Consolidated Financial Statements of

THE SYNOD OF THE DIOCESE OF NIAGARA

Year ended December 31, 2013

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of The Synod of the Diocese of Niagara, which comprise the consolidated statement of financial position as at December 31, 2013, the consolidated 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 Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 not-for-profit organizations, The Synod of the Diocese of Niagara derives revenue from donations, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, verification of these revenues was limited to the amounts recorded in the records of The Synod of the Diocese of Niagara. Therefore, we were not able to determine whether any adjustments might be necessary to revenues, excess of revenues over expenses, and cash flows from operations for the year ended December 31, 2013, current assets as at December 31, 2013 and net assets as at January 1, 2013 and December 31, 2013.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of The Synod of the Diocese of Niagara as at December 31, 2013, and its consolidated results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Hamilton, Canada
October 7, 2014

THE SYNOD OF THE DIOCESE OF NIAGARA

Consolidated Statement of Financial Position

December 31, 2013, with comparative figures for 2012

	2013	2012
Assets		
Current assets:		
Cash	$ 480,370	$ 354,169
Short-term investments	1,002,591	-
Restricted cash (note 3)	33,335	24,924
Due from parishes (note 4)	971,348	773,954
Other receivables	175,246	114,481
Prepaid expenses	19,382	18,837
Loans receivable (note 5)	370,330	602,773
	3,052,602	1,889,138
Investments (note 6)	2,239,355	2,091,999
Long-term receivables (note 7)	586,715	811,036
Capital assets (note 8)	966,276	1,808,753
	$ 6,844,948	$ 6,600,926
Liabilities and Net Assets		
Current liabilities:		
Bank indebtedness (note 9)	$ -	$ 1,033,009
Due to parishes	101,451	143,255
Accounts payable and accrued liabilities	617,819	464,520
Bank loans - special purposes (note 10)	1,051,074	1,267,663
	1,770,344	2,908,447
Supplemental insurance reserve (note 11)	431,630	408,574
Long-term liabilities (note 12)	260,434	256,934
Net assets:		
Invested in capital assets	966,276	1,808,753
Externally restricted (note 13)	1,326,713	1,308,709
Internally restricted	3,199,456	2,168,196
General	(1,109,905)	(2,258,687)
	4,382,540	3,026,971
	$ 6,844,948	$ 6,600,926

See accompanying notes to consolidated financial statements.

On behalf of the Board:

_______________ Director _______________ Director

THE SYNOD OF THE DIOCESE OF NIAGARA

Consolidated Statement of Operations

Year ended December 31, 2013, with comparative figures for 2012

	2013	2012
Revenue:		
Diocesan assessment	$ 3,049,270	$ 3,046,489
Administrative fees and rental income	257,892	240,145
Gifts and bequests	33,267	63,014
Bishop's Company revenue	80,122	63,449
Canterbury Hills (unrestricted)	619,133	-
Canterbury Hills (externally restricted)	12,319	-
Programs	46,691	64,955
Sundry	35,561	95,228
Interest income	31,134	19,526
Investment income	306,611	104,890
Insurance premiums from parishes	870,801	898,866
Parish wages	9,546,845	10,657,147
	14,889,646	15,253,709
Expenses:		
General and Provincial Synod:		
Commitments	658,274	647,109
Programs:		
Congregation support	30,878	57,343
Canterbury Hills	-	36,124
Ministry support	87,224	61,577
Outreach	8,859	4,361
Operations:		
Diocesan staff	1,146,874	1,067,019
Office, building and committees	677,025	615,770
Building	262,789	283,336
Building wages	170,938	189,895
Other:		
Parish subsidies	332,228	233,362
Depreciation	131,459	113,662
Bad debts	6,386	30,444
Interest	6,004	22,224
Restricted fund expenses	102,257	26,965
Insurance	892,339	872,974
Parish wages	9,546,845	10,657,147
Bishop's Company expenses	82,230	68,808
Canterbury Hills (unrestricted)	819,166	-
Canterbury Hills (externally restricted)	27,482	-
Total expenses	14,989,257	14,988,120
Earnings (loss) before the undernoted	(99,611)	265,589
Net proceeds on sale of properties	2,383,798	873,091
Restricted expenses related to properties	(818,288)	-
Excess of revenue over expenses	$ 1,465,899	$ 1,138,680

See accompanying notes to consolidated financial statements.

THE SYNOD OF THE DIOCESE OF NIAGARA

Consolidated Statement of Changes in Net Assets

Year ended December 31, 2013, with comparative figures for 2012

	Invested in capital assets	Externally restricted	Internally restricted	General fund	Total 2013	Total 2012
Fund balance (deficit), beginning of year	$1,808,753	$ 1,308,709	$ 2,168,196	$(2,258,687)	$ 3,026,971	$ 1,888,291
Consolidation of Canterbury Hills (note 2)	100,684	34,675	-	(245,689)	(110,330)	-
Adjusted opening balance	1,909,437	1,343,384	2,168,196	(2,504,376)	2,916,641	1,888,291
Excess of revenue over expenses (expenses over revenue) for the year	(147,263)	(16,671)	195,287	1,434,546	1,465,899	1,138,680
Interfund transfers:						
Net change in invested in capital assets	(795,898)	-	882,510	(86,612)	-	-
Insurance fund	-	-	(46,537)	46,537	-	-
Fund balance (deficit), end of year	$ 966,276	$ 1,326,713	$ 3,199,456	$(1,109,905)	$ 4,382,540	$ 3,026,971

See accompanying notes to consolidated financial statements.

THE SYNOD OF THE DIOCESE OF NIAGARA

Consolidated Statement of Cash Flows

Year ended December 31, 2013, with comparative figures for 2012

	2013	2012
Cash provided by (used in):		
Operations:		
Excess of revenue over expenses for the year	$ 1,465,899	$ 1,138,680
Items not involving cash		
Change in supplemental insurance liability	23,056	40,453
Depreciation	131,459	113,662
Transfer in of Canterbury Hills (note 2)	(110,330)	-
Gain on disposal of capital assets	(2,383,798)	-
Depreciation - Canterbury Hills	15,804	-
Change in non-cash operating working capital:		
Restricted cash	(8,411)	12,019
Due from parishes	(197,394)	(52,250)
Other receivables	(60,765)	(29,475)
Prepaid expenses	(545)	(6,758)
Due to parishes	(41,804)	(23,152)
Accounts payable and accrued liabilities	153,299	(18,492)
	(1,013,530)	1,174,687
Financing:		
Changes in long-term liabilities	3,500	3,500
Repayment of bank loans - special purposes	(216,589)	(212,048)
Issuance of bank loans - special purposes	-	100,000
Change in bank indebtedness	(1,033,009)	(97,681)
	(1,246,098)	(206,229)
Investing:		
Purchase of capital assets	(67,838)	(451,110)
Purchase of capital assets, Canterbury Hills	(18,774)	-
Transfer in of Canterbury Hills capital assets	(100,684)	-
Proceeds on disposal of capital assets	882,510	-
Change in investments, net	(147,356)	(653,458)
Increase in short-term investments	(1,002,591)	-
Change in long-term receivable	224,321	28,844
Collection of loans receivable	292,443	205,513
Advances of loan receivable	(60,000)	(100,000)
	2,031	(970,211)
Change in cash	(2,257,597)	(1,753)
Cash, beginning of year	354,169	355,922
Cash, end of year	$ (1,903,428)	$ 354,169

See accompanying notes to consolidated financial statements.

The 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 Diocese.

1. Significant accounting policies:

(a) Basis of presentation:

These financial statements have been prepared by management in accordance with Canadian Accounting Standards for Not-For-Profit entities in Part III of the CPA Canada Handbook. 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. If church properties are disposed of, the Diocese is responsible for any such resulting gain or loss.

These statements include the operations of Canterbury Hills effective for January 1, 2013. During 2013, the Bishop and the Secretary of The Synod of the Diocese concluded that the financial statements of The Synod of the Diocese of Niagara should include the operations of Canterbury Hills for 2013 as well as the assets and liabilities at December 31, 2013. Canterbury Hills operates a summer camp during the summer months and provides conference services during the remainder of the year. The Camp and Conference Centre are located on Diocesan land and administrative and financial services are provided to Canterbury Hills by the Diocese. See note 2 for details regarding the opening balances assumed by the Diocese as of January 1, 2013.

(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.

1. Significant accounting policies (continued):

(c) 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.

(d) Capital assets:

Purchased capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the date of contribution. Repairs and maintenance costs are charged to expense. Betterments which extend the estimated life of an asset are capitalized. When a capital asset no longer contributes to the Diocese's ability to provide services, its carrying amount is written down to its residual value.

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

Capital assets are amortized over the the estimated useful lives of the assets on the straight-line basis at the following rates:

Asset	Basis
Buildings	10 to 40 years
Building improvements	5 to 10 years
Computer equipment and software	2 years
Furniture and fixtures	3 to 5 years
Vehicles	5 years
Website	2 years

(e) Contributed services:

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

1. Significant accounting policies (continued):

(f) 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 clergy employees contribute at a rate of $6.67 and lay staff contribute at a rate of $2.50 to the fund 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, 2012.

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.

(g) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. 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 Diocese 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.

1. Significant accounting policies (continued):

(g) Financial instruments (continued):

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 Diocese 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 Diocese 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.

(h) 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 revenues and expenses during the year. Significant items subject to such estimates and assumptions include the carrying amounts due from parishes, loans receivables, long-term receivables and obligations related to supplemental insurance benefits. Actual results could differ from those estimates.

2. Consolidation of Canterbury Hills:

On January 1, 2013, the following balances relating to Canterbury Hills were consolidated into the operations and financial position of the Diocese of Niagara:

Cash	$	20,147
Restricted cash		11,128
Accounts receivable		19,029
Prepaid expenses		6,720
Capital assets		100,684
Total assets	$	157,708
Accounts payable and accruals	$	109,232
Bank loan		100,164
Due to Diocese		58,642
Total liabilities		268,038
Externally restricted funds		34,675
Invested in capital assets		100,684
Unrestricted funds		(245,689)
Total fund balances		(110,330)
Total liabilities and fund balances	$	157,708

3. Restricted cash:

Restricted cash consists of funds received on behalf of parishes and funds received for the direct benevolent work of the Bishop.

4. Due from parishes:

Amounts receivable from parishes consist of:

		2013		2012
Payroll due from parishes	$	196,848	$	176,060
Diocesan Mission and Ministries		663,405		566,306
Other		154,132		34,725
Provision for doubtful accounts		(43,037)		(3,137)
	$	971,348	$	773,954

5. Loans receivable:

Loans receivable are comprised as follows:

(a) Employees:

Loans receivable from employees totalling $16,148 (2012 - $26,377) 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.

(b) Church extension:

Church extension loans totalling $354,182 (2012 - $576,396) 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.

6. Investments:

Investments are comprised as follows:

	2013	2012
Mutual and pooled funds	$ 2,204,620	$ 2,077,282
Shares	576	576
Mortgage loans	34,159	14,141
	$ 2,239,355	$ 2,091,999

Investments include $431,630 (2012 - $408,574) set aside to fund the supplemental insurance benefits (see note 10).

7. Long-term receivables:

Parish	2013	2012
Cathedral Place, Hamilton	$ 196,039	$ 196,039
Church of the Ascension, Hamilton	-	141,211
Church of the Incarnation, Oakville	55,516	134,980
St. Luke, Hamilton	112,665	112,665
St. Paul, Jarvis	64,857	81,172
St. Barnabas, St. Catharines	87,162	87,162
All Saints, Ridgeway	49,000	56,329
All Saints, Hamilton	47,726	47,726
St. Matthias, Guelph	40,396	40,398
St. Luke, Palermo	20,215	20,215
Provision for doubtful accounts	(86,861)	(106,861)
Total	$ 586,715	$ 811,036

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

8. Capital assets:

			2013	2012
	Cost	Accumulated amortization	Net book value	Net book value
Land				
Palermo	$ 282,422	$ -	$ 282,422	$ 1,164,933
Canterbury Hills	35,749	-	35,749	35,749
Buildings				
Leasehold improvements	1,246,641	1,077,115	169,526	164,146
Canterbury Hills	207,268	207,268	-	-
Hamilton Grace	335,000	33,500	301,500	318,250
Building improvements	374,796	283,092	91,704	112,165
Computer equipment and software	260,207	221,001	39,206	9,846
Furniture and fixtures	178,408	138,074	40,334	3,664
Vehicles	41,624	35,789	5,835	-
	$ 2,962,115	$ 1,995,839	$ 966,276	$ 1,808,753

9. Bank indebtedness:

The Diocese has a line of credit to a maximum of $1,500,000 (2012 - $1,500,000) for operating purposes. The operating loan is due on demand and bears interest at prime.

10. Bank loans - special purposes:

		2013		2012
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	$	79,065	$	144,318
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		256,742		310,742
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		630,103		712,603
Line of credit obtained on behalf of Canterbury Hills Camp and Conference Centre, due on demand, bearing interest at prime, with no minimum repayment, maximum limit of $125,000		85,164		100,000
	$	1,051,074	$	1,267,663

Principal repayments over the next five years are as follows:

2014	$	163,103
2015		145,500
2016		142,608
2017		140,200
2018		111,999
Thereafter		347,664
	$	1,051,074

11. 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 Diocese measures its benefit obligation for accounting purposes based on the most recent actuarial valuation at December 31, 2013.

	2013	2012
Accrued benefit obligation	$ (536,606)	$ (559,984)
Funded status - plan deficit	(536,606)	(559,984)
Unamortized actuarial loss	104,976	151,410
	$ (431,630)	$ (408,574)

12. Long-term liabilities:

These funds have historically been designated to the Residential Schools Healing Fund. In consultation with the National Church partners, Synod Council will make a determination as to how the funds should best be distributed. During 2014, approximately $100,000 of the liabilities have been disbursed.

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. Externally restricted fund balances:

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

	2013	2012
Theological education	$ 411,898	$ 411,898
Episcopal support	347,333	347,333
Other	373,439	373,439
Mission work	151,803	151,803
Youth and children's work	15,000	15,000
Bishop's Company	7,128	9,236
Canterbury Hills	20,112	-
	$ 1,326,713	$ 1,308,709

14. Financial instruments:

(a) Currency risk:

The Diocese is exposed to financial risks as a result of exchange rate fluctuations and the volatility of these rates. In the normal course of business, the Diocese purchases investments denominated in foreign currencies. There has been no change to the risk exposure from 2012.

(b) Liquidity risk:

Liquidity risk is the risk that the Diocese will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Diocese manages its liquidity risk by monitoring its operating requirements. The Diocese prepares budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations. There has been no change to the risk exposures from 2012.

(c) Credit risk:

Credit risk refers to the risk that a counterparty may default on its contractual obligations resulting in a financial loss. The Diocese is exposed to credit risk with respect to the amounts due from parishes, loans receivable, and long-term receivables. The Diocese assesses, on a continuous basis, these balances and provides for any amounts that are not collectible in the allowance for doubtful accounts.

(d) Interest rate risk:

The Diocese's long-term debt has a variable interest rate based on prime. As a result, the Diocese is exposed to interest rate risk due to fluctuations in the prime rate.

15. 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, 2013, the fair market value of the parish, Diocese, and Anglican Church Ministries Foundation funds invested through the Diocese amounted to $30,150,000 (2012 - $25,634,344).

16. 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, 2013, the Foundation held net assets in the amount of approximately $17.3 million (2012 – $14.6 million), the benefit of which will accrue to the Diocese and some of its affiliates in the future.

Investment administration fees of $15,000 (2012 – $15,000) were charged by the Diocese to the Foundation and have been included in Administrative fees and rental income on the Statement of Operations.