Financial Statements of

DIOCESAN PASTORAL CENTRE OF THE BISHOP OF VICTORIA, CORPORATION SOLE

And Independent Auditors' Report thereon

Year ended December 31, 2018

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INDEPENDENT AUDITORS' REPORT

To the Bishop of Diocesan Pastoral Centre of the Bishop of Victoria, Corporation Sole

Opinion

We have audited the financial statements of Diocesan Pastoral Centre of the Bishop of Victoria, Corporation Sole (the Entity), which comprise:

- the statement of financial position as at December 31, 2018
- the statement of operations for the year then ended
- the statement of changes in net assets for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(hereinafter referred to as the “financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2018 and its results of operations and its cash flows for the year then ended in accordance with the basis of accounting in note 1 to the financial statements.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the ***"Auditors' Responsibilities for the Audit of the Financial Statements"*** section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter - Financial Reporting Framework

We draw attention to note 1 to the financial statements, which describes the basis of accounting and the defined entity as reported upon in these financial statements.

The financial statements are prepared for reporting to the Bishop and to leaders.

As a result, the financial statements may not be suitable for another purpose.

Our opinion is not modified in respect to this matter.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the basis of accounting in note 1 to the financial statements; this includes determining that the applicable financial reporting framework is an acceptable basis for the preparation of the financial statement in the circumstances, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with Governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants

Victoria, Canada

June 13, 2019

DIOCESAN PASTORAL CENTRE OF THE BISHOP OF VICTORIA, CORPORATION SOLE

Statement of Financial Position

December 31, 2018, with comparative information for 2017

	2018	2017
Assets		
Current assets:		
Cash and cash equivalents	$ -	$ 171,127
Accounts receivable	320,483	305,458
Prepaid expenses and deposits	9,435	28,839
	329,918	505,424
Investments (note 2)	4,997,181	4,729,767
Capital assets (note 3)	9,382,663	9,400,498
	$ 14,709,762	$ 14,635,689
Liabilities and Net Assets		
Current liabilities:		
Bank indebtedness	$ 30,655	$ -
Accounts payable and accrued liabilities (note 4)	220,125	242,681
Deferred revenue and contributions (note 5)	1,483,814	1,662,527
	1,734,594	1,905,208
Deferred revenue and contributions (note 5)	1,317,467	1,350,267
Total liabilities	3,052,061	3,255,475
Net assets:		
Invested in capital assets	8,065,196	8,050,231
Restricted for endowment purposes (note 8)	1,128,390	1,092,971
Internally restricted (note 8)	771,123	794,165
Unrestricted	1,692,992	1,442,847
	11,657,701	11,380,214
Guarantees and obligations (note 9)		
	$ 14,709,762	$ 14,635,689

See accompanying notes to financial statements.

Approved by the Finance Committee

Fr. John Laszczyk V.G.

DIOCESAN PASTORAL CENTRE OF THE BISHOP OF VICTORIA, CORPORATION SOLE

Statement of Operations

Year ended December 31, 2018, with comparative information for 2017

	2018	2017
Revenue:		
Parish assessments	$ 1,116,584	$ 1,136,104
Donations	456,029	439,382
School assessments	989,208	899,250
Ministries and programs:		
Donations	85,224	71,391
Grants	130,690	125,871
Program revenue recognized	140,361	116,616
Donation appeal	961,676	1,245,736
Investment income (loss) (note 6)	(72,614)	141,205
Property income	264,341	250,744
Other revenue	39,312	76,091
	4,110,811	4,502,390
Expenses:		
General Diocesan	480,067	477,805
Ministries and programs	2,047,688	2,414,470
Interest on bank loans	-	1,329
Property expenses	63,791	60,133
Administration	200,185	272,998
Appeal campaign expenses	67,946	72,984
School expenses	1,009,066	865,672
	3,868,743	4,165,391
Excess of revenue over expenses before the undernoted	242,068	336,999
Other expenses:		
Contribution to Priest's Trust Fund	-	239,692
Donation to Parish	-	326,000
	-	565,692
Excess (deficiency) of revenue over expenses	$ 242,068	$ (228,693)

See accompanying notes to financial statements.

DIOCESAN PASTORAL CENTRE OF THE BISHOP OF VICTORIA, CORPORATION SOLE

Statement of Changes In Net Assets

Year ended December 31, 2018, with comparative information for 2017

	Investment in capital assets	Restricted for endowment purposes (note 8)	Internally restricted (note 8)	Unrestricted	Total
Balance December 31, 2016	$ 8,077,583	$ 517,820	$ 723,463	$ 1,714,890	$ 11,033,756
Excess (deficiency) of revenue over expenses	(39,198)	-	1,718	(191,213)	(228,693)
Endowment contributions	-	635,853	-	-	635,853
Internally imposed restrictions	-	-	68,984	(68,984)	-
Capital asset purchases	11,846	-	-	(11,846)	-
Reclassification of investment income	-	(60,702)	-	-	(60,702)
Balance December 31, 2017	8,050,231	1,092,971	794,165	1,442,847	11,380,214
Excess (deficiency) of revenue over expenses	(37,217)	-	(11,387)	290,672	242,068
Endowment contributions	-	35,419	-	-	35,419
Internally imposed restrictions	-	-	(11,655)	11,655	-
Capital asset purchases	52,182	-	-	(52,182)	-
Balance December 31, 2018	$ 8,065,196	$ 1,128,390	$ 771,123	$ 1,692,992	$ 11,657,701

See accompanying notes to financial statements.

DIOCESAN PASTORAL CENTRE OF THE BISHOP OF VICTORIA, CORPORATION SOLE

Statement of Cash Flows

Year ended December 31, 2018, with comparative information for 2017

	2018	2017
Cash provided by (used in):		
Operations:		
Excess (deficiency) of revenue over expenses	$ 242,068	$ (228,693)
Items not involving cash:		
Amortization of capital assets	47,301	49,282
Amortization of building under life lease	22,716	22,716
Increase in accounts receivable	(15,025)	(28,335)
Decrease in prepaid expense and deposits	19,404	49,657
Increase (decrease) in accounts payable and accrued liabilities	(22,556)	50,975
Increase (decrease) in deferred revenue and contributions	(211,513)	174,527
	82,395	90,129
Financing:		
Increase in net assets restricted for endowment purposes	35,419	575,151
Investing:		
Investments	(267,414)	(662,809)
Purchase of capital assets	(52,182)	(11,846)
	(319,596)	(674,655)
Decrease in cash and cash equivalents	(201,782)	(9,375)
Cash and cash equivalents, beginning of year	171,127	180,502
Cash and cash equivalents (bank indebtedness), end of year	$ (30,655)	$ 171,127

See accompanying notes to financial statements.

Diocesan Pastoral Centre of the Bishop of Victoria, Corporation Sole (the "Not for profit corporation") was incorporated by a special act of the legislature and was established for the advancement of Roman Catholic religious worship, instruction and ministry on Vancouver Island.

The Corporation Sole is registered with Canada Revenue Agency as a charitable organization and, accordingly, is not subject to income tax. The Bishop of Victoria, through a Finance Committee, administers the Diocese of Victoria (the "Diocese"), which encompasses the Pastoral Centre, the parishes and other affiliates. As indicated in note 1(a) below, these financial statements reflect only a portion of the assets, liabilities and operations of the Bishop of Victoria, Corporation Sole.

1. Significant accounting policies:

These financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations except that the individual parishes and missions, St. Joseph's General Hospital, St. Patrick's Parish Housing Corporation and the Island Catholic Schools, controlled entities, have not been fully consolidated nor disclosed. The financial statements are prepared for purposes of reporting specified operations to the Bishop of the Diocese of Victoria and to lenders on the specified operating activities. As a result, the financial statements may not be suitable for other purposes.

(a) Defined entity:

The Corporation Sole comprises a number of diverse operations and ownership or control of a number of related entities.

The Corporation Sole includes:
- The Diocesan Pastoral Centre
- The 40 parishes and missions of the Diocese
- St. Joseph's General Hospital (the "Hospital")

The Corporation Sole wholly owns and/or has control over:
- St. Patrick's Parish Housing Corporation
- Island Catholic Schools

For purposes of these financial statements, the defined entity reflected in these financial statements consists only of the Diocesan Pastoral Centre and does not include the other entities described above. This defined entity for reporting purposes in these financial statements is referred to as the "Pastoral Centre".

The financial statements of St. Joseph's General Hospital, Island Catholic Schools and St. Patrick's Parish Housing Corporation are subject to separate audit or review engagements.

1. Significant accounting policies (continued):

(a) Defined entity (continued):

On April 1, 2019, St. Joseph's General Hospital transferred its lands and buildings, other assets, employees, contractors rights and responsibilities to Providence Residential and Community Care Services Society. The Asset Transfer agreement was signed on December 21, 2018. Providence Residential and Community Care Services Society assumed all authorized liabilities and costs incurred by St. Joseph's General Hospital related to the transfer.

(b) Capital assets:

Capital assets are stated at cost less accumulated amortization. Land and buildings acquired prior to January 1, 2011 are recorded at deemed cost, being fair value at January 1, 2011, the transition date to Canadian accounting standards for not-for-profit organizations. Amortization is provided using the straight line method and the following annual rates:

Asset	Rate
Buildings	25 and 50 years
Buildings under life lease	60 years
Furniture and equipment	10 years
Computers	3 years

(c) Cash and cash equivalents:

Cash and cash equivalents include cash on hand and short term deposits which are highly liquid with original maturities of less than three months at the date of acquisition. These financial assets are convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

1. Significant accounting policies (continued):

(d) Revenue recognition:

The Pastoral Centre follows the deferral method of accounting for contributions. 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. Endowment contributions are recognized as direct increases in net assets.

Restricted investment income is recognized as revenue in the year in which the related expenses are incurred. Unrestricted investment income is recognized as revenue when earned.

The Pastoral Centre assesses the parishes for the administration of the Pastoral Centre. These and all other revenue items are recorded on an accrual basis.

(e) 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 revenue and expenses during the year. Actual results could differ from those estimates.

(f) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Investments 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 Pastoral Centre has elected to carry all investments 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 straight-line method.

1. Significant accounting policies (continued):

(f) 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 Pastoral Centre 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 Pastoral Centre 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.

(g) Allocation of expenses:

The Pastoral Centre engages in program and fundraising activities. The costs of each activity include the costs of personnel and other expenses that are directly related to the function.

The Pastoral Centre also incurs and attributes overhead and general support expenses that are common to the administration of the organization and each of its activities. The allocation of overhead is based on the relative space each program uses of the Pastroal Centre. The allocation of general support expenses is based on the program's proportionate share of total expenses.

2. Investments:

Investments are recorded at fair value.

		2018		2017
Cash	$	280,896	$	278,037
Fixed income		581,270		477,463
Guaranteed investment certificates		1,348,653		1,119,320
Money market investments		228,320		866,800
Exchange traded funds		443,474		467,532
Common shares		3,148,247		2,508,717
Preferred shares		415,564		488,273
		6,446,424		6,206,142
Amounts held in trust (note 7)		(1,449,243)		(1,476,375)
	$	4,997,181	$	4,729,767

3. Capital assets:

						2018
		Cost		Accumulated amortization		Net book value
Land	$	7,114,979	$	-	$	7,114,979
Buildings		1,241,975		221,740		1,020,235
Buildings under life lease		1,726,060		578,175		1,147,885
Furniture and equipment		144,797		48,343		96,454
Computers		8,413		5,303		3,110
	$	10,236,224	$	853,561	$	9,382,663

3. Capital assets (continued):

	Cost	Accumulated amortization	2017 Net book value
Land	$ 7,114,979	$ -	$ 7,114,979
Buildings	1,241,975	194,022	1,047,953
Buildings under life lease	1,726,060	549,817	1,176,243
Furniture and equipment	97,292	41,157	56,135
Computers	10,117	4,929	5,188
	$ 10,190,423	$ 789,925	$ 9,400,498

(a) The land and buildings are subject to mortgages and guarantees more specifically explained in note 9.

(b) The buildings under life lease are leased to St. Patrick's Parish Housing Corporation under a 60-year life lease.

(c) During the year the Pastoral Centre wrote off $3,893 (2017 - $5,817) of fully amortized furniture and equipment and $2,487 (2017 - $20,241) of fully amortized computers.

4. Accounts payable and accrued liabilities:

Included in accounts payable and accrued liabilities are government remittances payable of $36,072 (2017 - $36,472), which includes amounts payable for GST, workers' safety insurance and payroll related remittances.

5. Deferred revenue and contributions:

	Deferred revenue - life lease	Deferred contributions	Endowment accumulated interest	Total
Balance, December 31, 2016	$ 1,383,067	$ 1,455,200	$ -	$ 2,838,267
Amounts recognized as revenue in the year	(32,800)	(1,403,826)	-	(1,436,626)
Amounts received	-	1,503,181	47,270	1,550,451
Reclassification of interest on endowments	-	-	60,702	60,702
Balance, December 31, 2017	1,350,267	1,554,555	107,972	3,012,794
Amounts recognized as revenue in the year	(32,800)	(1,139,301)	(33,993)	(1,206,094)
Amounts received	-	1,028,135	-	1,028,135
Allocation of investment loss	-	-	(33,554)	(33,554)
Balance, December 31, 2018	$ 1,317,467	$ 1,443,389	$ 40,425	$ 2,801,281

(a) The deferred revenue - life lease represents deferred revenue for a 60-year life lease granted to St. Patrick's Parish Housing Corporation. This deferred revenue is being recognized as revenue over the 60-year term of the lease at $32,800 annually.

(b) Deferred contributions represent unspent revenues and investment income externally restricted for spiritual and education purposes and restricted operating funding received in the current period that is related to subsequent periods.

6. Investment income:

Investment income earned, recorded in the statement of operations, is calculated as follows:

		2018		2017
Investment income (loss)	$	(193,303)	$	279,137
Bank interest		29,104		-
		(164,199)		279,137
Externally restricted investment loss (income) deferred		15,279		(24,932)
Investment loss (income) allocated to funds held in trust		42,752		(65,730)
Endowment investment loss (income) deferred		33,554		(47,270)
	$	(72,614)	$	141,205

7. Assets held in trust for other entities:

The Pastoral Centre holds $1,449,243 (2017 - $1,476,375) cash and investments in trust for other entities, which includes certain schools and parishes. Neither the trust assets, nor the offsetting trust liabilities, are included on the statement of financial position.

8. Restriction on net assets:

The net assets restricted for endowment purposes are all subject to externally imposed restrictions stipulating that the resources be maintained permanently. Investment income earned on endowments of $1,128,390 (2017 - $1,092,971) is externally restricted for educational and spiritual purposes. During 2018, the Pastoral Centre received contributions restricted for endowment purposes of $35,419 (2017 - $635,853)

As at December 31, 2018, the Pastoral Centre internally restricted $771,123 (2017 - $794,165) of net assets. The funds comprise:

(a) funds restricted for educational and spiritual purposes,
(b) an insurance reserve

These funds are not available for other purposes without approval of the Pastoral Centre. Interest earned on internally restricted funds is recorded in the statement of operations and transferred to the internally restricted net assets.

9. Guarantees and obligations:

The Bishop has guaranteed the bank loans and obligations of Island Catholic Schools. At December 31, 2018 these liabilities were as follows:

	2018	2017
Term loans	$ 1,209,020	$ 2,231,498
Building expansion loan	1,500,000	4,000,000
	$ 2,709,020	$ 6,231,498

Effective June 1, 2018, the $4 million building expansion loan was reduced to $1.5 million. The lendor forgave $2.5 million.

10. Defined contribution pension plan:

The Pastoral Centre contributes to a defined contribution plan that provides pension benefits to its employees. Participation in the plan is compulsory for all eligible employees. The Pastoral Centre and the employee each contribute 5.5% to 6% of gross annual salary. In 2018, the Pastoral Centre contributed $75,307 (2017 - $75,935) to the plan.

11. Related party transactions:

Substantial portions of the Pastoral Centre's activities involve transactions with parishes and other religious organizations as described in note 1(a). The following significant related-party transactions occurred during the year:

The Pastoral Centre received revenue from various entities that are wholly owned by the Pastoral Centre or are controlled and administered through a common finance committee. Related party revenues include parish and school assessments, certain donations, administration fees, and grants. Included in property income is lease income of $32,800 (2017 - $32,800) from a wholly owned affiliate. These transactions are recorded at the exchange amount, which is the amount agreed upon by the parties.

12. Allocated expenses:

Overhead costs of the Pastoral Centre totalling $125,365 (2017 - $154,255) have been allocated as follows:

	2018	2017
General Diocesan	$ 33,283	$ 38,888
Ministries and programs	13,313	31,110
School expenses	25,517	29,814
Administration	53,252	54,443
	$ 125,365	$ 154,255

Administration costs totalling $587,729 (2017 - $510,420) have been allocated as follows:

	2018	2017
Ministries and programs	$ 332,067	$ 301,148
School expenses	255,662	209,272
	$ 587,729	$ 510,420

13. Financial risks and concentration of risk:

(a) Currency risk:

Investments that trade in foreign markets are exposed to currency risk as the price in local terms on the foreign stock exchange is converted to Canadian dollars to determine fair value. The Pastoral Centre’s overall currency positions are monitored on a daily basis by the portfolio manager.

(b) Liquidity risk:

Liquidity risk is the risk that the Pastoral Centre will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Pastoral Centre manages its liquidity risk by monitoring its operating requirements. The Pastoral Centre prepares budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations.

13. Financial risks and concentration of risk (continued):

(c) Credit risk:

Credit risk refers to the risk that a counterparty may default on its contractual obligations resulting in a financial loss. The Pastoral Centre is exposed to credit risk with respect to the accounts receivable and loans receivable. The Pastoral Centre assesses, on a continuous basis, accounts receivable and loans receivable and provides for any amounts that are not collectible in the allowance for doubtful accounts.

(d) Interest rate risk:

The Pastoral Centre is exposed to interest rate risk on its fixed interest rate financial instruments. Further details about the fixed rate investments are included in note 2.

14. Comparative information:

Certain comparative information has been reclassified to conform to the presentation adopted in the current year.