CATHOLIC DEVELOPMENT FUND
DIOCESE OF BROKEN BAY

ANNUAL REPORT

Special Purpose Financial Statements for the year ended 30 June 2019

CONTENTS

Catholic Development Fund - Diocese of Broken Bay

Statement of Comprehensive Income

For the year ended 30 June 2019

	Note	2019 $	2018 $
REVENUE			
Interest income using effective interest rate method		9,992,370	9,528,280
Interest expense using effective interest rate method		(3,945,285)	(3,920,053)
NET INTEREST REVENUE	2	6,047,085	5,608,227
NET NON - INTEREST REVENUE		540	-
TOTAL REVENUE		6,047,625	5,608,227
EXPENSES			
Management fees and services		(400,121)	(346,335)
Depreciation expense	3	(2,382)	-
Occupancy expenses		(67,736)	(61,841)
Client chequing expenses		(26,405)	(22,246)
Computer support		(103,685)	(36,822)
Professional fees		(38,290)	(46,697)
Other expenses		(11,762)	(6,903)
TOTAL EXPENSES		(650,381)	(520,844)
LOAN IMPAIRMENT EXPENSE		-	-
SURPLUS FOR THE YEAR		5,397,244	5,087,383

The notes on pages 5 to 24 are an integral part of these financial statements.

Catholic Development Fund - Diocese of Broken Bay

Statement of Financial Position

As at 30 June 2019

	Note	2019 $	2018 $
ASSETS			
Cash and cash equivalents		1,174,306	2,369,442
Accrued receivables		N/A	625,888
Due from financial institutions	5	74,923,798	85,612,066
Loans and advances	6	129,086,207	131,007,727
Plant and equipment	7	7,572	-
Other assets	8	4,685	14,527
TOTAL ASSETS		205,196,568	219,629,650
-			
LIABILITIES			
Deposits	9	194,609,888	208,275,575
Trade and other payables	10	37,110	633,564
Provision for distributions	11(a)	2,965,461	2,952,211
Loan capital	12	2,000,000	2,000,000
TOTAL LIABILITIES		199,612,459	213,861,350
NET ASSETS		5,584,109	5,768,300
EQUITY			
Contributed equity		2,000,000	2,000,000
Retained earnings		3,584,109	3,768,300
TOTAL EQUITY		5,584,109	5,768,300

The notes on pages 5 to 24 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 2019

	Note	Contributed equity $	Retained earnings $	Total equity $
Balance as at 1 July 2017		2,000,000	3,618,300	5,618,300
Surplus for the year		-	5,087,383	5,087,383
Distributions	11(b)	-	(4,937,383)	(4,937,383)
Balance as at 30 June 2018		2,000,000	3,768,300	5,768,300
Balance as at 30 June 2018		2,000,000	3,768,300	5,768,300
Changes on initial application of AASB 9	1	-	(639,000)	(639,000)
Restated balance as at 1 July 2018		2,000,000	3,129,300	5,129,300
Surplus for the year		-	5,397,244	5,397,244
Distributions	11(b)	-	(4,942,435)	(4,942,435)
Balance as at 30 June 2019		2,000,000	3,584,109	5,584,109

The notes on pages 5 to 24 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 2019

	Note	2019 $	2018 $
Cash flows from operating activities			
Interest received on loans and advances		7,711,159	7,173,986
Interest received on amounts due from financial institutions		2,907,099	2,415,297
Interest paid on deposits		(4,550,089)	(3,873,325)
Net decrease/(increase) in loans and advances		1,282,520	(7,280,695)
Net (decrease)/increase in deposits		(13,665,687)	5,638,584
Other income		459	265
Cash paid to suppliers		(629,726)	(527,123)
Net cash provided by operating activities	15(b)	(6,944,265)	3,546,989
Cash flows from investing activities			
Payments for property, plant and equipment		(9,954)	-
Net decrease/(increase) in amounts due from financial institutions		10,688,268	2,109,441
Net cash provided by/(used in) investing activities		10,678,314	2,109,441
Cash flows from financing activities			
Distributions to Diocese of Broken Bay		(4,929,185)	(4,790,594)
Net cash used in financing activities		(4,929,185)	(4,790,594)
Net increase in cash held		(1,195,136)	865,836
Cash at beginning of year		2,369,442	1,503,606
Cash at end of year	15(a)	1,174,306	2,369,442

The prior period (2018) has been restated to reclassify terms deposit and at call funds with a maturity of less than three months to Cash flows from investing activities. 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 24 are an integral part of these financial statements.

1. Statement of accounting policies

Summary of significant accounting policies
The financial statements are a special purpose financial report 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 report was authorised for issue by the Board on 18 September 2019.

Statement of compliance
The special purpose financial report has 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 report does not comply with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB).

The financial report has been prepared on an accruals basis and going concern basis of accounting. The financial report is also based on historical costs.

Basis of preparation
The financial report is 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.

1. Statement of accounting policies (ctd.)

Changes in accounting policies
CDF has initially applied AASB 15 *Revenue from contracts with customers* and AASB 9 *Financial instruments* from 1 July 2018. Due to the transition methods chosen by CDF in applying these standards, comparative information throughout these financial statements has not been restated to reflect the requirements of the new standards.

AASB 15 *Revenue from contracts with customers*
AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced AASB 118 *Revenue*, AASB 111 *Construction Contracts* and related interpretations. Under AASB 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control - at a point in time or over time - requires judgement. The adoption of AASB 15 did not have a significant impact on CDF's results and financial position.

AASB 9 *Financial instruments*
Effective 1 July 2018, CDF adopted AASB 9 *Financial instruments* which sets out requirements for the recognition, measurement, impairment and derecognition of financial instruments and general hedge accounting. This standard simplifies the classification of a financial asset as either at amortised cost or at fair value as opposed to the multiple classifications which were permitted under AASB 139 *Financial instruments: Recognition and measurement*. This standard also requires the use of a single impairment method as opposed to the multiple methods in AASB 139. The approach in AASB 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The standard also adds guidance on the classification and measurement of financial liabilities.

Trade and other receivables that were classified as loans and receivables under AASB 139 are classified as financial assets measured at amortised cost. There is no change to the initial measurement of CDF's financial assets. Impairment of financial assets is based on an expected credit loss (ECL) model under AASB 9, rather than the incurred loss model under AASB 139. ECLs are a probability-weighted estimate of credit losses. CDF calculated ECLs based on consideration of customer-specific factors and actual credit loss experience. As a percentage of revenue, CDF's actual credit loss experience has not been material.

The adoption of AASB 9 has not had an effect on CDF's accounting policies related to financial liabilities.

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

For the year ended 30 June 2019

1. Statement of accounting policies (ctd.)

Changes in accounting policies (ctd.)

AASB 9 *Financial Instruments* (Ctd.)

CDF completed a detailed assessment of its financial assets and liabilities as at 1 July 2018.

Transition

The following table reconciles the carrying amounts under AASB 139 to the carrying amounts under AASB 9 on transition to AASB 9 on 1 July 2018:

	Carrying amount 30 June 2018 AASB 139 $	Reclassification for AASB 9 $	Remeasurement for AASB 9 $	Reclassification of accrued interest $	Carrying amount 1 July 2018 AASB 9 $
Cash and cash equivalents	2,369,442	-	-	1,826	2,371,268
Accrued receivables	625,888	-	-	(625,888)	N/A
Due from financial institutions (1)	85,612,066	-	-	528,807	86,140,873
Loans and advances (2)	131,007,727	-	(639,000)	95,255	130,463,982
Total	**219,615,123**	**-**	**(639,000)**	**-**	**218,976,123**
Deposits	208,275,575	-	-	604,804	208,880,379
Trade and other payables	633,564	-	-	(604,804)	28,760
Loan capital	2,000,000	-	-	-	2,000,000
Total	**210,909,139**	**-**	**-**	**-**	**210,909,139**

1. Previously classified as investment securities.
2. Previously classified as loans and receivables.

1. Statement of accounting policies (ctd.)

Changes in accounting policies (ctd.)
AASB 9 *Financial Instruments* (Ctd.)

Classification and measurement
The following table shows the original measurement categories in accordance with AASB 139 and the new measurement categories under AASB 9 for CDF's financial assets and financial liabilities as at 1 July 2018:

	Note	Original measurement under AASB 139	Original carrying amount under AASB 139 $	New carrying amount under AASB 9 $	New measurement under AASB 9
Cash and cash equivalents		Amortised cost	2,369,442	2,371,268	Amortised cost
Accrued receivables		Amortised cost	625,888	N/A	N/A
Due from financial institutions (1)	5	Amortised cost	85,612,066	86,140,873	Amortised cost
Loans and advances (2)	6	Amortised cost	131,007,727	130,463,982	Amortised cost
Total			**219,615,123**	**218,976,123**	
Deposits	9	Amortised cost	208,275,575	208,880,379	Amortised cost
Trade and other payables	10	Amortised cost	633,564	28,760	Amortised cost
Loan capital	12	Amortised cost	2,000,000	2,000,000	Amortised cost
Total			**210,909,139**	**210,909,139**	

1. Previously classified as investment securities.
2. Previously classified as loans and receivables.

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

For the year ended 30 June 2019

1. Statement of accounting policies (ctd.)

Changes in accounting policies (ctd.)
AASB 9 *Financial Instruments* (Ctd.)

Impairment
As a result of the new AASB 9 impairment requirements, the loan loss provision increased by $639,000.

The following table reconciles:
- The closing impairment allowance for loans and advances as at 30 June 2018.
- The opening ECL allowance determined in accordance with AASB 9 as at 1 July 2018.

	30 June 2018 AASB 139 $	Remeasurement $	1 July 2018 AASB 9 $
Loans and advances	-	639,000	639,000
Total	**-**	**639,000**	**639,000**

The split of ECL to different stages of CDF's loans and advances portfolio is further detailed in the table below:

	Loan loss provision under AASB 139 $	AASB 9 impairment stages	AASB 9 ECL increase $	AASB 9 ECL $
Incurred but not reported	-	Stage 1 - 12 months ECL	639,000	639,000
Total	-	**Total**	**639,000**	**639,000**

Presentation
AASB 9 resulted in changes to AASB 7 *Financial Instruments: Disclosures* for the presentation of interest income for instruments calculated using the effective interest rate method. The revised presentation requires it be shown as a separate line item in the income statement. The presentation of accrued interest in the balance sheet was also changed so that it is no longer separately presented, but included in the corresponding balance sheet item of the host contract. The new interest presentation was applied prospectively together with the other requirements of AASB 9.

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:

AASB 16 *Leases*
AASB 16 removes the classification of leases as either operating leases or finance leases - for the lessee - effectively treating all leases as finance leases. Short-term leases (less than 12 months) and leases of low-value assets are exempt from the lease accounting requirements. There are also changes in accounting over the life of the lease. Organisations will now require a front loaded pattern of expense for most leases, even when they pay constant annual rentals. AASB 16 is effective for annual reporting periods beginning on or after 1 January 2019. As CDF has no leases this standard is not expected to impact CDF.

1. Statement of accounting policies (ctd.)

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 ECL for financial assets assessed for impairment both individually and collectively. The ECL for financial assets is based on assumptions about 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 ECL over time. The key judgement areas are the assumptions used to measure expected credit losses, including the use of forward-looking and macroeconomic information for individual and collective impairment assessment.

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

Financial instruments
Recognition and initial measurement
Financial assets of CDF includes 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.

1. Statement of accounting policies (ctd.)

Financial Instruments **(ctd.)**
Classification and subsequent measurement (ctd.)

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.

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.

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 (ctd.)
CDF recognises its financial assets at amortised cost as they meet both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its 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.

Financial liabilities are classified as current liabilities unless CDF has an unconditional right to defer settlement of the liability for a least 12 months after the reporting date.

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.

1. Statement of accounting policies (ctd.)

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

Impairment

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

Loss allowances for financial assets at amortised costs 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.

Provision for distributions

The Board has adopted a policy based on distributing the budgeted operating surplus less $150,000 to the Diocese. If the full year net operating surplus exceeds budget, the surplus over the budgeted amount will be retained by the CDF, unless the Diocese requests this amount to be distributed to them.

A provision is maintained for any distributions approved but unpaid - see Note 11.

Finance income and finance costs

CDF's finance income and finance expense include:

- 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.

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

For the year ended 30 June 2019

1. Statement of accounting policies (ctd.)

Depreciation of fixed assets

Depreciation is used to write off the cost of fixed assets 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.

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

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 a current asset or liability in the statement of financial position.

Catholic Development Fund - Diocese of Broken Bay

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

For the year ended 30 June 2019

	2019 $	2018 $
2. Net interest revenue		
Interest income using effective interest rate method		
Due from financial institutions [1]		
Current accounts	24,795	28,675
At call investments	148,577	132,692
Term deposits	2,203,094	2,204,967
	2,376,466	2,366,334
Loans and advances		
Loans to Diocesan entities	7,177,464	6,698,493
Loans to Non-Diocesan entities	438,440	463,453
	7,615,904	7,161,946
	9,992,370	9,528,280

1. Previously classified as investment securities.

	2019 $	2018 $
Interest expense using effective interest rate method		
Deposits		
At call deposits		
Diocesan entities	955,841	1,404,941
Non-Diocesan entities	49,215	47,053
	1,005,056	1,451,994
Fixed term deposits		
Diocesan entities	2,865,901	2,383,968
Non-Diocesan entities	14,718	27,667
Non-church deposits	-	329
	2,880,619	2,411,964
Loan capital		
Perpetual subordinated debt	59,487	56,045
Overdrawn interest charge	123	50
	59,610	56,095
	3,945,285	3,920,053
	6,047,085	5,608,227

	2019 $	2018 $
3. Expenses		
Depreciation expense		
Software	2,382	-
	2,382	-

	2019 $	2018 $
4. Auditors' remuneration		
Current year - audit services	36,360	33,700
Current year - other services	3,206	2,598
	39,566	36,298

	2019 $	2018 $
5. Due from financial institutions [1]		
At call deposits		
Catholic Development Fund - Archdiocese of Sydney	5,910,973	6,612,066
	5,910,973	6,612,066
Term deposits		
Catholic Development Fund - Archdiocese of Sydney	69,012,825	79,000,000
	69,012,825	79,000,000
	74,923,798	85,612,066
Maturity analysis		
At call	5,910,973	6,612,066
Not longer than 3 months	69,012,825	64,000,000
Longer than 3 months and not longer than 12 months	-	15,000,000
	74,923,798	85,612,066

1. Previously classified as investment securities.

	2019 $	2018 $
6. Loans and advances [1]		
Gross loans and advances		
Diocesan Loans	121,934,010	119,741,091
Non-Diocesan Loans	7,791,197	11,266,636
	129,725,207	131,007,727
Less: loan loss provision [2]	(639,000)	-
	129,086,207	131,007,727
Maturity analysis		
Not longer than 3 months	2,487,473	2,203,291
Longer than 3 months and not longer than 12 months	8,427,141	7,292,795
Longer than 1 year and not longer than 5 years	47,459,363	45,353,613
Longer than 5 years	71,351,230	76,158,028
Less: loan loss provision	(639,000)	-
	129,086,207	131,007,727

1. Previously classified as loans and receivables.
2. Adjusted for the application of AASB 9 at 1 July 2018.

Notes to and forming part of the Financial Statements (ctd.)
For the year ended 30 June 2019

	2019 $	2018 $
7. Plant and equipment		
Software	9,954	-
Less: Accumulated Depreciation	(2,382)	-
	7,572	-
	7,572	-

(a) Movements in carrying amounts

	Balance at beginning of year $	Additions $	Disposals $	Depreciation Expense $	Balance at the end of Year $
Software	9,954	-	-	(2,382)	7,572
	9,954	-	-	(2,382)	7,572

	2019 $	2018 $
8. Other assets		
Prepayments	3,163	13,086
GST receivable	1,522	1,441
	4,685	14,527

	2019 $	2018 $
9. Deposits		
At call deposits		
Diocesan entities	86,865,074	93,464,591
Non-Diocesan entities	3,293,923	3,836,868
	90,158,997	97,301,459
Fixed term deposits		
Diocesan entities	103,923,915	109,769,437
Non-Diocesan entities	526,976	1,204,679
	104,450,891	110,974,116
	194,609,888	208,275,575
Maturity analysis		
At call	90,158,997	97,301,459
Not longer than 3 months	88,559,450	98,308,854
Longer than 3 months and not longer than 12 months	15,891,441	12,665,262
	194,609,888	208,275,575

		2019 $	2018 $
10.	**Trade and other payables**		
	Creditors and accruals	37,110	28,760
	Accrued interest on deposits	-	604,804
		37,110	633,564
11.	**(a) Provision for distributions**		
	Proposed distribution of surplus - Diocese	2,965,461	2,952,211
		2,965,461	2,952,211
	(b) Distributions		
	Interim distribution paid to Diocese	1,976,974	1,985,172
	Proposed final distribution to Diocese	2,965,461	2,952,211
	Total distribution from the CDF for the Year	4,942,435	4,937,383
12.	**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.

13. Related party transactions

Board Members

The Advisory Board members who held office during the year ended 30 June 2019 were as follows:
Mr William d'Apice (Chairman)
Ms Helen Bentham (Audit Committee – Member)
Mr Adam Bowe (Lending Committee – Member)
Mr Joe Bracken (Audit Committee - Member)
Mr Michael Lucas (Audit Committee - Chair)
Ms Catherine Manuel (Lending Committee – Member)
Ms Emma McDonald - Ex Officio (Lending Committee – Member)
Rev William Stevens (Lending Committee – Member)

The Chairman of the Board, Mr William d'Apice, is a partner 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 2019 payments of $1,650 were made to Makinson d'Apice Lawyers (2018: $5,950). 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 and Diocesan Audit & Risk Committee. As well as an ex-officio member of 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.

13. Related party transactions (ctd.)

Board Members (ctd.)

A Board Member, Rev William Stevens is a Parish Priest of Our Lady of the Rosary, The Entrance Catholic Diocese of Broken Bay. The Parish conducts various financial transactions with CDF on normal terms and conditions.

A Board Member, Ms Helen Bentham is 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.

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 extended for a further 3 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 interest revenue and expenses received from and paid to Diocesan entities are detailed in Note 2 to the financial statements.

As detailed in Note 11 to the financial statements, payments were made to the Diocese of Broken Bay during the year representing distributions of CDF's surplus, less $304,809.

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

14. 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 Dioceses of Broken Bay.

CDF did not utilise derivatives for the financial year ended 30 June 2019 and currently has no plans to utilise derivatives in the foreseeable future.

14. Financial risk management (ctd.)

(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:

- Credit risk;
- Interest rate risk;
- Liquidity 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. The capital ratio at 30 June 2019 was 13.32% (30 June 2018: 9.79%).

(iii) 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.

(iv) 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.

Notes to and forming part of the Financial Statements

For the year ended 30 June 2019

14. 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	
	2019	2018	2019	2018	2019	2018	2019	2018	2019 %	2018 %
(i) Financial assets										
Cash and cash equivalents	1,174,306	2,369,442			-	-	1,174,306	2,369,442	0.98%	1.16%
Accrued receivables	N/A	-	N/A	-	N/A	625,888	N/A	625,888	-	-
Due from financial institutions [1]	5,910,973	6,612,066	69,012,825	79,000,000	-	-	74,923,798	85,612,066	2.48%	2.30%
Loans and advances [2][3]	129,086,207	131,007,727	-	-	-	-	129,086,207	131,007,727	5.71%	5.84%
Total financial assets	136,171,486	139,989,235	69,012,825	79,000,000	-	625,888	205,184,311	219,615,123		
(ii) Financial Liabilities										
Deposits	90,158,997	97,301,459	104,450,891	110,974,116	-	-	194,609,888	208,275,575	1.79%	1.77%
Trade and other payables	-	-	-	-	37,110	633,564	37,110	633,564	-	-
Loan capital	-	-	2,000,000	2,000,000	-	-	2,000,000	2,000,000	2.23%	2.80%
Total financial liabilities	90,158,997	97,301,459	106,450,891	112,974,116	37,110	633,564	196,646,998	210,909,139		

1. Previously classified as investment securities.
2. Previously classified as loans and receivables.
3. Adjusted for the application of AASB 9 at 1 July 2018.

14. Financial risk management (ctd.)

(v) 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.

Net fair value

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

	2019		2018	
	Carrying amount	Net fair value	Carrying amount	Net fair value
Financial assets				
Cash and cash equivalents	1,174,306	1,174,306	2,369,442	2,369,442
Accrued receivables	N/A	N/A	625,888	625,888
Due from financial institutions (1)	74,923,798	74,923,798	85,612,066	85,612,066
Loans and advances (2)	129,086,207	129,086,207	131,007,727	131,007,727
	205,184,311	205,184,311	219,615,123	219,615,123
Financial liabilities				
Deposits	194,609,888	194,609,888	208,275,575	208,275,575
Trade and other payables	37,110	37,110	633,564	633,564
Loan capital	2,000,000	2,000,000	2,000,000	2,000,000
	196,646,998	196,646,998	210,909,139	210,909,139

1. Previously classified as investment securities.
2. Previously classified as loans and receivables.

(vi) 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 costs 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 2019.

Foreign currency sensitivity analysis

At 30 June 2019 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 2019, 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.

Catholic Development Fund - Diocese of Broken Bay

Notes to and forming part of the Financial Statements

For the year ended 30 June 2019

15. 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:

	2019 $	2018 $
Cash and cash equivalents	1,174,306	2,369,442
	1,174,306	2,369,442

1. Previously classified as investment securities.

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

Operating surplus	5,397,244	5,087,383
Depreciation	2,382	-
Decrease in interest receivable	625,888	61,003
(Decrease)/increase in interest payable	(604,804)	46,678
Net decrease/(increase) in loans and advances	1,282,520	(7,280,695)
Net (decrease)/increase in deposits	(13,665,687)	5,638,584
Increase/(decrease) in creditors and accruals	8,350	(1,613)
Decrease/(increase) in other assets	9,842	(4,351)
Net cash flows provided by operating activities	(6,944,265)	3,546,989

16. Commitments to extend credit

The following loans approved at 30 June 2019 had not been drawn at that date.

Diocesan loans (including undrawn overdrafts)	151,414	3,490,095
Non-Diocesan loans	11,681,697	1,681,697
	11,833,111	5,171,792

17. Contingent liabilities

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

- The commitment to Sydney CDF, 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	1,693,689	1,605,639

18. 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 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.

19. Regulatory exemptions and status

Banking Ac 1959 (Act)

On 14 December 2017 APRA issued a new exemption order, Banking exemption No.1 of 2017, which took effect from 1 January 2018. Under Banking exemption No.1 of 2017, 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) have provided an 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.

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

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

20. Subsequent events

There were no other 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 2019 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.

.... 18/9/19 ....

Mr William d'Apice (Chairman) Date

On Behalf of Board – Catholic Development Fund – Diocese of Broken Bay

.... 18/9/19 ....

Mr Peter Bokeyar Date

General Manager – Catholic Development Fund – Diocese of Broken Bay

KPMG

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 the 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 2019, and of its financial performance and its cash flows for the year then ended, in accordance with the accounting policies described in Note 1 to the financial statements.

The ***Financial Report*** comprises:

- Statement of Financial Position as at 30 June 2019;
- Statement of Comprehensive Income, Statement of Changes in Equity, and Statement of Changes in Cash Flows for the year then ended on 30 June 2019; and
- Notes to and forming part of the Financial Statements, 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 the 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* (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

We draw attention to Note 1 to the Financial Reports, 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 opinions is not modified in respect of this matter.

Our report is intended solely for Catholic Development Fund – Diocese of Broken Bay and should not be used by or distributed to parties other than the Catholic Development Fund – Diocese of Broken Bay. 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 Catholic Development Fund – Diocese of Broken Bay or for any other purpose than that for which it was prepared.

KPMG

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 the 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. 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 the *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

18 September 2019