CATHOLIC DEVELOPMENT FUND
DIOCESE OF BROKEN BAY

ANNUAL REPORT

Special Purpose Financial Statements for the year ended 30 June 2021

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The Catholic Development Fund – Diocese of Broken Bay (CDF) is required by law to make the following disclosure. CDF is not prudentially supervised by the Australian Prudential Regulation Authority nor has it been examined or approved by the Australian Securities and Investments Commission. An investor in CDF will not receive the benefit of the financial claims scheme or the depositor protection provisions in the Banking Act 1959 (Cth). Investments in CDF are intended to be a means for investors to support the charitable, religious and educational works of the Catholic Diocese of Broken Bay and for whom the consideration of profit are not of primary relevance in the investment decision. The investments that CDF offers are not subject to the usual protections for investors under the Corporations Act (Cth) or regulation by the Australian Securities and Investments Commission. Investors may be unable to get some or all of their money back when the investor expects or at all and any investment of CDF are not comparable to investments with banks, finance companies or fund managers. CDF's identification statement may be viewed at www.bbcatholic.org.au or by contacting CDF on (02) 9390 5200. CDF does not hold an Australian Financial Services Licence.

Catholic Development Fund - Diocese of Broken Bay

Statement of Comprehensive Income

For the year ended 30 June 2021

	Note	2021 $	2020 $
REVENUE			
Interest income using the effective interest rate method		5,563,702	7,582,205
Interest expense using the effective interest rate method		(682,596)	(2,161,082)
NET INTEREST INCOME	2	4,881,106	5,421,123
NET NON - INTEREST INCOME		834	-
TOTAL REVENUE		4,881,940	5,421,123
EXPENSES			
Management fees and services		(376,978)	(373,115)
Depreciation expense		(26,177)	(10,967)
Occupancy expenses		(79,129)	(75,214)
Client chequing expenses		(22,301)	(23,431)
Computer support		(82,103)	(79,167)
Professional fees		(44,471)	(38,691)
Other expenses		(8,880)	(11,176)
TOTAL EXPENSES		(640,039)	(611,761)
REVERSAL OF LOAN IMPAIRMENT		310,150	71,086
SURPLUS FOR THE YEAR		4,552,051	4,880,448

The notes on pages 5 to 21 are an integral part of these financial statements.

Catholic Development Fund - Diocese of Broken Bay

Statement of Financial Position

As at 30 June 2021

	Note	2021 $	2020 $
ASSETS			
Cash and cash equivalents		4,184,931	7,344,856
Due from financial institutions	4	68,896,351	68,003,949
Loans and advances	5	121,476,023	125,678,992
Plant and equipment	6	71,746	56,712
Other assets	7	6,265	3,984
TOTAL ASSETS		194,635,316	201,088,493
LIABILITIES			
Trade and other payables	8	72,286	62,442
Deposits	9	180,922,180	190,434,791
Provision for distributions	10(a)	2,599,590	-
Loan capital	11	2,000,000	2,000,000
TOTAL LIABILITIES		185,594,056	192,497,233
NET ASSETS		9,041,260	8,591,260
EQUITY			
Contributed equity		2,000,000	2,000,000
Retained earnings		7,041,260	6,591,260
TOTAL EQUITY		9,041,260	8,591,260

The notes on pages 5 to 21 are an integral part of these financial statements.

Catholic Development Fund - Diocese of Broken Bay

Statement of Changes in Equity
For the year ended 30 June 2021

	Note	Contributed equity $	Retained earnings $	Total equity $
Balance as at 1 July 2019		2,000,000	3,584,109	5,584,109
Surplus for the year		-	4,880,448	4,880,448
Distributions	10(b)	-	(1,873,297)	(1,873,297)
Balance as at 30 June 2020		2,000,000	6,591,260	8,591,260
Balance as at 1 July 2020		2,000,000	6,591,260	8,591,260
Surplus for the year		-	4,552,051	4,552,051
Distributions	10(b)	-	(4,102,051)	(4,102,051)
Balance as at 30 June 2021		2,000,000	7,041,260	9,041,260

The notes on pages 5 to 21 are an integral part of these financial statements.

Catholic Development Fund - Diocese of Broken Bay

Statement of Changes in Cash Flows

For the year ended 30 June 2021

	Note	2021 $	2020 $
Cash flows from operating activities			
Interest received on loans and advances		5,270,394	6,395,154
Interest received on amounts due from financial institutions		293,308	1,187,051
Interest paid on deposits		(682,596)	(2,161,082)
Net decrease in loans and advances		4,513,119	3,478,301
Net (decrease) in deposits		(9,512,611)	(4,175,097)
Other income received		834	1,522
Cash paid to suppliers		(606,299)	(576,283)
Net cash (used in)/provided by operating activities	14(b)	(723,851)	4,149,566
Cash flows from investing activities			
Payments for plant and equipment		(41,211)	(60,107)
Net (increase)/decrease in amounts due from financial institutions		(892,402)	6,919,849
Net cash (used in)/provided by investing activities		(933,613)	6,859,742
Cash flows from financing activities			
Distributions to Diocese of Broken Bay	10	(1,502,461)	(4,838,758)
Net cash used in financing activities		(1,502,461)	(4,838,758)
Net (decrease)/increase in cash held		(3,159,925)	6,170,550
Cash at beginning of year		7,344,856	1,174,306
Cash at end of year	14(a)	4,184,931	7,344,856

Cash at the end of the year reconciles to cash and cash equivalents as stated on the Statement of Financial Position.

The notes on pages 5 to 21 are an integral part of these financial statements.

1. Statement of accounting policies

Summary of significant accounting policies
The Catholic Development Fund – Diocese of Broken Bay (CDF) is a special fund created under a Charter on 1 November 1997 (as amended 2017). Under the Charter, CDF is controlled and managed by the Bishop of the Diocese of Broken Bay with the assistance of an Advisory Board (the Board) and the Financial Administrator.

The financial statements are special purpose financial statements prepared by the Advisory Board (the Board) of the Catholic Development Fund - Diocese of Broken Bay (CDF) in order to meet the needs of the Bishop of the Catholic Diocese of Broken Bay. The Board has determined that CDF is not publically accountable nor a reporting entity and therefore it is not necessary for CDF to comply with all of the requirements of the Australian Accounting Standards and other mandatory financial reporting requirements promulgated by the Australian Accounting Standards Board (AASB).

The financial statements were authorised for issue by the Board on 15 September 2021.

Statement of compliance
The special purpose financial statements have been prepared in accordance with the recognition, measurement and classification aspects of all applicable Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB). The special purpose financial statements include only the disclosure requirements of the following AASBs and those disclosures considered necessary by the Approved Officers to meet the needs of users:

- AASB 101 *Presentation of Financial Statements*
- AASB 107 *Statement of Cash Flows*
- AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*
- AASB 1048 *Interpretations of Standards*
- AASB 1054 *Australian Additional Disclosures.*

The financial statements do not comply with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB).

The financial statements have been prepared on an accruals basis and going concern basis of accounting. The financial statements are also based on historical cost.

Basis of preparation
The financial statements are presented in Australian dollars.

Accounting policies are selected and applied in a manner that ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

Rounding
All amounts have been rounded to the nearest dollar unless stated.

New, revised and future Accounting Standards and Interpretations

The AASB has issued a number of new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods. These have not been applied in preparing these financial statements and CDF does not plan to adopt these standards early. A summary of these new standards and interpretations is set out below:

1. Statement of accounting policies (ctd.)

- **AASB 1060 *General purpose financial statements - Simplified Disclosures for For-profit and Not-for-Profit Tier 2 Entities* (AASB 1060)**
  AASB 1060 issued in March 2020 sets out a new, separate disclosure Standard to be applied by all entities that are reporting under Tier 2 of the Differential Reporting Framework in AASB 1053 *Application of Tiers of Australian Accounting Standards*. This Standard has been developed based on a new methodology and principles to be used in determining the Tier 2 disclosures that are necessary for meeting users needs, to replace the current Reduced Disclosure Requirements (RDR) framework.

  This Standard does not change:
  - which entities are permitted to apply Tier 2 reporting requirements; and
  - the recognition and measurement requirements of Tier 2, which are the same as for Tier 1.

  While entities that comply with this Standard need to apply the recognition and measurement requirements in other Standards, they are exempt from the disclosure requirements in specified paragraphs in other Standards. Tier 2 entities are also not required to comply with other Standards that deal only with presentation and disclosure.

  This Standard applies to annual reporting periods beginning on or after 1 July 2021, with earlier application permitted. The CDF does not intend to early adopt.

  The CDF is still assessing the impact of the above standard on its financial statements on adoption.

Voluntary changes in accounting policies
There have been no voluntary changes in accounting policies made during the year.

Critical accounting estimates and judgements
In applying CDF’s accounting policies, management continually evaluates judgements, estimates and assumptions based on experience and other factors, including expectations of future events that may have an impact on CDF. All judgements, estimates and assumptions made are believed to be reasonable based on the most current set of circumstances available to management even though actual results may differ.

The estimates and underlying assumptions are reviewed on an ongoing basis. Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have a significant effect on the amounts recognised in the financial statements are described below:

Impairment of loans and advances
Considerable judgement is exercised in determining the extent of the expected credit losses (ECLs) for financial assets assessed for impairment both individually and collectively. The ECLs for financial assets is based on assumptions about the risk of default and expected loss rates. CDF uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on CDF’s past history, existing market conditions as well as forward-looking estimates at the end of each reporting period. Changes in such judgements and analysis may lead to changes in the ECLs over time. The key judgement areas are the assumptions used to measure ECLs, including the use of forward-looking and macroeconomic information for individual and collective impairment assessment.

1. Statement of accounting policies (ctd.)

The following specific accounting policies have been adopted in the preparation of these statements.

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

For cash and cash equivalents and trade and other payables the carrying value is deemed to be a reasonable approximation of fair value due to their short-term nature.

Financial instruments

Recognition and initial measurement

Financial assets of CDF include cash and cash equivalents, due from financial institutions and loans and advances.

Loans and advances issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when CDF becomes a party to the contractual provisions of the instrument.

Loans and advances without a significant financing component are initially measured at the transaction price.

Classification and subsequent measurement

On initial recognition, a financial asset is classified as measured at: amortised cost; fair value through other comprehensive income (FVOCI) - debt investment; FVOCI - equity investment; or fair value through profit or loss (FVTPL).

Financial assets are not reclassified subsequent to their initial recognition unless CDF changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

Business model assessment

CDF makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to CDF's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with CDF's continuing recognition of the assets.

1. Statement of accounting policies (ctd.)

Financial Instruments **(ctd.)**

Classification and subsequent measurement (ctd.)

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, CDF considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, CDF considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit CDF's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

CDF recognises its financial assets at amortised cost as they meet both of the following conditions and are not designated as at FVTPL:

- they are held within a business model whose objective is to hold assets to collect contractual cash flows; and
- their contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent measurement and gains and losses

Financial assets

These assets are subsequently measured at amortised cost using the effective interest rate method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Financial liabilities – Classification, subsequent measurement and gains and losses

Financial liabilities of CDF include deposits, trade and other payables and loan capital. CDF recognises the financial liabilities at amortised cost using the effective interest rate method as they are not classified as held-for-trading, not a derivative or not designated as such on initial recognition. Interest expense and foreign exchange gains and losses are recognised in profit or loss.

1. Statement of accounting policies (ctd.)

Financial Instruments **(ctd.)**

Derecognition

Financial assets

CDF derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which CDF neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

Financial liabilities

CDF derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, CDF currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

Impairment

CDF recognises loss allowances for ECLs on financial assets measured at amortised cost.

Loss allowances for financial assets at amortised cost are always measured at an amount equal to lifetime ECLs.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to CDF in accordance with the contract and the cash flows that CDF expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Plant and equipment

Items of plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

If significant parts of an item of plant and equipment have different useful lives, then they are accounted for as separate items (major components) of plant and equipment. Any gain or loss on disposal of an item of plant and equipment is recognised in profit or loss.

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to CDF.

Depreciation is used to write off the cost of plant and equipment less their estimated residual values using the straight-line basis over their estimated useful lives, and is generally recognised in profit or loss. All assets are depreciated at 33% of cost.

1. Statement of accounting policies (ctd.)

Plant and equipment (ctd.)

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Provision for distributions

The Board has adopted a policy based on distributing the budgeted operating surplus less $150,000 to the Diocese of Broken Bay. Actual distributions will be reviewed by the Board before payment to confirm that the financial performance, capital adequacy, liquidity requirements and current circumstances warrant continuing with the proposed distributions.

A provision is maintained for any distributions approved but unpaid - see Note 10.

Finance income and finance costs

CDF's finance income and finance expense includes:

- interest income on funds invested and on related party loans; and
- interest expense.

Interest income or expense is recognised using the effective interest method.

The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

Income tax

No provision for income tax is made in the financial statements as CDF is exempt from tax.

Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not fully recoverable from the Australian Taxation Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense.

Receivables and payables are stated with the amount of GST excluded. The net amount of GST recoverable from, or payable to, the ATO is included as an asset or liability in the statement of financial position.

Notes to and forming part of the Financial Statements (ctd.)

For the year ended 30 June 2021

	2021 $	2020 $
2. Net interest income		
Interest income using the effective interest rate method		
Due from financial institutions		
Current accounts	905	6,900
At call investments	21,495	56,813
Term deposits	270,908	1,123,338
	293,308	1,187,051
Loans and advances		
Loans to Diocesan entities	4,239,902	6,090,840
Loans to Non-Diocesan entities	1,030,492	304,314
	5,270,394	6,395,154
	5,563,702	7,582,205
Interest expense using the effective interest rate method		
Deposits		
At call deposits	32,371	218,585
Fixed term deposits	628,898	1,904,973
	661,269	2,123,558
Loan capital		
Perpetual subordinated debt	21,182	37,351
Overdrawn interest charge	145	173
	682,596	2,161,082
	4,881,106	5,421,123

Notes to and forming part of the Financial Statements (ctd.)

For the year ended 30 June 2021

	2021 $	2020 $
3. Auditors' remuneration		
Audit services – current year	40,284	36,947
Audit services – prior year	2,487	(206)
Other services	3,360	3,225
	46,131	39,966

	2021 $	2020 $
4. Due from financial institutions		
At call deposits		
Catholic Development Fund - Archdiocese of Sydney	35,871,389	7,871,941
	35,871,389	7,871,941
Term deposits		
Catholic Development Fund - Archdiocese of Sydney	33,024,962	60,132,008
	33,024,962	60,132,008
	68,896,351	68,003,949
Maturity analysis		
At call	35,871,389	7,871,941
Not longer than 3 months	33,024,962	60,132,008
	68,896,351	68,003,949

	2021 $	2020 $
5. Loans and advances		
Gross loans and advances		
Diocesan loans	97,822,733	109,856,872
Non-Diocesan loans	23,911,054	16,390,034
	121,733,787	126,246,906
Less: loan loss provision	(257,764)	(567,914)
	121,476,023	125,678,992
Maturity analysis		
Not longer than 3 months	3,533,152	3,035,222
Longer than 3 months and not longer than 12 months	9,652,422	10,090,142
Longer than 1 year and not longer than 5 years	50,371,807	51,594,716
Longer than 5 years	58,176,406	61,526,826
Less: loan loss provision	(257,764)	(567,914)
	121,476,023	125,678,992

Notes to and forming part of the Financial Statements (ctd.)

For the year ended 30 June 2021

6. Plant and equipment

	2021 $	2020 $
Software	111,270	70,060
Less: Accumulated depreciation	(39,524)	(13,348)
	71,746	56,712
	71,746	56,712

(a) Movements in carrying amounts

	Balance at the beginning of year $	Additions $	Disposals $	Depreciation Expense $	Balance at the end of year $
Software	56,712	41,211	-	(26,177)	71,746
	56,712	41,211	-	(26,177)	71,746

	2021 $	2020 $
7. Other assets		
Prepayments	6,265	3,984
	6,265	3,984
8. Trade and other payables		
Creditors and accruals	72,286	62,442
	72,286	62,442
9. Deposits		
At call deposits		
Diocesan entities	33,275,525	49,993,978
Non-Diocesan entities	3,623,249	2,500,656
	36,898,774	52,494,634
Fixed term deposits		
Diocesan entities	143,578,871	137,466,902
Non-Diocesan entities	444,535	473,255
	144,023,406	137,940,157
	180,922,180	190,434,791
Maturity analysis		
At call	36,898,774	52,494,634
Not longer than 3 months	127,175,568	122,434,098
Longer than 3 months and not longer than 12 months	16,847,838	15,506,059
	180,922,180	190,434,791

	2021 $	2020 $
10. (a) Provision for distributions		
Proposed distribution of surplus - Diocese of Broken Bay	2,599,590	-
	2,599,590	-
(b) Distributions		
Interim distribution paid to Diocese of Broken Bay	1,502,461	1,873,297
Proposed final distribution to Diocese of Broken Bay	2,599,590	-
Total distribution from the CDF for the Year	4,102,051	1,873,297
11. Loan capital		
Perpetual subordinated debt - Diocese of Broken Bay	2,000,000	2,000,000
	2,000,000	2,000,000

Perpetual subordinated debt is subordinated in right of payment to the claims of depositors and all other creditors of CDF. The perpetual subordinated debt cannot be called by the Diocese of Broken Bay, but it can be retired by CDF if it is no longer required.

12. Related party transactions

Advisory Board Members

The Advisory Board members who held office during the year ended 30 June 2021 were as follows:
Mr William d'Apice (Chairman)
Ms Helen Bentham (Audit Committee – Member) (Retired 3 November 2020)
Rev Robert Borg
Mr Adam Bowe (Lending Committee – Member)
Mr Joe Bracken (Audit Committee – Member)
Mr Daniel Casey (Appointed 25 November 2020)
Mr Michael Lucas (Audit Committee – Chair)
Ms Catherine Manuel (Lending Committee – Member) (Audit Committee – Member)
Ms Emma McDonald - Ex Officio (Lending Committee – Member)

The Chairman of the Board, Mr William d'Apice, is a consultant in the firm Makinson d'Apice Lawyers. Makinson d'Apice Lawyers provide legal services to CDF on normal commercial terms and conditions. For the year ended 30 June 2021 payments of $1,700 were made to Makinson d'Apice Lawyers (2020: $1,700). Mr d'Apice is also a member of the Diocesan Finance Committee.

A Board Member, Ms Emma McDonald is the Diocesan Financial Administrator for the Catholic Diocese of Broken Bay, and is an executive officer of the Diocesan Finance Council. As well as an ex-officio member of the Diocesan Audit & Risk Committee, the Diocesan Investment Committee, CatholicCare Broken Bay Advisory Committee, CatholicCare Broken Bay Finance & Risk Sub Committee and the Catholic Schools Office Finance Committee, and a member of the NSW/ACT Province Bishops Working Party – Entity to Sue. The Diocese and Catholic Schools Office conducts various financial transactions with CDF on normal terms and conditions.

12. Related party transactions (ctd.)

Board Members (ctd.)

A Board Member, Ms Helen Bentham (retired 3 November 2020) was Head of Financial Services for the Catholic Schools Office Diocese of Broken Bay. The Catholic Schools Office conducts various financial transactions with CDF on normal terms and conditions.

A Board Member, Rev Robert Borg is the Parish Priest of the Lakes Catholic Parish, Collaroy Plateau Catholic Diocese of Broken Bay. The Parish conducts various financial transactions with CDF on normal terms and conditions.

A Board Member, Mr Daniel Casey (appointed 25 November 2020) is the Director of Schools for the Catholic Schools Office Diocese of Broken Bay. The Catholic Schools Office conducts various financial transactions with CDF on normal terms and conditions.

No remuneration was paid by CDF to any Board member for their services in respect to the office held.

Key management personnel

Mr Peter Bokeyar – General Manager
Ms Emma McDonald – Diocesan Financial Administrator

Effective from the 21 July 2017 the Services and Facilities agreement dated 4 November 2010 was varied appointing the General Manager of the Sydney CDF as the General Manger of Broken Bay CDF for a period of 6 months. This agreement was later extended until 30 June 2018 and then again to 30 June 2021. As of 1 July 2021 this agreement has been extended for a further five years.

Controlling entities

The ultimate controlling body is the Diocese of Broken Bay (Trustees of The Roman Catholic Church for the Diocese of Broken Bay).

Various other Catholic organisations within the Catholic Diocese of Broken Bay and other Catholic bodies have deposits with and have obtained loans from CDF under normal commercial terms and conditions. From time to time various Board Members and/or senior management may hold directorial positions with those organisations. The Board has a policy that requires relevant Board Members to declare any conflicts of interest as a result of their holding such positions and abstain from voting on decisions taken in respect of those organisations.

Aggregate amounts due to and from Diocesan entities are detailed in the relevant notes to the financial statements.

As detailed in Note 10 to the financial statements, payments out of current year surplus were made to the Diocese of Broken Bay during the year representing distributions of CDF's surplus, less $450,000. Actual payments of $1,502,461 (2020: $4,838,758) were made during the year.

Aggregate amounts due to and from Diocesan entities are detailed in the relevant notes to the financial statements.

13. Financial risk management

Overview

CDF's financial instruments consist of cash and cash equivalents, due from financial institutions, loans and advances, deposits, trade and other payables and loan capital.

The main purpose of non-derivative financial instruments is to provide sources of finance and credit, in respect to capital and other expenditures in the work of the church primarily within the Diocese of Broken Bay.

CDF did not utilise derivatives for the financial year ended 30 June 2021 and currently has no plans to utilise derivatives in the foreseeable future.

(i) Financial risk exposures and management

CDF's lending, deposit-taking and investing activities expose it to the following risks from its use of financial instruments:
- Liquidity risk;
- Credit risk;
- Interest rate risk; and
- Other (market) price risk.

The Members of the Board have overall responsibility for the establishment and oversight of the risk management framework. The Board's role is to assess financial risk arising from CDF's operations and consider the adequacy of measures taken to moderate those risks. The Board has established an Audit Committee to assess the adequacy and effectiveness of CDF's internal controls as well as its operational policies and procedures. The Audit Committee meets when required to review and assess financial risk arising from CDF's operations, including reviewing the Prudential standards, accounting policies, financial reporting and management and internal controls.

(ii) Capital adequacy

CDF has determined that it should maintain capital at a ratio of a minimum of 8% of risk weighted assets as defined in the Prudential Standards Policy. The capital ratio at 30 June 2021 was 16.68% (30 June 2020: 17.21%).

(iii) Liquidity risk

CDF manages liquidity by investing only in liquid securities, which are realisable when the need arises. CDF is only permitted to invest funds in the Catholic Development Fund - Archdiocese of Sydney.

(iv) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to CDF. CDF has a policy of only dealing with credit worthy counterparties and ensuring CDF has adequate internal controls to mitigate the risk of financial loss to CDF.

<u>Counterparty investment credit risk</u>

CDF's Investment Policy specifies that CDF may only invest or deposit funds with the Catholic Development Fund - Archdiocese of Sydney.

<u>Loans and advances credit risk</u>

CDF's maximum exposure to loans and advances credit risk at balance date in relation to each class of recognised financial asset is the carrying amount of those assets as indicated in the statement of financial position. Credit risk in loans and advances is managed by a careful evaluation of lending proposals by the manager of CDF and the Board. All loans require ratification by the Diocesan Bishop.

The quality of CDF's loan portfolio is monitored by Management, which provides the Board with reports on overdrawn accounts and loans in arrears.

13. Financial risk management (ctd.)

(iv) Credit risk (ctd.)

Impairment allowance

Movement in impairment allowances on due from financial institutions and loans and advances was as follows:

	2021 $	2020 $
Balance at 1 July	567,914	639,000
Impairment loss recognised	-	-
Impairment loss reversed	(310,150)	(71,086)
Balance at 30 June	257,764	567,914

Model Inputs

The key model inputs the CDF uses to measure Expected Credit Losses (ECL) include:

- Probability of Default (PD): The PD is determined at the member type level. When estimating the PD, the CDF considers a client's member type as well as whether they are a Diocesan or Non Diocesan Entity.
- Loss Given Default (LGD): PD is based on the entity's member type as well as whether they are a Diocesan or Non Diocesan Entity. Also taken into consideration are any historical losses, the structure of the loan and whether any security is held.

Forward looking information

Forward looking information is used in the measurement of the ECL takes into account probability weighted scenarios and includes macro and micro economic variables that could influence credit losses. The CDF prepares a base case, downside scenario and upside scenario and applies a weighted average to each model to calculate ECL.

(v) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. CDF is exposed to this risk as it raises deposits and also lends and invests funds.

To mitigate the interest rate risk arising from deposits raised, deposits are priced at variable interest rates in at call products and in term deposits at fixed interest rates. The maximum term offered for term deposits is 12 months. Term loans are contracted at variable interest rates only.

Catholic Development Fund - Diocese of Broken Bay

Notes to and forming part of the Financial Statements (ctd.)

For the year ended 30 June 2021

13. Financial risk management (ctd.)

The following is a profile of CDF's exposure to interest rate risk as at balance date:

	Floating interest rate		Fixed interest rate maturing in: 1 year or less		Non-interest bearing		Total carrying amount as per the statement of financial position		Weighted average effective interest	
	2021 $	2020 $	2021 $	2020 $	2021 $	2020 $	2021 $	2020 $	2021 %	2020 %
(i) Financial assets										
Cash and cash equivalents	4,184,931	7,344,856	-	-	-	-	4,184,931	7,344,856	0.03%	0.32%
Due from financial institutions	35,871,389	7,871,941	33,024,962	60,132,008	-	-	68,896,351	68,003,949	0.33%	1.43%
Loans and advances	121,476,023	125,678,992	-	-	-	-	121,476,023	125,678,992	4.20%	4.93%
Total financial assets	161,532,343	140,895,789	33,024,962	60,132,008	-	-	194,557,305	201,027,797		
(ii) Financial Liabilities										
Deposits	36,898,774	52,494,634	144,023,406	137,940,157	-	-	180,922,180	190,434,791	0.32%	1.04%
Trade and other payables	-	-	-	-	72,286	62,442	72,286	62,442	-	-
Loan capital	-	-	2,000,000	2,000,000	-	-	2,000,000	2,000,000	1.06%	1.86%
Total financial liabilities	36,898,774	52,494,634	146,023,406	139,940,157	72,286	62,442	182,994,466	192,497,233		

13. Financial risk management (ctd.)

(vi) Net fair value

Aggregate net fair values and carrying amounts of financial assets and financial liabilities at balance date.

	2021		2020	
	Carrying amount	Net fair value	Carrying amount	Net fair value
Financial assets				
Cash and cash equivalents	4,184,931	4,184,931	7,344,856	7,344,856
Due from financial institutions	68,896,351	68,896,351	68,003,949	68,003,949
Loans and advances	121,476,023	121,476,023	125,678,992	125,678,992
	194,557,305	194,557,305	201,027,797	201,027,797
Financial liabilities				
Deposits	180,922,180	180,922,180	190,434,791	190,434,791
Trade and other payables	72,286	72,286	62,442	62,442
Loan capital	2,000,000	2,000,000	2,000,000	2,000,000
	182,994,466	182,994,466	192,497,233	192,497,233

(vii) Sensitivity analysis

Interest rate sensitivity analysis

CDF operates a variable book in respect to its assets. In relation to liabilities there is a fixed and variable component, however the majority of term deposits mature within 3 months. CDF is therefore in a position to re-price both its interest rates payable, within a relatively short period, on deposits and interest rates receivable on loans and advances, amounts due from financial institutions and securities at amortised cost to meet market movements in interest rates. Accordingly, the impact on the surplus and equity of CDF for a change in market interest rates would not be material in respect to the year ended 30 June 2021.

Foreign currency sensitivity analysis

At 30 June 2021 there is no effect on surplus and equity as a result of changes in the value of the Australian Dollar to the any other currency, as instances where CDF operates in foreign currency is occasional and is completed at spot rates for client transactions. Therefore, no sensitivity analysis has been performed.

Price risk sensitivity analysis

At 30 June 2021, the effect on surplus and equity as a result of changes in prices is considered negligible as very few prices of services and commodities effect CDF's operations. Therefore, no sensitivity analysis has been performed.

14. Cash inflow information

(a) Reconciliation of cash

For the purposes of the statement of cash flows, cash includes cash on hand. Cash at the end of the reporting period as shown in the statement of cash flows is reconciled to the related items in the Statement of Financial Position as follows:

	2021 $	2020 $
Cash and cash equivalents	4,184,931	7,344,856
	4,184,931	7,344,856

(b) Reconciliation of net cash flows provided by operating activities to operating surplus

Operating surplus	4,552,051	4,880,448
Depreciation	26,177	10,967
Decrease in loans and advances	4,513,119	3,478,301
(Decrease) in deposits	(9,512,611)	(4,175,097)
(Decrease) in loan loss provision	(310,150)	(71,086)
Increase in trade and other payables	9,844	25,332
(Decrease)/increase in other assets	(2,281)	701
Net cash (used in)/provided by operating activities	(723,851)	4,149,566

15. Commitments to extend credit

The following loans approved at 30 June 2021 had not been drawn at that date.

Diocesan loans (including undrawn overdrafts)	108,412	15,719
Non-Diocesan loans	10,342,808	10,342,808
	10,451,220	10,358,527

16. Contingent liabilities

Estimates of material amounts of contingent liabilities not provided for in the financial statements, arising from:

- The commitment to Catholic Development Fund - Archdiocese of Sydney, in respect of client encashment, bank guarantees, payroll and corporate credit card facilities through the Commonwealth Bank of Australia provided to clients of CDF.
- CDF has undertaken to honour facilities up to the limit specified to each client of the fund.

Maximum exposure as at balance date	1,718,189	1,700,989

17. Catholic Development Fund details

Principal activity

The principal activities of the Catholic Development Fund - Diocese of Broken Bay are to provide a source of finance and credit for capital and other expenditures in the work of the Church primarily within the Diocese of Broken Bay.

Principal place of business

Caroline Chisholm Centre
Building 2
423 Pennant Hills Road
PENNANT HILLS NSW 2120

Legal form

The Catholic Development Fund - Diocese of Broken Bay (CDF) is a special Fund created under a Charter on 1 July 1997 (as amended) and is vested in the Trustees of the Roman Catholic Church for the Diocese of Broken Bay, a Body Corporate created under the provisions of the *Roman Catholic Church Trust Property Act 1936 (NSW)* as amended.

The Catholic Development Fund - Diocese of Broken Bay (CDF) is required by law to make the following disclosure. CDF is not prudentially supervised by the Australian Prudential Regulation Authority nor has it been examined or approved by the Australian Securities and Investments Commission. An investor in CDF will not receive the benefit of the financial claims scheme or the depositor protection provisions in the Banking Act 1959 (Cth). Investments in CDF are intended to be a means for investors to support the charitable, religious and educational works of the Catholic Diocese of Broken Bay and for whom the consideration of profit are not of primary relevance in the investment decision. The investments that CDF offers are not subject to the usual protections for investors under the Corporations Act (Cth) or regulation by the Australian Securities and Investments Commission. Investors may be unable to get some or all of their money back when the investor expects or at all and any investment of CDF are not comparable to investments with banks, finance companies or fund managers. CDF's identification statement may be viewed at www.bbcatholic.org.au or by contacting CDF on (02) 9390 5200. CDF does not hold an Australian Financial Services Licence.

Banking Act 1959 (Act)

On 14 December 2017 APRA issued an exemption order, Banking exemption No.1 of 2017, which took effect from 1 January 2018. On 24 May 2021 APRA issued a new exemption order, Banking exemption No.1 of 2021, which took effect from 24 May 2021. Under Banking exemption No.1 of 2017 and Banking Exemption No.1 of 2021, Sections 7 and 8 of the Banking Act 1959, do not apply to CDF provided that CDF complies with the conditions specified in the exemption order.

Corporations Act 2001 (Act) - Exemption Instrument 2016/813

The Australian Securities and Investments Commission (ASIC) has provided exemption instrument 2016/813 to CDPF Limited (CDPF), a company owned by the Australian Catholic Bishops Conference. CDF has relief from the sections of the Act, as specified in exemption instrument 2016/813, through a Sponsor Deed from CDPF.

At a Board Meeting held in August 2016 CDF resolved to discontinue offering retail investments and all retail investments were repaid by CDF.

Australian Charities and Not-For-Profit Commission Act (Act)

CDF is a registered entity under the Act and has the status of a Basic Religious Charity.

18. Subsequent events

There were no subsequent events other than those noted in these financial statements.

Catholic Development Fund - Diocese of Broken Bay

Statement by Approved Officers

We, state to the best of our knowledge and belief that the attached financial statements for Catholic Development Fund – Diocese of Broken Bay (CDF) give a true and fair view of the performance of CDF for the year ended 30 June 2021 and its financial position as at that date.

In our opinion there are reasonable grounds to believe that CDF will be able to pay its debts as and when they become payable.

This declaration is made in accordance with a resolution of the Board.

.... 15 September 2021
....
Mr William d'Apice (Chairman) Date
On Behalf of Board – Catholic Development Fund – Diocese of Broken Bay

.... 15 September 2021
....
Mr Peter Bokeyar Date
General Manager – Catholic Development Fund – Diocese of Broken Bay

Independent Auditor's Report

To the Bishop of the Roman Catholic Church of the Diocese of Broken Bay

Opinion

We have audited the ***Financial Report*** of Catholic Development Fund – Diocese of Broken Bay (Broken Bay CDF).

In our opinion, the accompanying Financial Report presents fairly, in all material respects, the financial position of Broken Bay CDF as at 30 June 2021, and of its financial performance and its cash flows for the year then ended, in accordance with the basis of preparation described in Note 1 to the financial statements.

The ***Financial Report*** comprises:

- Statement of financial position as at 30 June 2021;
- Statement of comprehensive income, Statement of changes in equity, and Statement of cash flows for the year then ended; and
- Notes including a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of Broken Bay CDF in accordance with the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Emphasis of matter – basis of preparation and restriction on use and distribution

We draw attention to Note 1 to the Financial Report, which describes the basis of preparation.

The Financial Report has been prepared to assist the Approved Officers of Broken Bay CDF to meet the needs of the Bishop of the Roman Catholic Church of the Diocese of Broken Bay.

As a result, the Financial Report and this Auditor's Report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Our report is intended solely for the Broken Bay CDF and should not be used by or distributed to parties other than the Broken Bay CDF. We disclaim any assumption of responsibility for any reliance on this report, or on the Financial Report to which it relates, to any person other than the Broken Bay CDF or for any other purpose than that for which it was prepared.

Other Information

Other Information is financial and non-financial information in Broken Bay CDF's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Approved Officers are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of Approved Officers for the Financial Report

The Approved Officers are responsible for:

- the preparation and fair presentation of the Financial Report and have determined that the basis of preparation described in Note 1 to the Financial Report is appropriate to meet the needs of the Bishop of the Roman Catholic Church of the Diocese of Broken Bay;
- implementing necessary internal control to enable the preparation of a Financial Report that is free from material misstatement, whether due to fraud or error; and
- assessing the Broken Bay CDF's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Broken Bay CDF or to cease operations, or have no realistic alternative but to do so.

Auditor’s responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor’s 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 *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They 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 Report.

A further description of our responsibilities for the audit of the Financial Report is located at Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf. This description forms part of our Auditor’s Report.

KPMG

KPMG

D McLennan

Duncan McLennan

Partner

Sydney

15 September 2021