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2019

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Financial Report for 2018 and

Audited Financial Statements

Section C

Diocese of Toronto
Anglican Church of Canada

FINANCIAL REPORT FOR 2018

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September 23, 2019

Background

The 2018 audit presented challenges with new staff at the Diocese and on the audit team. Loss of institutional memory, and accounting process inconsistency over decades contributed to this challenge. The audit team of Grant Thornton faced some similar issues with a full turnover in their field staff.

Much work has been done between the Diocesan staff and the audit team to understand the account mappings for the audited financial statement. Management has taken a different approach to verify and report numbers. A deep dive analysis on the historical records was performed to validate fund balances which surfaced inconsistencies in accounting treatment over many years. After a comprehensive mapping process, all GL accounts were mapped to the financial statement and all the figures were traced and verified. While the process has been difficult, it presented a great opportunity to revisit the account structure and make systematic change to make the consolidation and audit process more intuitive and efficient.

The Incorporated Synod of the Diocese of Toronto

Structure of the Financial Statement

We have made a change to the income statement format. The new format reports capital appreciation/deprecation, property sold revenue, parish support and fund disbursements to others below the operating surplus as they don't form a part of the operation or part of the annual budget approved by Synod. The result is a statement that better reflects the performance of the operation.

Financial Position

Assets

- Assets decreased by $15.6 million from the prior year. This decrease is mainly due to a decrease of $12.4 million in the investments held as a result of a market sell off in the last quarter. However, the market has bounced back and as of June 30st, the total funds under management are evaluated at $ 156 million compared to $143 million at the end of 2018 – an increase of $13 million.
- The total cash- balance is at $5.6 million, $1.5 million higher than prior year. A loan paid off by a parish is the main reason for the increase.
- Accounts Receivable – Parish receivables have decreased from the prior year as a result of an increase in the allowance for doubtful accounts. During the year the aging of the parish receivables were closely monitored and at the year end, we identified $334k as uncollectable and $58k as write off for debt forgiveness. The debt forgiveness is intended to allow churches

that have been burdened by accumulated debt to be unburdened to focus on the future ministry of the parish and ensure a balanced financial position. This requires more scrutiny in the future in order to avoid the historical practice of maintaining high risk loans on the books for protracted periods of time.

- Loans Receivable – Loans decreased from 2017 due to loans being paid off by parishes. One parish has paid the majority of their loans, an amount of $1.25 million close to the end of the year, this has resulted in the increase in cash in the unrestricted fund.
- Properties Held for Sale – One property was sold in May 2018 and a second property approved for sale by the Diocesan council. Two properties remain available to sell at December 31, 2018 although not currently listed. (1211 Brealey Drive, Angeline St N, Lindsay)

Liabilities

- Liabilities decreased from the prior year by $7.4 million mainly due to a decrease in parish investments held in the Consolidated Trust Fund ($5.5 million) as a result of market fluctuation in the last quarter of 2018.

Statement of Revenue and Expenses

There was an excess of expense over revenue resulting in a deficit of $271,116 (2017- deficit of $390,036).

The main drivers are:

- Significant decrease in donations from OFOH of $179,813 as the campaign is coming to an end
- Investment income declined from prior year as a result of last quarter market crash
- Episcopal care and leadership increased due to the installation of the new Bishop and retirement expenses for Archbishop Johnson
- Corporate governance and support services increased primarily due to higher bad debt expenses ($373,950) associated with parish debt deemed uncollectible and write off for debt forgiveness for five parishes. As a result of that we believe that we have a cleaner balance sheet.

Offset by the following items:

- Revenue increased from Marriot hotel by $282,676, a 24% increase
- Church growth and development decreased by $869,856 as a result of lower strategic planning costs of $475,617 plus vacancies in some departments, in addition to that, 2017 included a property cost associated with one property for $ 413,514 (St. George the Martyr - Diocesan Properties DPD)
- Supporting Ordained and Lay Leaders decreased by $693,459, which is attributed to unspent program cost as some programs didn't run as scheduled and lower than expected relocation and retraining expenses

Below the line items:

- Capital depreciation of $(5,254,266) (2017-$3,402,523 capital appreciation) is due to the market sell off in Q4.
- The property revenue includes amounts designated to the Ministry Allocation Fund from the sale of one parish property. There was also one new approval for the sale of a former parish property managed by the Diocese which has been sold in 2019.
- Fund distributions to others and parish support increased by $735,034 as one parish withdrew $814,951.

The Cemetery Fund of the Incorporated Synod of the Diocese of Toronto

The Cemetery Fund is comprised of funds invested on behalf of parishes with cemeteries. The investments are reviewed on a quarterly basis by the Investment Committee of the Diocese.

The net loss for the year was $168,389 which was a decrease from the 2017 result of a $573,861 gain. The slight increase in investment income was offset by significant capital depreciation as result of the market sell off in Q4. The overall annual return on the fund for 2017 was 3% compared to 5.8% in 2017.

With regards to the Cemetery Fund, the Investment Committee has advised that a specific rate can no longer be guaranteed as a result of the Bereavement Authority of Ontario's (BAO) capital gains regulations. We have confirmed with the BAO that the fund can only distribute income in the form of interest and dividends. Realized and unrealized capital gains are not permitted to be distributed. For 2019, based on yield from interest and dividends for the fund in 2018, the dividend rate is at 2.8%, unit rate of $4.28, subject to adjustment at the end of the year for actual income earned. For following years, as recommended by the Investment committee, the dividend rate will be in a range of 0-3%.