DIOCESAN PASTORAL CENTRE OF THE BISHOP OF VICTORIA, CORPORATION SOLE

Notes to Financial Statements

Year ended December 31, 2017

Diocesan Pastoral Centre of the Bishop of Victoria, Corporation Sole (the "Entity") 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):

(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.

(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.

1. Significant accounting policies (continued):

(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.

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.

1. Significant accounting policies (continued):

(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.

	2017	2016
Cash	$ 278,037	$ 174,997
Fixed income	477,463	309,703
Guaranteed investment certificates	1,119,320	1,090,330
Money market investments	1,334,331	1,067,791
Equities	2,996,991	2,794,460
	6,206,142	5,437,281
Amounts held in trust (note 7)	(1,476,375)	(1,370,323)
	$ 4,729,767	$ 4,066,958

3. Capital assets:

			2017
	Cost	Accumulated amortization	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

			2016
	Cost	Accumulated amortization	Net book value
Land	$ 7,114,979	$ -	$ 7,114,979
Buildings	1,241,975	166,305	1,075,670
Buildings under life lease	1,726,060	521,459	1,204,601
Furniture and equipment	93,070	38,233	54,837
Computers	28,551	17,988	10,563
	$ 10,204,635	$ 743,985	$ 9,460,650

(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 $5,817 of fully amortized furniture and equipment and $20,241 of fully amortized computers.

4. Accounts payable and accrued liabilities:

Included in accounts payable and accrued liabilities are government remittances payable of $36,472 (2016 - $36,236), which includes amounts payable for GST, workers' safety insurance and payroll related remittances.

5. Deferred revenue and contributions:

	Deferred revenue - life lease	Deferred contributions	Total
Balance, December 31, 2015	$ 1,415,867	$ 1,174,294	$ 2,590,161
Amounts recognized as revenue in the year	(32,800)	(1,112,313)	(1,145,113)
Amounts received	-	1,393,219	1,393,219
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	-	1,550,451	1,550,451
Reclassification of interest on endowments	-	60,702	60,702
Balance, December 31, 2017	$ 1,350,267	$ 1,662,527	$ 3,012,794

(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:

		2017		2016
Investment income	$	279,137	$	492,802
Income on loans receivable		-		97
		279,137		492,899
Externally restricted investment income deferred		(24,932)		(31,553)
Investment income allocated to funds held in trust		(65,731)		(109,795)
Endowment investment income deferred		(47,269)		(40,613)
	$	141,205	$	310,938

7. Assets held in trust for other entities:

The Pastoral Centre holds $1,476,375 (2016 - $1,370,323) 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 on $1,092,971 (2016 - $517,820) is externally restricted for educational and spiritual purposes. During 2017, the Pastoral Centre received contributions restricted for endowment purposes of $635,852 (2016 - $37,537)

As at December 31, 2017, the Pastoral Centre internally restricted $794,165 (2016 - $723,463) 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, 2017 these liabilities were as follows:

	2017	2016
Term loans	$ 2,231,498	$ 2,621,716
Operating loans	-	102,227
Building expansion loan	4,000,000	4,000,000
	$ 6,231,498	$ 6,723,943

Effective June 1, 2018, the $4 million building expansion loan will be reduced to $1.5 million. The lendor is forgiving $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 2017, the Pastoral Centre contributed $75,935 (2016 - $65,356) 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 assessments, certain donations, administration fees, and grants. Included in property income is lease income of $32,800 (2016 - $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 $154,255 (2016 - $128,206) have been allocated as follows:

	2017	2016
General Diocesan	$ 38,888	$ 32,321
Ministries and programs	31,110	25,857
School expenses	29,814	24,779
Administration	54,443	45,249
	$ 154,255	$ 128,206

Administration costs totalling $510,420 (2016 - $456,319) have been allocated as follows:

	2017	2016
Ministries and programs	$ 301,148	$ 276,073
School expenses	209,272	180,246
	$ 510,420	$ 456,319

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.