

The Annual Report for the Diocese of London Financial Report for 2006

By **Dave Savel, CA**
Financial Administrator

Our auditors, KPMG, recently completed their audit of the diocese, parishes, and diocesan cemeteries. The financial statements were approved by our Audit Committee and our Finance Committee in May. The information below is a summary of the audited statements. I encourage you to take the time to review this report and if you have any questions please contact me.

Thank you for your support of our Church. In particular I would like to thank all the volunteers across our diocese who share their valuable time and talent. If you are not currently volunteering in your parish, please consider it.

Parishes

Our consolidated parish operating results were quite good. Collections and donations increased from \$30.8 million in 2005 to \$32.1 million in 2006, which is a 4% increase. The parishes earned an operating surplus of \$3.2 million versus \$2.3 million in 2005. Results however were not so good at all our parishes. 41 of our 140 parishes, or 29%, incurred an operating deficit in 2006. Operating results include day to day receipts and expenditures such as Sunday offertory, ministry, outreach, salaries, utilities, and repairs and maintenance.

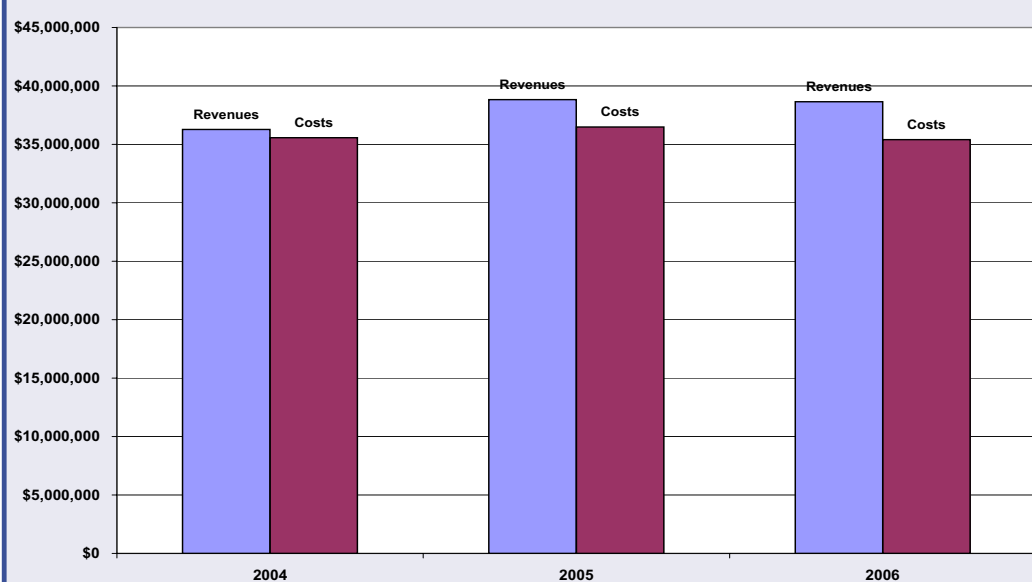
Under the Parish Reorganization Policy we have established new standards of parish financial accountability. In 2007 this process was laid out in a document entitled Financial Viability and Parish Reorganization. Our hope is that this process will help to strengthen those parishes that have been struggling financially. We have already seen some financial turnarounds from a few of the parishes that were undergoing this process.

Our capital results were significantly better in 2006. Capital donations were \$6.8 million

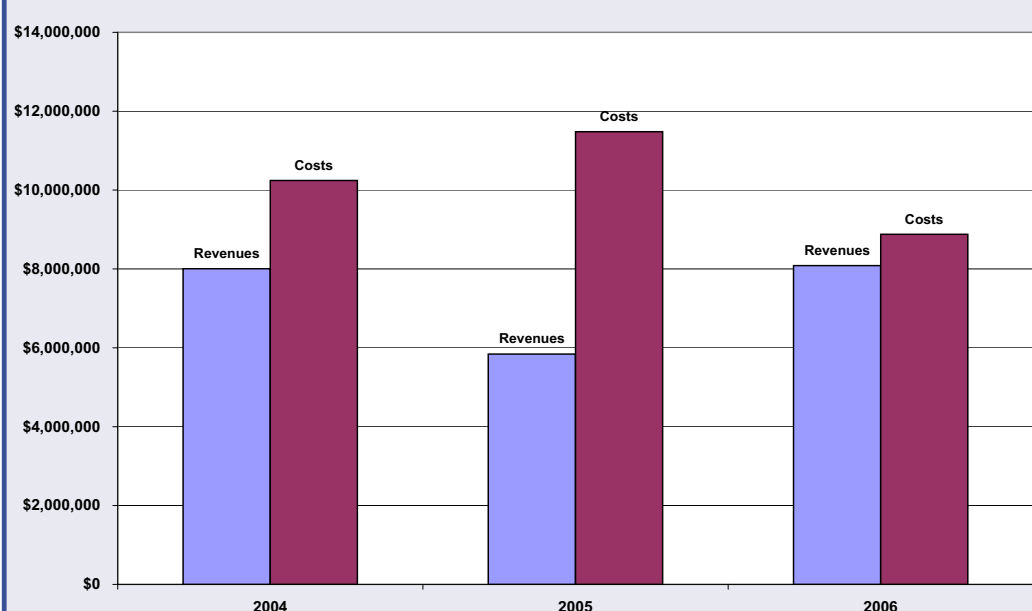
in 2006 versus \$5.7 million in 2005, which is a 20% increase. The sale of churches that have closed provided \$1.3 million of proceeds for our parishes. Our parishes spent \$8.9 million versus \$11.5 million in 2005. Much of the 2006 spending was for the new church in Comber, Visitation Parish. Capital results include capital donations, purchase of capital assets (ex. organ), construction, significant renovations, and restoration.

Through the efforts of our parishes and the Loan Fund Committee our parish Loan fund was able to pay off its bank loan and get into a positive position at the end of 2006. At the end of 2005 the Loan Fund owed the bank \$1.9 million, whereas in June 2007 we now have a cash balance of \$3.7 million to fund future capital projects. The Loan Fund is essentially a parish "credit union". Parishes with excess funds or those saving for a capital project deposit monies with the Loan Fund and earn interest. Parishes in need of funding for capital projects can apply to the Loan Fund Committee to borrow, with interest. The Loan Fund Committee has been cautious in approving loans to ensure

Parish Operating Results



Parish Capital Results



A message from Bishop Fabbro

My Dear Brother and Sisters in Christ,

This issue of the Diocesan Newsletter includes our 2006 Financial Report. During the past year, our parish teams, parish finance committees, diocesan finance committee, and diocesan staff have played a significant role in honouring our commitment to Goal VI of the Diocesan Pastoral Plan, which calls us to be accountable and transparent. I extend my gratitude to all of the individuals involved in these offices and committees for the time and talent they have dedicated in providing the information necessary to prepare this report.

It is encouraging to read in the 2006 Financial Report that there has been an increase of 3% in our 2006 receipts over 2005. This is but one of the many fruits of the involvement of our people in the life of our diocese. This past year, we have witnessed a growing number of lay volunteers who are committed to building up our parish communities and to improving our celebration of the Sunday Eucharist. I thank you, the faithful of the Diocese of London, for the support you are giving our diocesan Church.

There is no question that 2006 has been a challenging year for the diocese. I am deeply grateful to all who have offered their assistance in these difficult times, and especially to those who have prayed for me and for the people of the diocese. With the help of a group of clergy and lay people and the Episcopal Council, I have approved a financial plan to meet the challenges before us.

Again, I take this opportunity to thank all of you, volunteers and staff, for your generous and dedicated commitment to be good stewards of our diocese. I encourage you to continue your participation in the mission of our Church, a mission that has been entrusted to us by virtue of our baptism in the death and resurrection of Jesus Christ.

Sincerely yours in Christ,

Bishop R. Fabbro

The following is a list of the member of our Finance, Investment and Audit Committees. We join with Bishop Fabbro in thanking them for their time and effort in service of our diocese.

Finance Committee:

John O'Neill (Chair) (London), Don Brady (London), Darrin Didychuk (Essex), Paul Dollar (Windsor), Barry Hogan (Sarnia), Fr. John Sharp (London), Sr. Barbara Vaughan (Windsor), Kevin Doyle (Chatham), John Kavelaars (Glencoe)

Investment Committee:

Don Brady (Chair) (London), John Cronin (London), John Craven (London), Charles Spina (London)

Audit Committee

Darrin Didychuk (Chair) (Essex), Tom Boone (London), Terry Crawley (Essex), Greg Hogan (Sarnia)

parishes do not take on more debt than they can afford and to improve the health of the Loan Fund. This policy will continue.

In 2007 a new parish accounting software program was introduced. 80 parishes are now using the new program and we expect all parishes to be using it by June 2008. The new program was introduced after an extensive screening and selection process. The rollout has not been without its challenges but we continue to work with the parishes to ensure they have accurate, timely financial reporting.

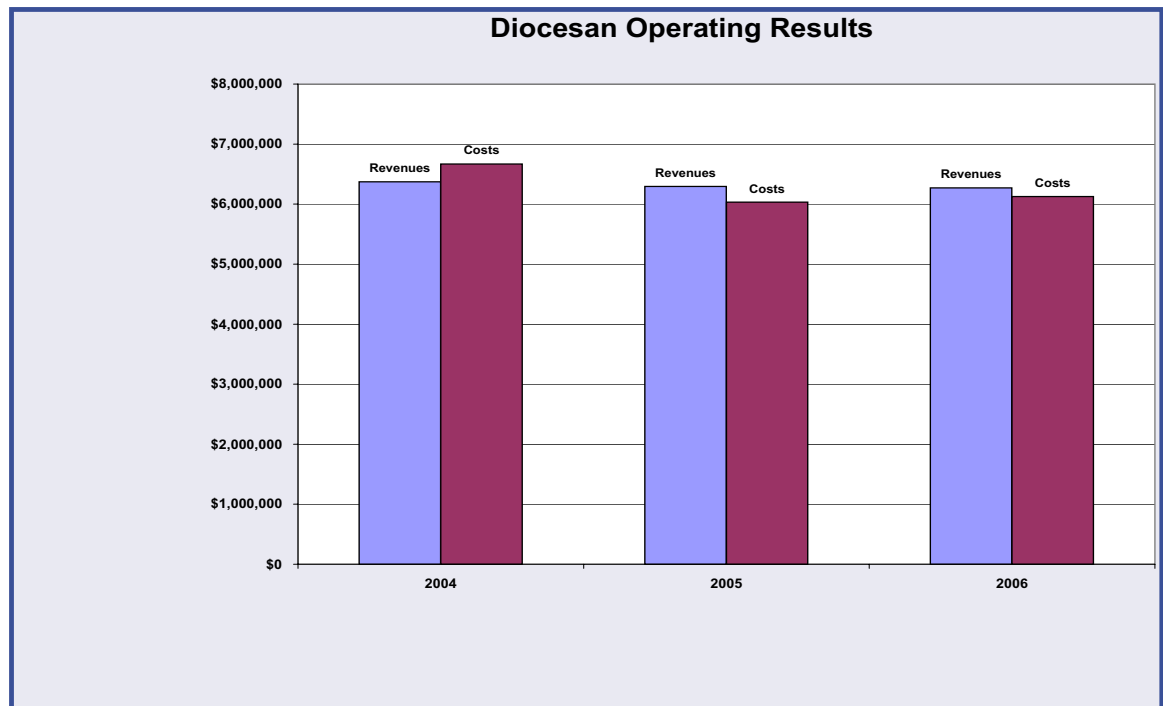
Later in 2007 the diocese will be presenting workshops mainly directed towards parish finance committees. The content, dates and locations are yet to be determined. Further details will be released in advance of the workshops.

Diocesan Cemeteries

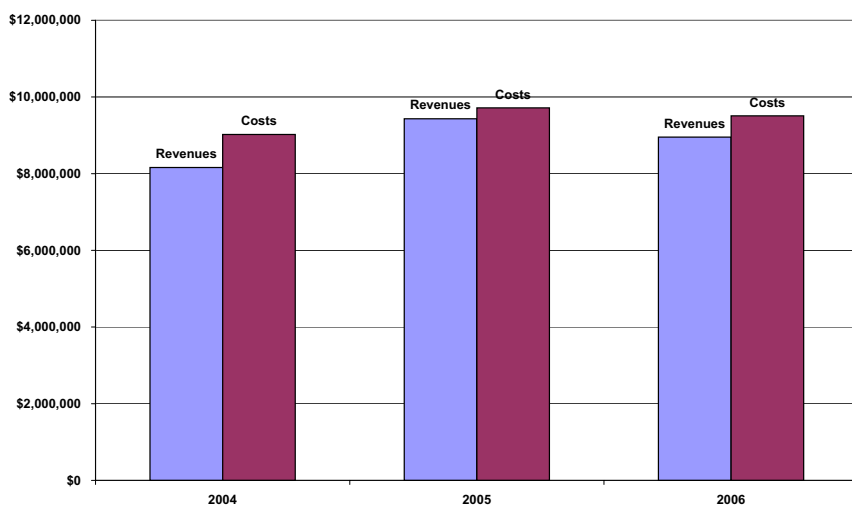
In addition to our many parish cemeteries, there are cemeteries in Windsor, Sarnia, and London that are under the direct control of the diocese. Our diocesan cemeteries have had some

assistance of a number of knowledgeable Catholics from across our diocese, we have been preparing a financial plan and a fundraising plan for our parishes, seminary, and the diocese. This includes a plan for funding the cost of sexual abuse claims in particular as a result of the late Rev.

Charles Sylvestre. Although we expect insurance to pay a portion of these costs the cost to the diocese is still very



Diocesan Cemeteries Financial Results



financial struggles in recent years. In 2005 we downsized the diocesan cemeteries to reduce costs. The changes in our governance structure and new expectations with respect to accountability have resulted in many positive steps. The financial results are not yet as good as we need, but we continue to work together to reach our goals. Our diocesan Finance Committee has been instrumental in this process and continues to work with cemetery management on improving their financial performance.

Have you considered pre-planning? If you are interested please contact your local parish or diocesan cemetery.

Diocese

We had a slight operating surplus in 2006. This did not include costs related to sexual abuse claims which in 2006 amounted to \$5.5 million, net of insurance recoveries (compared to \$3.4 million in 2005) and which will be paid for by selling excess non-parish property. This past year, with the

high. This plan calls for the sale of diocesan (non-parish) assets. We thank those members of our diocese that gave so much of their valuable time this past year in the preparation of these two plans.

In order to continue to be financially viable the diocese has cut \$400 thousand from its 2007 operating budget. In addition, Bishop Fabbro is leading a committee in a review of all the services we provide which will lead to a restructuring of the diocese.

Accountability and Responsibility

Our diocese has an administrative group reporting to Bishop Fabbro which relies heavily on the discipline and review of our plans and budgets by our diocesan Finance Committee. This committee is objective and comprised of people with significant expertise from across the diocese; it forms part of our internal control system to ensure that we make prudent financial decisions. The committee is a third

party that is independent of administration and free to give advice when and where it deems necessary. It also has subcommittees such as the Investment Committee and Audit Committee which meets with our external auditors with and without administration present. These committees analyze our practices and policies, assess risks, and provide proactive advice.

Our diocese follows sound business practices: we prepare an annual budget; actual results are compared to budget monthly; we have an annual external audit; we conduct reviews; we develop policies where needed, ensuring that decisions are made within a policy framework; and we strive to be accountable, prudent, and transparent with the donations that you give us, consistent with Goal #6 of our pastoral plan.

Donating securities (stocks, bonds, etc.) to the Church

New income tax rules were enacted this past year providing significant tax benefits if you donate your securities to the Church. Any accumulated capital gains you have will not be taxed and

you will receive an income tax receipt for the current market value of the securities.

Have you considered the Church in your will?

Please consider the Church when determining who the beneficiaries of your estate will be. As an example, you can name your local parish, the diocese, St. John the Evangelist Pension Fund Society (clergy pension) or the Seminary as a beneficiary. We would be glad to assist you if you have any questions about this.

What happens to a church building if it is closed?

We have a process whereby we list the church building for sale via a real estate agent on the open market. We are very careful about whom we sell to and always place a restrictive covenant registered on title that limits the future use of the church building. All liturgical items are removed prior to the sale. The proceeds from the sale go to the parish that now becomes responsible for the spiritual care of the parishioners of the closing parish. For example, St. Martin de Porres church, Windsor, was sold to an Antiochan Orthodox parish, and the proceeds of the sale went to Corpus Christi parish.

How are the Pentecost 2000 funds doing?

The diocese held a major fund raising campaign in 1989-94, called Pentecost 2000. Its purpose was to establish endowment funds for the seminary, cathedral, and diocesan programs. The parishioners of our diocese responded generously to this campaign. As promised during the campaign, the principal raised remains intact (restricted) and invested according to investment policies and goals as established by our Investment Committee with the assistance of our investment advisor. In accordance with a policy established by our Finance Committee, 4.75% is paid out annually to fund the seminary, cathedral, and diocesan programs. The 4.75% payout policy was developed to preserve the purchasing power (inflation protection) of the endowment funds and prevent wild swings in the amount paid out. Whether we earn 12% or 2%, we'll still pay out 4.75%. In 2006 our gross return on investment was 10.2%. Our 5-year annualized return was 9.5%. The excess income (above 4.75%) was reinvested in the endowment funds to provide for increasing payout amounts in the years to come. At December 31, 2006 the endowment balances, including reinvested amounts were:

St. Peter's Seminary	\$11.1 million
Diocesan programs	\$9.3 million
St. Peter's Cathedral Basilica	\$1.6 million
Total	\$22.0 million

If you have any questions please contact
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