

REPORT OF THE INVESTMENT SUBCOMMITTEE

(This subcommittee is responsible to the Financial Advisory Committee)

Our Investment Funds which started in June 1996 has been managed by Frank Russell Canada Limited (Russell) since July 2002. Russell uses a multi-asset multi-style multi-manager approach to reduce risk and delivers consistent and superior returns. For our portfolio they employ 20 managers.

The Synod of the Diocese of Niagara uses a "system of participation units" which gives the Diocese and the Parishes involved an equitable sharing of risks and rewards associated with the investment of their funds. For the four years since we have been with Russell the returns after expenses are as follows: June 2003 (1.72%), June 2004 13.56%, June 2005 9.48% and June 2006 7.14%.

There are fees charged by Russell quarterly of 62 bps plus 6% GST and a monthly administrative fee charged by the Diocese of 50bps. There is also 10 bps monthly put aside for review for a total of 1.22% charged in fees.

Parishes, who chose to receive a monthly payment, received a 5% cash payout each year up to December 31, 2000 except for 1998 when they received 7.2%. Since January 1, 2001 Parishes have been able to withdraw funds by redeeming units on a monthly basis and this has replaced the cash payout. Since June 30, 1997 unit values have increased from \$10.00 to \$15.16626 as at June 30, 2006.

Present members of the Investment Subcommittee are:

Mr. Andrew Bucknall
Mr. Robert McKinnell (Diocesan Treasurer)
Mr. David W. Pady (Chair)
Mr. Roger Phillips
Mr. David Ricketts
Mr. Dan Waterston
Mr. David Watson
Mr. Bruce Whitehouse
Mr. Malcolm Williams
Ms. Kim Waltmann (Secretary)

Respectfully submitted,
Mr. David W. Pady, Chair

REPORT OF THE DIOCESAN TREASURER

It is amazing how fast time flies, as I reflect on the end of my seventh year as your Diocesan Treasurer.

The year end results for 2005 are positive with a small surplus in our operating line. The operating surplus was \$43,250 which would increase to \$150,250 before depreciation of \$106,950. This provided the necessary funds to make our \$102,500 annual debt repayment to the bank. At year end, our unrestricted deficit improved marginally as we saw a reduction from (\$1,703,654) to (\$1,611,074).

Our Participation Unit investment with the Russell Investment Group performed extremely well this past year. Unit values rose from \$13.51800 to \$15.02018 during calendar 2005. This increase represents an approximate 11.1% rate of return.

Year-to-date financial operating results for 2006 indicate we will be close to a breakeven position depending on our investment return at year end. The stock market has shown greater volatility than in 2005 and it is difficult to determine where we will end the year at. The unit value has risen from \$15.02018 at the beginning of this year to \$15.69444 at the end of August. This represents an increase in value of 4.5% for the past eight months. Most expenses are well within budget with the exception of the Personnel Transition & Severance category. This item is much higher than anticipated when the budget was set in early 2005.

As mentioned previously, our Synod long term debt continues to reduce at the rate of \$102,500 per year. We are committed to this repayment plan for quite a few years to come. It is encouraging to note that CIBC, our banker, has been pleased with our overall performance and no changes are expected in the Synod's bank operating line.

The 2007 proposed budget is a balanced budget and contains few changes which is consistent with the Bishop's wishes of a status quo budget.

We will be challenged in the years to come as we deal with continued parish closures and the loss of their support and contribution of DM&M dollars. At the same time, the high costs associated with Personnel Transition & Severance place continued pressure on our ability to break even at year end. We will need to ensure we have the necessary funds to repay our Synod bank loans and continue to reduce our Fund Balance deficit.

On a positive note the Financial Advisory Committee, the various Sub-Committees of the FAC and the Audit Committee deserve our thanks for their diligent work over the past year. Their efforts have proved invaluable to me in the carrying out of my responsibilities as Diocesan Treasurer. My personal thanks to the Chairs and members of these various committees for the time they have given to the Diocese and for their collective insight. Also a heartfelt thanks to everyone that has stepped forward and helped whenever a need arose.

REPORT OF THE DIOCESAN TREASURER (continued)

Again this past year we have seen everyone, at the Synod office, join in and help each other when there was a need. This type of cooperation makes for both an enjoyable and dynamic workplace.

I would like to give special thanks to the great staff in the Finance area for their hard work, exceptional performance, loyalty and dedication. Thank you Wendy Duncan, Debbie Young, Nancy Clause and Kim Waltmann.

Respectfully submitted,
Mr. Robert L. McKinnell
Diocesan Treasurer & CFO

MEMORANDUM

Date: October 5, 2006

To: Members of Synod

From: Diocesan Treasurer & CFO

Re: **2007 Proposed Budget**

Attached is the 2007 Proposed Budget which was approved by the Financial Advisory Committee and discussed by Synod Council at their September 5th meeting.

Following are some highlights of the budget which I hope will assist you in reviewing it:

Face Page - Budget:

- ▶ There has been a no change in the Diocesan Mission & Ministries rate used to calculate the former assessment figure. The current rate of 32.83% remains unchanged for 2007. The projected DM&M amount used for budget purposes for 2007 is \$3,102,000. The continued growth at the parish level explains why the projected DM&M has risen slightly compared to the 2006 budget. Although the year-to-date figure may seem low, this reflects those parishes that are paying their DM&M over ten months versus twelve. The budget should be achieved by year end.
- ▶ Investments performed extremely well in 2005 and although they have fluctuated considerably this year to date, we have allowed for a small increase in the projected interest income for 2007.
- ▶ The Louisa Parke Fund was totally drawn down during 2005. However, the commitment for a number of retired clergy remains. The \$53,000 amount represents the total monies required, for this purpose, in 2006. It is less than budgeted for 2006 and it will continue to reduce over the coming years.

Page 2:

- ▶ The Investment Fund Administration Transfer represents the fee charged for the administration of Diocesan investments. The growth in the value of the fund is reflected in this figure.
- ▶ The Anglican Church Ministries Foundation, Niagara has agreed to pay the Diocese an administrative fee in amount of \$10,000 for the services we provide with respect to the investment of their funds. In return we will provide them with the respective fees we charge.
- ▶ An increase of 2.0 % has been built into the budget for wage adjustments. This is the annual increase amount recommended by the Diocesan Compensation Committee for clergy and other staff positions for 2006. Synod Council approved this recommendation at their October 3rd meeting. Also included in this amount would be any wage adjustments for staff who are still moving through the five step progression of their respective pay level.

- ▶ The Personnel Transition and Severance budget line has remained at the \$215,000 level which is the same as 2006. It is difficult to anticipate on an annual basis what the appropriate figure should be, since the budget is set well in advance of the next operating year. Since 2000 *Survive & Thrive* has funded an additional amount of \$70,000 per year for five years and in 2004 a further one time amount of \$200,000 was approved. During 2004 the total amount expended in this category, from all sources, amounted to \$450,000. In 2005 this jumped up to \$590,825. For 2006 we are running well over budget. If in 2007 the required amount is greater than the budget, the excess will either be offset with other budget savings or approval will be sought from Synod Council to source the additional costs elsewhere.
- ▶ As interest rates have remained fairly constant for the past few years and Synod loans have been reducing from annual principal payments, we have allowed for a reduction in Parish Interest/Other Expenses.
- ▶ Parish Loan Reduction reflects the annual loan payment we are required to make to our bank each year based on outstanding Synod term loans. This amount was increased in 2005 to \$115,010 as the result of borrowing \$125,000 to meet our commitment on the \$250,000 roof repairs to Cathedral Place in 2005. It is to be repaid over the next ten years.
- ▶ The Web Site Support costs for both 2005 and 2006 were higher than the budgeted amount, so we have increased the budget to \$31,000 for 2007

Page 3:

- ▶ A greater allowance has been made for both Maintenance and Utilities at Cathedral Place given the increased volume of maintenance we are performing on the building and the rising market costs for both gas and electricity.
- ▶ Property/Cleaning/Reception costs are over budget for 2006 year-to-date but we have recently adjusted our staff quotient.
- ▶ Delegate Fees for General Synod in 2007 are up dramatically over previous Synods which reflects the increased accommodation costs resulting from having to move Synod to a much more expensive location.
- ▶ Program Administration and Support costs have increased marginally over 2006 as new budget areas have been added and some costs shifted within the existing budget.

Page 4:

- ▶ Children's Ministry Leadership Development & Resources budget has increased by \$2,500 over 2006 to reflect the cost of additional resource materials.
- ▶ Chaplaincy Programs on University Campuses have all increased to reflect the wage adjustments that we have provided to other clergy positions over the past few years. This will help ensure those salaries do not fall behind.

Page 6:

- Niagara Anglican News support has been increased to \$30,000 to reflect increased mailing costs. Year-to-date costs may seem high but we will receive monies from the Anglican Appeal later this fall.

Notes:

- 1) Actual year-to-date Interest on Trust Funds, on the first page, may appear low at this time. Most of our funds are invested within the Diocesan Participation Unit portfolio and are only accounted for at the end of the year. The investment fund has performed reasonably well to date and the budget amount should be reached.
- 2) Actual results up to the end of August 31, 2006 are collectively within the overall budget. In light of this we would expect to breakeven for fiscal 2006.