Financial Statements of

DIOCESAN PASTORAL CENTRE OF THE BISHOP OF VICTORIA, CORPORATION SOLE

(as defined in note 1(a))

Year ended December 31, 2011

KPMG LLP
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INDEPENDENT AUDITORS' REPORT

To the Bishop of the Diocese of Victoria

We have audited the accompanying financial statements of the Diocesan Pastoral Centre of the Bishop of Victoria, Corporation Sole, which comprise the statement of financial position as at December 31, 2011, the statements of operations, changes in net assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

In common with many charitable organizations, the Diocesan Pastoral Centre of the Bishop of Victoria, Corporation Sole derives revenue from donations, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, verification of these revenues was limited to the amounts recorded in the records of the Diocesan Pastoral Centre of the Bishop of Victoria. Therefore, we were not able to determine whether, as at or for the years ended December 31, 2011 and December 31, 2010, any adjustments might be necessary to donations and excess (deficiency) of revenue over expenses reported in the statements of operations and current assets and net assets reported in the statement of financial position.

As described in note 2 to the financial statements, the financial statements include the land and buildings of the parishes and missions of the Diocese of Victoria and the land occupied by the Island Catholic Schools. In addition, land and buildings are recorded at property tax assessed values rather than cost, and amortization on the buildings has not been recorded. In these respects, the financial statements are not in accordance with Canadian generally accepted accounting principles. It is impracticable for us to provide a quantification of the differences in the financial statements should the amounts have been recorded in accordance with Canadian generally accepted accounting principles.

As explained in note 3, the Diocesan Pastoral Centre of the Bishop of Victoria, Corporation Sole has not adopted all of the recommendations of the CICA Handbook for not-for-profit organizations because of the impracticality of obtaining the required information. Had the CICA Handbook recommendations been adopted, the Diocesan Pastoral Centre of the Bishop of Victoria, Corporation Sole would either fully consolidate its controlled entities or provide the required financial disclosure of the entities.

Qualified Opinion

In our opinion, except for the possible and known effects of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Diocesan Pastoral Centre of the Bishop of Victoria, Corporation Sole as at December 31, 2011, and its results of operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

June 7, 2012
Victoria, Canada

DIOCESAN PASTORAL CENTRE OF THE BISHOP OF VICTORIA, CORPORATION SOLE

Statement of Financial Position

December 31, 2011, with comparative information for 2010

	2011	2010
Assets		
Current assets:		
Cash and cash equivalents	$ 2,264,224	$ 2,455,198
Accounts receivable	409,181	278,904
Prepaid expenses and deposits	7,398	6,677
	2,680,803	2,740,779
Loans receivable (note 4)	767,360	375,560
Investments (note 5)	1,998,035	2,448,634
Capital assets (note 6)	51,865,986	51,862,584
	$ 57,312,184	$ 57,427,557
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	$ 125,954	$ 139,488
Demand bank loan (note 7)	131,682	256,719
	257,636	396,207
Deferred revenue and contributions (note 8)	3,029,433	3,203,630
Total liabilities	3,287,069	3,599,837
Net assets:		
Invested in capital assets	50,318,919	50,282,717
Restricted for endowment purposes (note 10)	376,435	377,650
Internally restricted (note 10)	882,860	852,017
Unrestricted	2,446,901	2,315,336
	54,025,115	53,827,720
Guarantees and obligations (note 11)		
Contingent liabilities (note 12)		
Subsequent event (note 16)		
	$ 57,312,184	$ 57,427,557

See accompanying notes to financial statements.

Approved by the Finance Committee:

J. C. Dawson, Chair

+ Richard Gagnon

DIOCESAN PASTORAL CENTRE OF THE BISHOP OF VICTORIA, CORPORATION SOLE

Statement of Operations

Year ended December 31, 2011, with comparative information for 2010

	2011	2010
Revenue:		
Parish assessments	$ 1,130,234	$ 1,122,662
Donations	163,973	163,296
Administration fees	41,710	37,576
Ministries and Programs:		
Parish levies	71,064	71,064
Donations	169,173	86,145
Grants	109,763	127,330
Program revenue recognized	3,082	25,355
Donation appeal	1,199,142	-
Investment income	107,096	140,639
Property income	213,167	208,650
	3,208,404	1,982,717
Expenses:		
General Diocesan	583,343	714,787
Pastoral Centre	67,607	76,504
Ministries and Programs	1,741,433	530,726
Property expenses	119,916	92,175
Administration	412,358	398,321
Interest on bank loans	6,943	11,073
Appeal campaign expenses	58,194	170,659
	2,989,794	1,994,245
Net revenue (expenses) before the undernoted	218,610	(11,528)
Other expenses:		
Legal and settlements	-	(5,263)
Donations to parishes and schools	(20,000)	(220,000)
Loss on sale of Diocesan properties	-	(94,800)
	(20,000)	(320,063)
Excess (deficiency) of revenue over expenses	$ 198,610	$ (331,591)

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, 2011, with comparative information for 2010

	Invested in capital assets	Restricted for endowment purposes	Internally restricted (note 10)	Unrestricted	Total 2011	Total 2010
Balance, beginning of year	$ 50,282,717	$ 377,650	$ 852,017	$ 2,315,336	$ 53,827,720	$ 54,155,646
Excess (deficiency) of revenue over expenses	(11,494)	-	(5,673)	215,777	198,610	(331,591)
Endowment income	-	(1,215)	-	-	(1,215)	3,665
Internally imposed restrictions	-	-	36,516	(36,516)	-	-
Capital asset purchases	47,696	-	-	(47,696)	-	-
Balance, end of year	$ 50,318,919	$ 376,435	$ 882,860	$ 2,446,901	$ 54,025,115	$ 53,827,720

See accompanying notes to financial statements.

DIOCESAN PASTORAL CENTRE OF THE BISHOP OF VICTORIA, CORPORATION SOLE

Statement of Cash Flows

Year ended December 31, 2011, with comparative information for 2010

	2011	2010
Cash provided by (used in):		
Operations:		
Excess (deficiency) of revenue over expenses	$ 198,610	$ (331,591)
Items not involving cash:		
Amortization of capital assets	21,579	22,320
Amortization of building under life lease	22,716	22,716
Loss on sale of Diocesan properties	-	94,800
Non-cash donation of mortgage receivable	-	200,000
Changes in non-cash operating working capital:		
Accounts receivable	(130,277)	16,168
Prepaid expenses and deposits	(721)	7,370
Accounts payable and accrued liabilities	(13,534)	(142,317)
Deferred revenue and contributions	(174,197)	867,111
	(75,824)	756,577
Investing:		
Decrease (increase) in loans receivable	(391,800)	30,323
Decrease (increase) in investments	450,599	(35,420)
Additions to capital assets	(47,696)	(27,162)
	11,103	(32,259)
Financing:		
Repayment of demand bank loans	(125,038)	(30,323)
Increase (decrease) in net assets restricted for endowment purposes	(1,215)	3,665
	(126,253)	(26,658)
Increase (decrease) in cash and cash equivalents	(190,974)	697,660
Cash and cash equivalents, beginning of year	2,455,198	1,757,538
Cash and cash equivalents, end of year	$ 2,264,224	$ 2,455,198
Supplemental cash flow information:		
Interest paid	$ 6,943	$ 11,073

See accompanying notes to financial statements.

DIOCESAN PASTORAL CENTRE OF THE BISHOP OF VICTORIA, CORPORATION SOLE

Notes to Financial Statements

Year ended December 31, 2011

The Bishop of Victoria, Corporation Sole 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:

(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 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. However, the statement of financial position also includes the land and buildings of the parishes and missions and the land occupied by the schools. This defined entity for reporting purposes in these financial statements is referred to as the "Pastoral Centre".

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

(b) Capital assets:

(i) Land:

All land in the Diocese is registered to the Bishop of Victoria, Corporation Sole (the "Bishop"). Land includes land occupied by the Pastoral Centre, the parishes and the schools but not the hospital.

1. **Significant accounting policies (continued):**

   (b) Capital assets (continued):

   (ii) Buildings:

   Buildings include those that are occupied by the Pastoral Centre, the parishes and a building under life-lease, but do not include those occupied by the schools and the hospital.

   (iii) Equipment, furniture and computers:

   Equipment, furniture and computers include those at the Pastoral Centre, but do not include those owned and operated by the schools, or those held at the parishes or hospital.

   (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) Basis of valuation:

   Documents supporting the initial cost of a portion of the land and buildings is not available. It is management's opinion that the cost of obtaining the documents outweighs the benefits. Land and buildings owned prior to 2005 have been valued based on values assigned by the British Columbia Assessment Authority as of that date. Additions and improvements to land and buildings subsequent to December 31, 2005 are recorded at cost. As buildings are recorded at their assessed values, management believes amortization of the reported value is not appropriate.

   Equipment, furniture and computers are recorded at cost and amortized over the estimated useful lives of the assets.

   (e) 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.

1. Significant accounting policies (continued):

(e) Revenue recognition (continued):

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.

(f) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles 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 revenues and expenses during the year. Actual results could differ from these estimates.

(g) Financial instruments:

The Pastoral Centre has designated all non-derivative financial assets and liabilities as held for trading with the exception of certain obligations designated as current liabilities and loans and receivables. In addition, certain investments which were previously classified as held to maturity and carried at amortized cost using the effective interest rate method were classified as available for sale in 2010.

- The Pastoral Centre initially records all non-derivative financial assets and liabilities at fair value.

- Cash and term deposits are classified as held for trading and are measured at fair value and changes in fair value are recognized in the statement of operations.

- Investments are classified as either held for trading or available for sale and are measured at fair value with changes in fair value recognized in either the statement of operations or statement of changes in net assets.

- Accounts receivable and loan receivable are measured at amortized cost using the effective interest rate method.

- Current liabilities and loans payable are recorded at amortized cost.

1. **Significant accounting policies (continued):**

(g) Financial instruments (continued):

- All transaction costs incurred on receivables, and other liabilities are incorporated in the fair value of the instrument and are amortized to operations using the effective interest rate method.

Assets and liabilities classified as available for sale are measured at fair value and changes in fair value are recorded in the statement of changes in net assets until the financial instruments are derecognized or other than temporarily impaired at which time the amounts are recorded in the statement of operations.

The standards require derivative instruments to be recorded as either assets or liabilities measured at their fair value unless exempted from derivative treatment as normal purchase and sale. Certain derivatives embedded in other contracts must also be measured at fair value. All changes in the fair value of derivatives are recognized in operations. The Pastoral Centre currently does not hold any derivative instruments.

The Pastoral Centre continues to apply the provision of Handbook Section 3861 "Financial Instruments – Disclosure and Presentation".

(h) Future accounting changes:

The Pastoral Centre will be transitioning to the Accounting Standards for Not-for-Profit Organizations contained in Part III of the CICA Handbook-Accounting beginning January 1, 2012. While the financial statement presentation and the accounting treatment of most items will not change from current practice, there are certain transitional provisions that the Pastoral Centre will apply when preparing the first financial statements under the new accounting standards. The impact of these transitional provisions on the financial statements of the Pastoral Centre has not yet been fully determined.

2. Departures from Canadian generally accepted accounting principles ("GAAP"):

As noted in note 1(a), the Pastoral Centre includes the land and buildings of the parishes and missions of the Diocese and the land occupied by the Island Catholic Schools totalling $46,849,996 (2010 - $47,144,796). The Pastoral Centre records its land and buildings based on the 2005 property assessed values as determined by the British Columbia Assessment Authority. Canadian generally accepted accounting principles ("GAAP") require that capital assets be recorded at cost. For contributed capital assets, cost is considered to be the fair value at the date of contribution, when fair value can be reasonably determined, or at a nominal value. The Pastoral Centre is not amortizing its buildings. In these respects, the financial statements are not in accordance with GAAP and the effect has not been quantified.

3. Failure to fully consolidate or provide disclosure on controlled entities:

For controlled not-for-profit entities, Section 4450.14 of the CICA Handbook requires that a not-for-profit entity either present consolidated financial statements or disclose certain financial information about the entities in the notes to the financial statements. The Diocese controls the individual parishes and missions, St. Joseph's Hospital, St. Patrick's Parish Housing Corporation and the Island Catholic Schools.

These financial statements have not been fully consolidated with the individual parishes and missions, St. Joseph's Hospital, St. Patrick's Parish Housing Corporation and the Island Catholic Schools or the required note disclosure on these entities has not been provided.

The information required to meet this requirement is not readily available to the Diocese and it is management's opinion that the cost of compiling and auditing such information would be impracticable because of the large number of entities involved.

Readers are cautioned that these financial statements may not be appropriate for general purposes.

4. Loans receivable:

		2011		2010
St. Patrick's Parish	$	250,522	$	375,560
Third party		516,838		-
	$	767,360	$	375,560

(a) The loan to St. Patrick's Parish is long-term, bears interest at prime plus 0.5% per annum, and there are no set terms of repayment.

(b) The third party loan is due January 5, 2013, bears interest at 7% per annum, calculated semi annually not in advance from the date of advance to the date of payment. The loan is secured by an assignment in the interest of the property.

5. Investments:

Investment income is used for designated purposes. As at December 31, 2011, $963,290 (2010 - $1,030,644) of the marketable securities are classified as available for sale. There was no change in the fair value of these instruments in 2010 or 2011. The remainder of the marketable securities are classified as held for trading.

6. Capital assets:

	2011	2010
Diocese:		
Land and buildings, at property assessed value	$ 3,597,050	$ 3,597,050
Buildings under life lease, at cost	1,408,000	1,408,000
Housing unit, at cost	318,060	318,060
Equipment, furniture and computers, at cost	138,480	121,968
	5,461,590	5,445,078
Less accumulated amortization of:		
Buildings under life lease	(340,275)	(317,559)
Housing unit	(39,391)	(33,749)
Equipment, furniture and computers	(65,934)	(81,182)
	5,015,990	5,012,588
Parishes:		
Land and buildings, at 2005 property assessed value and subsequent additions at cost	40,579,037	40,579,037
Property improvements	206,959	206,959
Schools:		
Land, at 2005 assessed value	6,064,000	6,064,000
	$ 51,865,986	$ 51,862,584

(a) The land and buildings are subject to mortgages and guarantees more specifically explained in notes 7 and 11. Note 1(d) describes the basis of recording the land and buildings at property assessed value.

(b) The buildings under life lease are leased to St. Patrick's Parish Housing Corporation under a 60-year life lease. The buildings are being amortized over the term of the lease on a straight-line basis.

(c) Equipment and furniture, and computers are amortized on a straight line basis over 10 years and 3 years respectively.

(d) In 2011 the Diocese transferred the ownership of a certain property to an unrelated party for consideration of $1, which was not included under the Pastoral Centre's policy of recording only specified assets at appraised values.

7. Demand bank loan:

The bank loan is secured by a demand collateral mortgage of $20 million over certain properties of the Diocese and Island Catholic Schools and a general assignment of book debts. The loan bears interest at the greater of 3.75% and the bank's prime lending rate plus 1.5% per annum. Repayment terms are interest only, but on the understanding that the principal will be reduced by at least $24,000 per annum, with further reductions to be made from fundraising by St. Patrick's Parish.

8. Deferred revenue and contributions:

	Deferred revenue - life lease	Deferred contributions	Total 2011	Total 2010
Balance, beginning of year	$ 1,579,867	$ 1,623,763	$ 3,203,630	$ 2,336,519
Less amounts recognized as revenue in the year	(32,800)	(1,292,529)	(1,325,329)	(32,800)
Add amounts received related to future years	-	1,151,132	1,151,132	899,911
Balance, end of year	$ 1,547,067	$ 1,482,366	$ 3,029,433	$ 3,203,630

(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.

9. Assets held in trust for other entities:

The Pastoral Centre holds $1,074,787 (2010 - $1,013,943) 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.

10. 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 $376,435 (2010 - $377,650) is externally restricted for educational and spiritual purposes.

As at December 31, 2011, the Pastoral Centre internally restricted $882,860 (2010 - $852,017) 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.

11. Guarantees and obligations:

(a) The Bishop is a guarantor on an agreement between the Canadian Federal Government and the St. Andrews Refugee Association (the "Association"). Should the Association fail to meet its obligations in the support of refugees, the Pastoral Centre will be responsible for settling these amounts.

(b) The Bishop has guaranteed the bank loans and obligations of Island Catholic Schools. At December 31, 2011 and 2010 these liabilities were as follows:

	2011	2010
Term loans	$ 1,913,503	$ 1,828,638
Operating loans	1,644,124	2,006,693
	$ 3,557,627	$ 3,835,331

12. Contingent liabilities:

In 2006, the Bishop of Victoria, together with other Catholic entities across Canada, entered into two Agreements, one with various Aboriginal groups, the Government of Canada, and the other Churches that were involved in the Residential School system (the Global Settlement Agreement), and a second agreement with the Government of Canada (the Settlement Agreement). The Global Settlement Agreement will move most, if not all of the Residential School claims out of the court process, and into an agreed upon alternate dispute resolution model; and the Settlement Agreement will result in the Government of Canada indemnifying the Bishop of Victoria from all Residential School claims. The Global Settlement Agreement has been approved by the courts, and both the Global Settlement Agreement and the Settlement Agreement have come into force. As a condition of the Global Settlement Agreement the Diocese has agreed to provide $417,000 of in-kind services over ten years, commencing September 20, 2007.

As at December 31, 2011, $445,149 (2010 - $313,044) of in-kind services had been provided.

13. 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 4% of gross annual salary. In 2011, the Pastoral Centre contributed $18,489 (2010 - $18,184) to the plan.

14. 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, parish levies, and grants. Included in property income is lease income of $32,800 (2010 - $32,800) from a wholly owned affiliate. These transactions are recorded at the exchange amount, which is the amount agreed upon by the parties.

In 2011, the Diocese transferred the ownership of certain property, which was not included under the Pastoral Centre's policy of recording only specified assets at appraised values. Additionally, a donation received during the year for $20,000 (2010 - $20,000) from St. Patrick's Housing Corporation was donated to St. Patrick's Parish of Victoria. The donation is included in donations to parishes and schools on the Statement of Operations.

15. Financial instruments:

Fair values:

The carrying amount of the Pastoral Centre's cash and term deposits, accounts receivable, accounts payable and accrued liabilities and demand loan approximate their fair value due to the relatively short period to maturity of the instruments or because they are receivable or payable on demand. It is management's opinion that the Pastoral Centre is not exposed to significant interest, currency, or credit risks arising from these financial instruments.

It was not practicable to estimate the fair value of the loan receivable (see note 4) from St. Patrick's Parish due to the non-arms length nature of the relationship and the absence of a secondary market for such an instrument.

16. Subsequent event:

In January 2012, the Pastoral Centre issued a note receivable for $150,000. The loan is interest free and there are no set terms of repayment.

17. Comparative information:

Certain 2010 comparative information has been reclassified to conform to the presentation adopted in the current year.