preceding paragraph, these financial statements present fairly, in all material respects, the financial position of the Diocese as at December 31, 2009 and the results of its operations and changes in cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

Hamilton, Canada
July 15, 2010

SYNOD OF THE DIOCESE OF NIAGARA

Statement of Financial Position

December 31, 2009, with comparative figures for 2008

	Total 2009	Total 2008 (Restated – notes 2 and 16)
Assets		
Current assets:		
Due from parishes (note 3)	$ 418,410	$ 1,334,667
Other receivables	289,709	362,342
Prepaid expenses	13,188	21,668
Loans receivable (note 4)	983,767	929,556
Investments (note 5)	825,999	936,670
	2,531,073	3,584,903
Long-term receivables (note 6)	1,452,910	-
Capital assets (note 7)	1,485,598	1,529,637
	$ 5,469,581	$ 5,114,540
Liabilities		
Current liabilities		
Bank indebtedness (note 8)	$ 857,902	$ 949,796
Due to parishes	373,407	363,577
Accounts payable and accrued liabilities	700,442	718,353
Bank loans – special purposes (note 9)	1,728,978	1,703,964
	3,660,729	3,735,690
Supplemental insurance benefits (note 10)	346,288	323,334
Fund Balances (Deficit)		
Invested in capital assets	1,485,598	1,529,637
Externally restricted (note 11)	1,151,354	1,155,054
Internally restricted	1,193,321	1,181,140
General	(2,367,709)	(2,810,315)
	1,462,564	1,055,516
Contingencies (note 12)		
	$ 5,469,581	$ 5,114,540

See accompanying notes to financial statements.

SYNOD OF THE DIOCESE OF NIAGARA

Statement of Operations

Year ended December 31, 2009 with comparative figures for 2008

	Total 2009	Total 2008 (Restated – notes 2 and 16)
Revenues:		
Diocesan assessment	$ 3,044,139	$ 3,059,084
Insurance premiums from parishes	802,983	826,562
Gifts and bequests	408,885	971
Investment income (loss)	113,014	(122,780)
Interest Income	36,490	-
Admin fee income	84,033	92,082
Other	291,271	40,102
Parish wages (note 2)	10,635,145	10,474,149
	15,415,960	14,370,170
Expenses:		
General and Provincial Synod:		
Commitments	710,101	709,961
Programs:		
Outreach Division	131,676	158,572
Congregational Support Division	22,204	97,526
Ministry Support Division	130,118	248,255
Canterbury Hills	120,000	136,940
	403,998	641,293
Operations:		
Office, building and committees	626,875	626,085
Diocesan staff	874,470	708,719
	1,501,345	1,334,804
Other:		
Depreciation	99,516	124,626
Interest	30,402	45,854
Insurance	797,471	815,002
Bad debts	40,359	-
Network legal and other fees	-	395,895
Parish wages (note 2)	10,635,145	10,474,149
Other parish and clergy support	790,575	872,210
	12,393,468	12,727,736
Total expenses	15,008,912	15,413,794
Excess (deficiency) of revenues over expenses before the undernoted	407,048	(1,043,624)
Survive & Thrive Campaign (note 1)	-	(1,980)
Endowments transfer to Foundation	-	(528,560)
Excess of revenue over expenses (expenses over revenue) for the year	$ 407,048	$ (1,574,164)

See accompanying notes to financial statements.

SYNOD OF THE DIOCESE OF NIAGARA

Statement of Changes in Net Assets

Year ended December 31, 2009 with comparative figures for 2008

	Invested in Capital Assets	Externally Restricted	Internally Restricted	General Fund	Total 2009	Total 2008 (Restated - notes 2 and 16)
Fund balances (deficit), beginning of year, as previously reported	$ 1,529,637	$ 1,155,054	$ 1,181,140	$ (2,314,984)	$ 1,550,847	$ 2,953,014
Restatement relating to correction of an error (note 16)	-	-	-	-	-	(323,334)
Restatement relating to implementation of accounting policy changes (note 2)	-	-	-	(495,331)	(495,331)	-
As restated	1,529,637	1,155,054	1,181,140	(2,810,315)	1,055,516	2,629,680
Excess of revenue over expenses (expenses over revenue) for the year	(99,516)	-	-	506,564	407,048	(1,078,833)
Interfund transfers:						
Net changes in invested in capital assets	55,477	-	-	(55,477)	-	-
Other	-	(3,700)	12,181	(8,481)	-	-
Fund balances, end of year	$ 1,485,598	$ 1,151,354	$ 1,193,321	$ (2,367,709)	$ 1,462,564	$ 1,550,847

See accompanying notes to financial statements.

SYNOD OF THE DIOCESE OF NIAGARA

Statement of Cash Flows

Year ended December 31, 2009, with comparative figures for 2008

	2009	2008 (Restated – notes 2 and 16)
Operations:		
Excess of revenues (expenses) for the year	$ 407,048	$ (1,574,165)
Adjustments for non-cash items:		
Depreciation	99,516	124,626
Supplemental insurance benefits	22,955	-
	529,519	(1,449,539)
Changes to non-cash working capital:		
Due from parishes	916,257	(2,189)
Other receivables	72,633	56,187
Prepaid expenses	8,480	2,416
Due to parishes	9,830	(42,159)
Accounts payable	(17,911)	(19,453)
	1,518,808	(1,454,737)
Investing:		
Purchase of capital assets	(55,477)	(62,462)
Change in investments, net	110,671	701,983
Change in long-term receivables	(1,452,910)	-
Collection of loans receivable	290,881	425,402
Advances of loans receivable	(345,092)	(212,063)
	(1,451,927)	852,860
Financing:		
Repayment of bank loans – special purposes	(295,995)	(115,000)
Issuance of bank loans – special purposes	321,009	-
	25,014	(115,000)
Change in bank indebtedness	91,895	(716,877)
Bank indebtedness, beginning of year	(949,797)	(232,920)
Bank indebtedness, end of year	$ (857,902)	$ (949,797)
Bank indebtedness is comprised of:		
Cash	244,386	244,386
Bank indebtedness	(1,102,288)	(1,194,183)
Bank indebtedness, end of year	$ (857,902)	$ (949,797)

Supplemental cash flow information:

	2009	2008
Cash paid during the year:		
Interest paid	$ 28,479	$ 59,108
Cash received during the year:		
Interest received	10,091	44,434

See accompanying notes to financial statements.

The Anglican Diocese of Niagara 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 ("Diocese") 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:

The 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 Fund reports resources contributed for which the use is restricted by the donors and do not form part of the Endowment Fund.

(c) Investments:

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.

(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.

1. Significant accounting policies (continued):

(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
Buildings	10 to 40 years
Building improvement	5 to 10 years
Computer equipment and software	2 years
Furniture and fixtures	3 to 5 years
Vehicles	5 years

(f) Contributed services:

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

(g) Supplemental insurance benefits:

The Diocese provides its active members and retirees with a life insurance benefit of $10,000 for active employees 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 actuarial valuation was December 31, 2009.

1. Significant accounting policies (continued):

(g) Supplemental insurance benefits (continued):

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:

- Cash or 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 not separately account for embedded derivatives.

The Diocese has elected to continue to disclose and present financial instruments under handbook section 3861, "Financial Instruments - Disclosures and Presentation" as the Canadian Institute of Chartered Accountants has permitted not-for-profit entities to defer the adoption of 3862, "Financial Instruments - Disclosures", and 3863, "Financial Instruments – Presentation".

(i) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles 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. Change in accounting policies:

Effective January 1, 2009, the Diocese adopted Section 4470, "Disclosures of Allocated Expenses by Not-for-Profit Organizations". This standard requires certain disclosures when fundraising and general support expenses are allocated to other functions.

Effective January 1, 2009, the Diocese adopted the amendments to the 4400 Sections of the CICA Handbook. These amendments eliminate the requirement to show net assets invested in capital assets as a separate component of net assets, clarify the requirement for revenue and expenses to be presented on a gross basis when the not-for-profit organization is acting as principal and require a statement of cash flows. Adoption of these recommendations has resulted in the requirement to show payroll processed by the Diocese on behalf of the parishes at gross rather than net amounts. The resulting change to revenue and expenses on the statement of operations is an increase of $10,635,145 in 2009 and $10,474,149 in 2008.

Effective January 1, 2009 the Diocese adopted the amendments to section 1000 of the CICA Handbook. These amendments clarified the criteria for recognition of an asset or liability, removing the ability to recognize assets or liabilities solely on the basis of matching of revenue and expense items. The Diocese has retroactively adopted the recommendations, and therefore the 2008 comparative figures have been restated. The impact of the implementation of these standards on the Diocese's financial statements is described below:

Deferred expenses:

The Diocese's deferred expenses no longer meet the definition of an asset. This change has been applied retroactively and has decreased the previously reported opening balance of unrestricted net assets by $495,331, increased expenses by $495,331 and decreased deferred expenses by $495,331.

3. Due from parishes:

	2009	2008
Payroll due from parishes	$ 176,808	$ 439,410
Diocesan Mission and Ministries	202,818	726,910
Other	38,784	168,347
	$ 418,410	$ 1,334,667

4. Loans receivable:

Loans receivable are comprised as follows:

(a) Employees:

Loans receivable from employees totalling $148,315 (2008 - $218,330) represent funds advanced to clergy and other employees of the Synod. The loans are for terms not exceeding 48 months. Interest is charged at the quarterly prescribed rate as set by Canada Revenue Agency.

(b) Church extension:

Church extension loans totalling $835,452 (2008 - $711,226) 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:

	2009	2008
Mutual and pooled funds	$ 761,305	$ 846,314
Shares	576	576
Mortgage loans	64,118	89,780
	$ 825,999	$ 936,670

Investments include $346,288 (2008 - $323,334) set aside to fund the supplemental insurance benefits (note 10).

6. Long-term receivables:

Parish	2009
Church of the Incarnation, Oakville	$ 133,102
St. Matthias, Guelph	62,261
St. Luke, Hamilton	113,990
St. Paul, Jarvis	101,118
All Saints, Ridgeway	69,003
St. Barnabas, St. Catharines	96,517
All Saints, Hamilton	86,218
Church of the Ascension, Hamilton	161,804
Cathedral Place, Hamilton	196,035
St. Luke, Palermo	85,215
Due from parishes	1,105,263
Mortgage receivable, secured by former Grace Church, Hamilton, bears interest at 5.0%, payable monthly at $500 plus interest, due May 30, 2013	347,647
Total	$ 1,452,910

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

7. Capital assets:

			2009	2008
	Cost	Accumulated depreciation	Net book value	Net book value
Land				
Palermo	$ 961,609	$ -	$ 961,609	$ 908,996
Canterbury Hills	35,749	-	35,749	35,749
Buildings				
Leasehold Improvements	1,157,142	823,515	333,627	390,121
Canterbury Hills	207,268	207,268	-	311
Building improvements	309,007	169,245	139,762	163,188
Computer equipment and software	184,118	182,686	1,432	9,154
Furniture and fixtures	108,595	95,176	13,419	22,118
Other	15,370	15,370	-	-
	$ 2,978,858	$ 1,493,260	$1,485,598	$ 1,529,637

8. Bank indebtedness:

The Diocese has a line of credit to a maximum of $1,500,000 (December 31, 2008, $1,500,000) for operating purposes. The operating loan is due on demand and bears interest at prime.

9. Bank loans – special purposes:

	2009	2008
Loans obtained on behalf of parishes, due on demand, bearing interest at prime plus 0.25%, maturing from 2010 to 2024, with minimum annual repayments of $28,770	$ 175,595	$ 298,365
Loans obtained on behalf of parishes, due on demand, bearing interest at prime plus 0.25%, maturing from 2016 to 2023, with minimum annual blended repayments of $66,816	606,777	347,996
Other special purpose loans for parish renovations and extensions, due on demand, bearing interest at prime plus 0.25%, minimum annual repayment of $115,000	946,606	1,057,603
	$ 1,728,978	$ 1,703,964

Principal repayments over the next five years are as follows:

2010	$ 196,012
2011	164,824
2012	156,921
2013	140,677
2014	141,605
Thereafter	928,939
	$ 1,728,978

The bank loans are secured by parish properties, the values of which are not recorded in these financial statements.

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 2009 is $346,288 (2008 - $323,334).

The Diocese measures its benefit obligation for accounting purposes based on the most recent actuarial valuation at December 31, 2009.

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

	2009	2008
Current service costs	$ 8,549	$ 8,700
Interest cost	20,139	18,029
Benefit expense	$ 28,688	$ 26,729

	2009	2008
Accrued benefit obligation:		
Balance, beginning of year	$ (262,179)	$ (312,605)
Current service costs	(8,549)	(8,700)
Interest cost	(20,139)	(18,029)
Less benefits paid	24,000	16,000
Experience gains (losses)	(78,069)	61,155
Balance, end of year	(344,936)	(262,179)
Unamortized net actuarial gains	(1,352)	(61,155)
Employee future benefits obligation	$ (346,288)	$ (323,334)

Included in current service costs is $2,714 (2008 – $nil) 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:

	2009	2008
Accrued benefit obligation (at end of year):		
Discount rate	6.10%	7.20%
Assumed retirement at age 60, for those active employees less than 60	20%	20%

11. Externally restricted fund balances:

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

	2009	2008
Episcopal support	$ 347,333	$ 347,333
Mission work	151,803	151,803
Other	222,520	222,520
Theological education	414,698	417,398
Youth and children's work	15,000	16,000
	$ 1,151,354	$ 1,155,054

12. Contingencies:

The Diocese has been named as a defendant in legal actions. Management believes that the Diocese has valid defences for these claims. In the event that claims are successful, management believes that such claims are not expected to have a material effect on the Diocese's financial position. No provision has been recorded in the financial statement with respect to these claims.

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. All expenses incurred related to these claims have been expensed.

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 disclosure:

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.

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, 2009, the fair market value amount of parish, Diocese, and Anglican Church Ministries Foundation funds invested through the Diocese amounted to $20,242,877 (2008 - $18,509,025).

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, 2009, 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 $400,000 (2008 - $nil) to the Diocese and the amount has been recorded in the total gifts and bequests on the statement of operations.

16. Correction of an error:

The comparative figures for the year ended December 31, 2008 have been restated to account for the previously unrecorded supplemental insurance liability (see note 10). The Diocese is required to fund these supplemental insurance benefits and as a result, the opening restricted net assets have been reduced by the amount previously set aside in the externally restricted funds to fund these benefits. At the beginning of 2008, the amount was $323,334. A corresponding long term liability has been recorded in the same amount. There was no impact on the 2008 statement of operations as a result of the correction.