

# 2008 Annual Financial Report

By *Dave Savel, CA*

Our consolidated financial report represents an overview of the costs and revenues of the Diocese of London, our parishes and our diocesan cemeteries. The figures quoted below are taken from two sources; the audited financial statements and our internal records. I encourage you to take the time to review this report and to contact me if you have any questions. As always, I would like to thank all those who have been so generous to us over the past year.

## Parishes

Our consolidated parish operating results for 2008 were positive but not quite as good as 2007. Collections and donations were flat year over year at \$31.1 million. The parishes earned an operating surplus of \$1.6 million in 2008 versus \$3.4 million in 2007. The results, however, were not so positive at all our parishes. Of our 125 parishes and communities, 48 or 38%, incurred an operating deficit in 2008. That means that 48 parishes did not take in enough money to pay for the cost of operating the parish. 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 standards established for assessing parish financial viability. In 2007 this process was explained

in a document entitled Financial Viability and Parish Reorganization. We continue to work with those parishes that have been struggling financially to try to help them to become financially viable.

Our parish capital results were not as good in 2008 as they were in 2007. Capital donations were \$5.5 million in 2008 versus \$9.5 million in 2007. The sale of churches that have closed provided \$3.7 million in 2008 of proceeds for our parishes versus \$1.8 million in 2007. Our parishes spent \$10.3 million in 2008 on construction, renovations and restorations versus \$10.8 million in 2007. Capital results include capital donations, purchase of capital assets (i.e. an organ), construction, significant renovations and restoration.

The major capital projects in 2008 were at St. Peter's Cathedral in London, Our Lady, Queen of Martyrs in Delhi, Holy Trinity in Woodstock, Our Lady of Mt. Carmel in Mt. Carmel, St. Philip's in Petrolia, St. Francis Xavier in Tilbury, Most Precious Blood in Windsor, St. Theresa in Windsor and Visitation Parish in Comber. There were also a number of parishes with projects between \$100 and \$200 thousand.

At the end of 2008 the Parish Deposit & Loan Fund had cash of \$1.8 million and investments of \$4.2 million. The Parish Deposit & Loan Fund functions essentially like a parish "credit

union." Parishes with excess funds or those saving for a capital project deposit monies with the Fund and earn interest. Parishes in need of funding for capital projects can apply to the Parish Deposit & Loan Fund Committee to borrow. At the end of 2008, 42 parishes were in a loan position (i.e. owed money to the Fund) in the amount of \$19.2 million; the average loan balance is therefore \$457 thousand. 103 parishes had money on deposit with the Fund for a total of \$23.7 million; the average deposit balance is therefore \$230 thousand. The Fund is in a healthy position

which has allowed the Building Commission and the Parish Deposit & Loan Fund Committee to approve a number of major projects for 2009 totaling \$7.4 million including Corpus Christi in Windsor, Ste. Anne's in Tecumseh, Our Lady of Mercy in Sarnia, Sts. Simon & Jude in Belle River, St. Leopold Mandic in London, St. Agnes in Chatham and St. Martin's in London.

## Diocese

We had an operating loss in 2008 of \$3.2 million versus an operating surplus of \$728 thousand in 2007. The decline in revenue and resulting loss in 2008 was a result of a \$3.1 million investment loss on our endowment funds; otherwise we would have had a balanced budget. Our endowment funds provide a stream of income for the Diocese to help fund operations. Unfortunately we were not immune to the "meltdown" in the financial markets. Our Investment Committee has been working diligently with our investment advisors to assess our situation. The investment loss is really a "paper loss" as many of you reading this article have experienced with your own investments. In other words we did not "crystallize" our losses by selling investments at these low price levels. We are confident in the prudent practices we have followed and continue to monitor performance with a long-term perspective.

These results did not include expenses related to sexual abuse claims and sale of diocesan

(non-parish) assets which are used to fund such costs. In 2008, sexual abuse expenses, including accruals, amounted to \$489 thousand, net of insurance recoveries (compared to \$4.1 million in 2007). The vast majority of the cost of sexual abuse is a result of the actions of the late Charles Sylvestre. Although we expect insurance to pay a portion of these costs, as one can see from the above figures, the cost to the diocese is still very high. We are doing our utmost to make fair and reasonable settlements with

these debts by the end of 2013. In fact as of the end of June 2009 we are on schedule and have paid off the bank loan.

In addition to the two operating loans above we also have a bank loan to help us with the cash flow challenges of funding the cost of sexual abuse. We are selling off non-parish properties to pay for the cost of sexual abuse but in order to allow for an orderly sale of these assets we arranged a credit facility with the bank. This way we can avoid "fire sales" of property. As we sell properties we pay down the bank loan. The balance of this loan was \$3.3 million at the end of 2008. We expect this debt to be paid off by the end of 2013 in accordance with our financial plan.

## Are you a retired or semi-retired accountant/auditor?

We are forming an internal audit department and are seeking qualified people. Audits would be conducted at parishes in your area. It would be helpful to have some auditing experience. For more information, please contact Dave Savel, CA, Financial Administrator, at 519-433-0658 x222.

## Diocesan Cemeteries

In addition to our many parish cemeteries, there are cemeteries in Windsor, Sarnia and London managed directly by the diocese. In 2008 our diocesan cemeteries had revenues of \$9.0 million and costs of \$8.6 million. One of the main financial goals of our diocesan cemeteries is to eliminate their debt. The debt balance was \$8.5 million at the end of 2007. During 2008 we repaid nearly \$1.0 million so that the balance at the end of 2008 was \$7.6 million. This debt was mainly incurred to construct mausoleums in Windsor, Sarnia and London. In order to repay the debt, it is essential for the cemeteries to earn annual surpluses. We have worked with our diocesan Finance Committee to develop a financial plan which we have been implementing.

The Ontario Cemetery Act governs how we operate our cemeteries. Whenever a pre-planned sale is made, the money must be invested with our trustee (Royal Trust) until the service or product has been provided. In addition, when a sale is made, a certain percentage of the money

## Finance Committee

Barry Hogan (Chair) (Sarnia)  
Paul Dollar (Windsor)  
Fr. John Sharp (London)  
Kevin Doyle (Chatham)  
John Kavelaars (Glencoe)  
Teresa McCoomb (London)  
Peter Regier (London)  
Sam Romano (Windsor)  
Fr. John Pirt (London)

## Investment Committee

John Cronin (Chair) (London)  
John Craven (London)  
Charles Spina (London)  
Kevin Doyle (Chatham)

## Audit Committee

Tom Boone (London)  
Terry Crawley (Essex)  
Greg Hogan (Sarnia)

## Building Commission

Phil Arnsby (London)  
Bob L'Ecuyer (Grande Pointe)  
Joe Liebrechts (St. Thomas)  
Sr. Loretta Manzara (London)  
Fr. James Roche (Windsor)  
Fr. Robert Rocheleau (London)  
Fr. Eugene Roy (Pain Court)

## Parish Deposit & Loan Fund Committee

Gerry Alexander (Belle River)  
Fr. Andrew Dwyer (Thamesville)  
Fr. Vince Gulikers (Windsor)  
Jim McLandress (Chatham)  
John Mockler (London)  
Tom Mulligan (London)  
Fr. Michael O'Brien (Tilbury)  
Ken Peters (Watford)

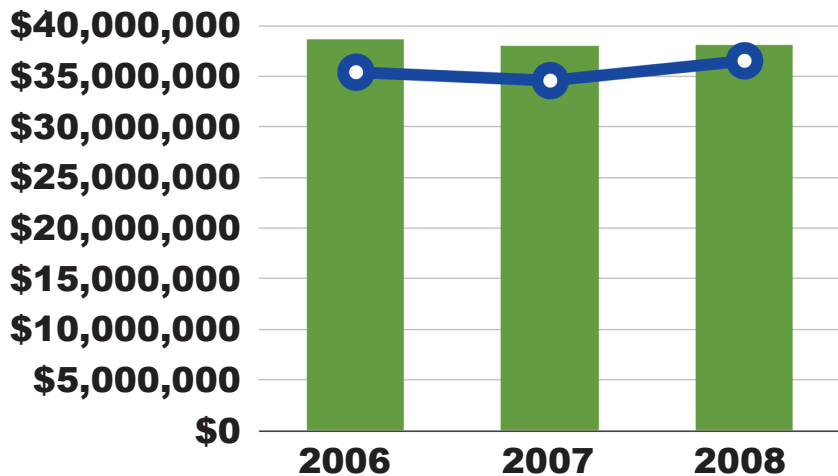
## Have you considered the Church in your will?

Please consider the Church when determining who the beneficiaries of your estate will be.

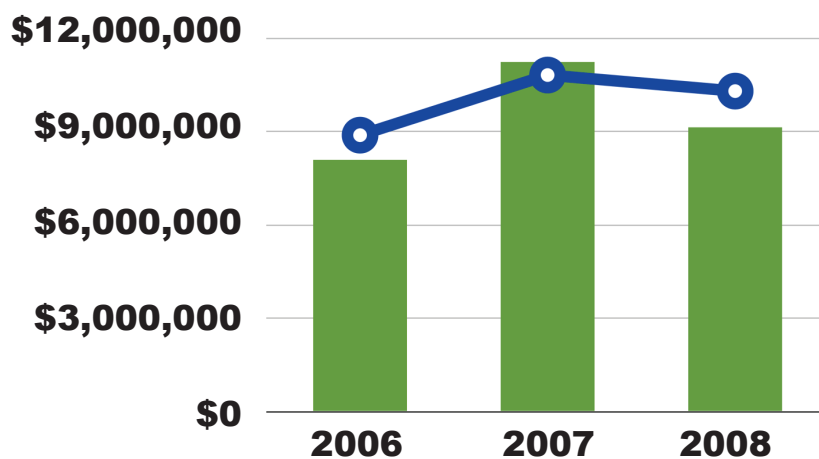
As an example, you can name your local parish, the diocese, St. John the Evangelist Pension Fund Society (clergy pension) or the Seminary as a beneficiary.

■ Revenues ○ Costs

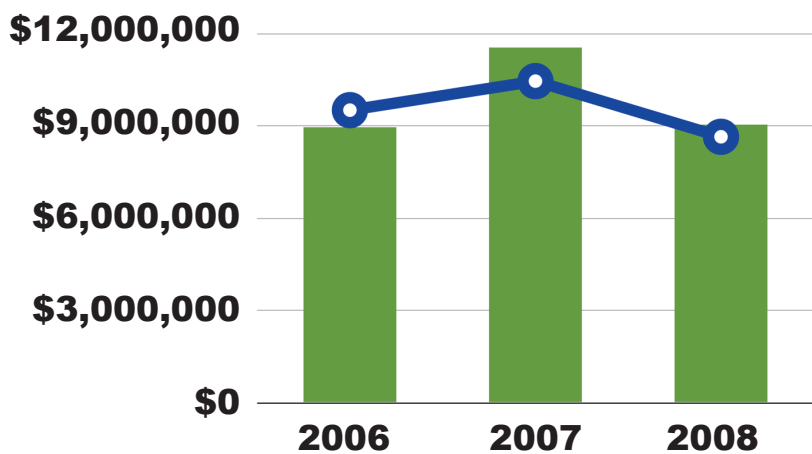
Parish Operating Results



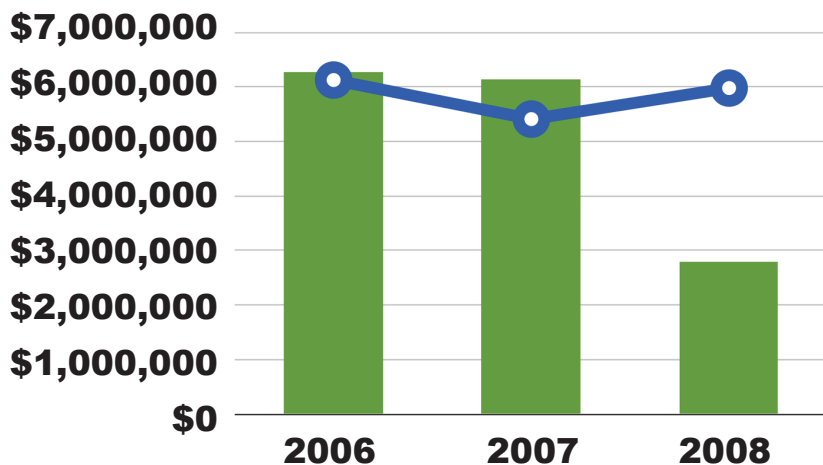
Parish Capital Results



Diocesan Cemeteries Results



Diocesan Operating Results



must be invested with our trustee to provide perpetual care and maintenance funding. For example, when a grave is sold, 40% of the money must be invested with the trustee. Interest and dividends can be withdrawn on the invested care and maintenance money but the rest of the money cannot be removed. At the end of 2008 we had \$9.5 million invested with our trustee for pre-planned sales and we had \$27.6 million invested in the perpetual care and maintenance fund. These funds provide income to help pay for the operating costs of the cemeteries.

Have you considered pre-planning your cemetery arrangements? Planning your cemetery arrangements in advance brings peace of mind to you and your family. Make the right decision today and PRE-PLAN with our Catholic cemeteries.

**Accountability and Responsibility**

Whenever a priest move takes place we have our auditors, KPMG, conduct a general review at the parish. The nature of the review is limited but it does examine general financial records and controls. Each year at the time of our year-end audit additional parishes are also selected for such review, on a rotating basis. Generally every parish is visited once every six years. Due to cost constraints these reviews have been limited in scope. In conjunction with our Audit Committee and KPMG, we are developing a new program to complete these reviews internally which will enable us to complete more extensive reviews that are planned to help our parishes. We are looking for people to join our internal review team. If you are interested and believe you have the necessary background and experience please contact Dave Savel.

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, chaired by Mr. Barry Hogan of Sarnia. 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 which makes recommendations and gives advice when and where it deems necessary. It also has two subcommittees. The Investment Committee which oversees the investment of our cemetery trust funds, accumulated surpluses and our Pentecost 2000 endowment funds and the Audit Committee which meets with our external auditors, KPMG, to plan the audits and then review the financial statements and auditors report. These committees analyze our practices and policies, assess risks, and provide proactive advice.

Consistent with Goal #6 of our pastoral plan, 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.

**What happens to a church building if it is closed?**

We have a process whereby we list the church building for sale through 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. The restrictive covenant basically states that the church cannot be used for any purpose that is contrary to Roman Catholic faith, teachings or beliefs. All liturgical items are removed. 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, when English Martyrs in Bayfield was sold the proceeds of the sale went to St. Peter's in St. Joseph.

**Pentecost 2000 Funds: How are they doing?**

The diocese held a major fund raising campaign from 1989-1994, called Pentecost 2000. Its purpose was to establish endowment funds for the seminary, cathedral, and diocesan programs. The parishioners of our diocese responded very generously to this campaign. The funds have been prudently invested according to investment policies and goals 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 lose 2%, we still pay out 4.75%. The excess income (above 4.75%) was reinvested in the endowment funds to provide for increasing payout amounts in the years to come to keep pace with inflation. As mentioned above the financial "meltdown" of 2008 resulted in substantial "paper losses". In 2008 our gross return on investment was a loss of 19.3% versus a gain of 4.1% in 2007. Our 5-year annualized return was also greatly impacted by the market "meltdown" of 2008 resulting in a positive return of 3.0% versus 10.8% for the 5-year period ended 2007.

At the end of 2008 our endowment funds were invested in a diversified portfolio as follows: Canadian equity (34%), Non-Canadian equity (21%), Fixed income (39%), Hedge (6%).

The original endowment balance from the campaign was \$15.3 million. At December 31 the Pentecost 2000 balances held in trust by the diocese were:

	2008	2007
St. Peter's Seminary	\$11.1 million	\$14.6 million
Diocesan programs	\$4.1 million	\$5.4 million
St. Peter's Cathedral Basilica	\$1.5 million	\$1.9 million
<b>Total</b>	<b>\$16.7 million</b>	<b>\$21.9 million</b>