Catholic Development Fund
DIOCESE OF MAITLAND-NEWCASTLE

Annual Financial Report
for the year ended 30 June 2019

www.myccf.org.au

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Operators' Report

The Operators of Catholic Development Fund Diocese of Maitland-Newcastle present their report on the entity for the year ended 30 June 2019. Throughout the report, the entity is referred to as the Fund.

1 Trustees

The Fund is an agency of the Trustees of the Roman Catholic Church for the Diocese of Maitland-Newcastle (the Trustees) and a registered charity.

The following persons were members of the Trustees during the whole of the financial year and up to the date of this report:

W Wright

M Muller

G Barker

G Mackie

G Quinn

A Doohan

P O'Neill

T Chirackal

W Wright is the Bishop of the Roman Catholic Church Diocese of Maitland Newcastle (the Bishop).

2 Advisory Board

The following persons were members of the Fund's Advisory Board:

R O'Brien was a board member from the beginning of the financial year until 14 December 2018

M O'Connor was a board member from the beginning of the financial year until 14 December 2018

M Harrison

S Scanlon

A Haynes appointed 18 September 2018

J O'Connor appointed 18 September 2018

3 Principal Activities

The Fund, through the issue of debentures to investors, raises funds to:

- provide finance and credit for capital and other expenditures in the work of the Catholic Church primarily within the Diocese of Maitland-Newcastle;
- assist in the better financial management of the investments and assets of the Diocese of Maitland-Newcastle, parishes and other Catholic Church entities; and
- achieve operating surpluses, the majority of which are directed toward the pastoral works of the Diocese of Maitland-Newcastle.

4 Registered Office

841 Hunter Street, Newcastle West. NSW. 2302.

5 Solicitors

Thynne Macartney

Level 32, Riverside Centre, 123 Eagle Street, Brisbane. QLD. 4001

6 Investment Advisors

Laminar Capital
Level 46, 525 Collins Street Melbourne. VIC. 3000.

7 Bankers

Commonwealth Bank of Australia
Level 6, 24 Honeysuckle Drive, Newcastle. NSW. 2300.

8 Auditors

PwC
Level 3, 45 Watt Street, Newcastle. NSW. 2300.

9 Capital Management and Distributions

Distributions paid to the Catholic Diocese of Maitland-Newcastle (the Diocese) during the financial year were as follows:

	2019 $000	**2018 $000**
Final distribution for year ending 30 June 2018 (2018: June 2017)	2,000	2,000
Interm distribution for year ending 30 June 2019 (2018: June 2018)	2,250	4,500
Total	**4,250**	**6,500**

Since the end of the financial year, the Advisory Board and management have recommended to the Bishop the payment of the final distribution of $2,250,000 to be paid in October 2019 out of retained earnings at 30 June 2019.

The timing and amount of the annual distribution to the Diocese is based on 2 principal factors:

i. Approval of annual budgeted distribution by the Bishop of the Diocese of Maitland-Newcastle.

Standing authority is given by the Bishop for the Fund's Advisory Board to recommend a distribution to the Diocese through review of the Fund's monthly performance against that approved by the Bishop at the start of the financial year in its Budget. If no material negative variation exists between year to date performance and the Budget, the Fund's Advisory Board will recommend the standing distribution as outlined in the Fund's Budget to the Bishop for approval.

ii. The Fund's Capital Adequacy and Distributions Policy

On a monthly basis, the Fund's Advisory Board reviews the financial performance of the Fund as well as, if applicable, the expected time left for it to meet its target capital/total assets ratio range of 7%-10%. This review is mandated in the Fund's Capital Adequacy and Distributions Policy. The Fund's capital supports its operations by providing a buffer to absorb unanticipated losses from its activities and, in the event of problems, enables the Fund to continue to operate in a sound and viable manner while the problems are addressed or resolved.

After performing this review and considering other relevant factors, the Fund's Advisory Board will recommend to the Bishop for approval, the timing and amount of any distribution payable.

The Fund's accounting policy is to accrue any distribution payable to the Diocese in accordance with the above 2 factors at balance date.

At balance date, the Fund's capital/total assets ratio was 8.56% (2018: 9.38%) based on distributions paid and 8.34% (2018: 8.69%) based on distributions paid and provided.

10 Review of Operations

The Fund had a continued solid performance for the financial year with an Operating Surplus of $5.29m (2018: $5.16m).

By harnessing the financial resources of the Catholic community, the Fund was able to further the pastoral mission of the Catholic Church in the Diocese of Maitland-Newcastle providing cost-effective financial arrangements for capital works and other essential pastoral programs.

The Fund supported the Diocese's continued expansion into early education through its agency, St Nicholas Early Education. It also supported the Diocese' development of its shared services facilities in Newcastle West, assisting with the delivery of the important work associated with 'Many Parts. One Body. One mission' project.

The Fund also during the financial year supported the work of the Catholic Schools Office and Diocesan School Building Fund through the funding of various school development projects which included St Aloysius Primary School at Chisholm, St Mary's High School Gateshead and San Clemente High School Mayfield.

The CDF distribution made during the year assisted the Diocese to provide services such as youth ministries, chaplaincy, parish services and refugee projects as well as supporting the important work of CatholicCare.

During the year the Fund continued its focus on meeting its regulatory requirements, building the capital base and strengthening its risk management framework.

11 Significant changes in the State of Affairs

No matters or circumstances have arisen during the year that have significantly affected the Fund's operations, results or state of affairs.

12 Events since the end of the Financial Year

No matters or circumstances have arisen since 30 June 2019 that have significantly affected the Fund's operations, results or state of affairs.

13 Insurance of Officers & Indemnities

During the financial year, the fund incurred insurance expenditure of $11,453 which included premiums paid to insure the Advisory Board members and officers of the Fund. The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers the Fund, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a willful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the Fund.

14 Proceedings on behalf of the Fund

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Fund, or to intervene in any proceedings to which the Fund is a party, for the purpose of taking responsibility on behalf of the Fund for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Fund with leave of the Court under section 237 of the Corporations Act 2001.

15 Auditors Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 7.

16 Rounding of amounts

The entity is of a kind referred to in ASIC Legislative Instrument 2016/191, relating to the 'rounding off' of amounts in the Operators' Report and Financial Report. Amounts have been rounded off in accordance with the instrument to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Auditor's Independence Declaration

pwc

Auditor's Independence Declaration

As lead auditor for the audit of Catholic Development Fund Diocese of Maitland-Newcastle for the year ended 30 June 2019, I declare that to the best of my knowledge and belief, there have been no contraventions of any applicable code of professional conduct in relation to the audit.

C. Mara

Caroline Mara
Partner
PricewaterhouseCoopers

Newcastle
21 October 2019

PricewaterhouseCoopers, ABN 52 780 433 757
Level 3, 45 Watt Street, PO Box 798, NEWCASTLE NSW 2300
T: +61 2 4925 1100, F: +61 2 4925 1199, www.pwc.com.au

Statement of Comprehensive Income For the year ended 30 June 2019

	Notes	2019 $000	2018 $000
Interest and investment income	5	11,486	10,994
Interest expense	6	(4,903)	(4,999)
Net interest income		**6,583**	**5,995**
Fee and commission expense	7	(53)	(59)
Net fee and commission expense		**(53)**	**(59)**
Other operating income		-	228
Employee-related expenses	7	(426)	(643)
Dormant funds	7	(100)	-
Other operating expenses	7	(711)	(364)
Net other income and expenses		**(1,237)**	**(779)**
Profit for the year		**5,293**	**5,157**
Revaluation of available for sale assets		-	(7)
Gain/(loss) on sale of financial investments		-	(150)
Other comprehensive income for the year		**-**	**(157)**
Total comprehensive income for the year		**5,293**	**5,000**
Distributions for the year - prior year profits		-	(2,000)
Distributions for the year - current year profits		(4,500)	(4,500)
Total distributions		**(4,500)**	**(6,500)**
Total comprehensive income for the year after distributions		**793**	**(1,500)**

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

Balance Sheet As at 30 June 2019

	Notes	2019 $000	2018 $000
ASSETS			
Current Assets			
Cash and cash equivalents	8	69,859	50,722
Receivables	9	13	36
Financial investments	10	103,986	134,290
Loans and advances to clients	11	126,298	103,927
Total Assets		**300,156**	**288,975**
LIABILITIES			
Current Liabilities			
Deposits due to clients	12	271,458	261,504
Payables	13	2,739	2,282
Provisions	14	49	72
Total Liabilities		**274,246**	**263,858**
Net Assets		**25,910**	**25,117**
Retained profits	15	25,910	25,102
Revaluation reserve	15	(0)	15
Equity		**25,910**	**25,117**

The above balance sheet should be read in conjunction with the accompanying notes.

Statement of changes in equity For the year ended 30 June 2019

	Revaluation Reserve $000	Retained Profits $000	Total $000
Balance at 30 June 2017	**172**	**26,445**	**26,617**
Total comprehensive income for the year	(157)	5,157	5,000
Distributions for the year - prior year profits	-	(2,500)	(2,500)
Distributions for the year - current year profits	-	(4,000)	(4,000)
Balance at 30 June 2018	**15**	**25,102**	**25,117**
Adjustment to prior year retained earnings (AASB 9)	(15)	15	0
Restated balance at 1 July 2018	**15**	**25,117**	**25,117**
Total comprehensive income for the year	-	5,293	5,293
Distributions for the year - prior year profits	-	-	-
Distributions for the year - current year profits	-	(4,500)	(4,500)
Balance at 30 June 2019	**-**	**25,910**	**25,910**

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Cash flow statement for the year ended 30 June 2019

	Notes	2019 $000	2018 $000
Cash flows from operating activities			
Interest received		11,341	10,994
Other revenue received		11	219
Interest paid		(4,901)	(4,999)
Fees and commissions paid		(53)	(59)
Payments to employees and suppliers (inclusive of goods and services tax)		(792)	(1,035)
Net decrease in investments		30,147	32,615
Net (increase) in loans and advances to clients		(22,321)	(17,995)
Net (decrease)/increase in deposits due to clients		9,954	(13,809)
Net cash inflow from operating activities	18	**23,387**	**5,931**
Cash flows from investing activities			
Payments for property, plant and equipment		-	-
Proceeds from sale of property, plant and equipment		-	-
Net cash inflow (outflow) from investing activities		**-**	**-**
Cash flows from financing activities			
Distribution paid		(4,250)	(6,500)
Net cash (outflow) from financing activities		**(4,250)**	**(6,500)**
Net (Decrease)/increase in cash and cash equivalents		19,137	(569)
Cash and cash equivalents at the beginning of the financial year		50,722	51,291
Cash and cash equivalents at end of year	8	**69,859**	**50,722**

The above cash flow statement should be read in conjunction with the accompanying notes.

Notes to the financial statements for the year ended 30 June 2019

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1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial report are set out below.

(a) Basis of accounting

The Australian Securities and Investment Commission (ASIC) released ASIC Corporations (Charitable Investment Fundraising) Instrument 2016/813 (the Instrument) with effect from 1 January 2017. The Instrument requires the Fund to prepare financial statements for the financial year that comply with all the recognition requirements and measurement requirements that apply to reporting entities.

The Catholic Development Fund Diocese of Maitland-Newcastle has transitioned from a special purpose financial report to Tier 2 Reporting Requirements Reduced Disclosures in preparing general purpose financial statements as defined by AASB1053 Application of Tiers of Australian Accounting Standards. The Fund is a not-for-profit entity for the purpose of preparing the financial statements.

The financial statements comply with Australian Accounting Standards – Reduced Disclosure Requirements as issued by the Australian Accounting Standards Board (AASB) and provisions of the Australian Charities and Not-for-profit Commission (ACNC) Act 2012.

Historical cost convention

The financial report is prepared in accordance with the historical cost convention, except for certain assets, which, as noted, are at valuation. Unless otherwise stated, the accounting policies adopted are consistent with those of the previous year. Comparative information is reclassified where appropriate to enhance comparability.

Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Fund's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

Going Concern

The Australian Prudential Regulation Authority (APRA) released Banking Exemption No. 1 of 2016 and the Australian Securities and Investment Commission (ASIC) released ASIC Corporations (Charitable Investment Fundraising) Instrument 2016/813, both with effect from 1 January 2017. Both gave the Fund until 31 December 2017 to transition to a 31-day notice period for all non-associate retail investments. This was completed by the due date.

The ASIC Instrument required the Fund to gain an Australian Financial Services Licence (AFSL) by 31 December 2017. This was achieved by a related company, CDFMN AFSL Limited, gaining an AFSL and establishing an intermediary authorisation with the Fund to enable the Fund to issue debentures, provide access to non-cash payment products and provide general financial product advice to retail, non-associated clients in accordance with the requirements of ASIC and APRA.

As a holder of an AFSL, the CDFMN AFSL Limited is required to meet the Financial Requirements of RG166 Licencing: Financial Requirements. These include a requirement to meet solvency and positive net assets levels. These have been met at balance date.

At the date of this report, the Fund continues to operate as a going concern and therefore will realise its assets and settle its liabilities and commitments in the normal course of business and at the amounts stated in the financial report. For this reason, the Diocesan Finance Council believe that the Fund prepare its financial report on a going concern basis.

(b) Interest income and expense

Interest income and expense are recognised in the statement of comprehensive income for all instruments measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Fund estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees paid or received between parties, transaction costs and premiums incurred or discounts received in relation to the contract that are an integral part of the effective interest rate.

Once a financial asset or group of similar financial assets has been written down due to an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring impairment loss.

(c) Fee and commission income and expense

Fees and commissions are generally recognised on an accrual basis when the service has been provided or incurred. Loan fees received in relation to the origination of loans is deferred and recognised as an adjustment to the effective interest rate on loans. The outstanding balance of the deferred origination income is recognised in the balance sheet as a decrease in the value of loan balance outstanding.

Expenses incurred directly in relation to the origination of loans, investments and other debt instruments are deferred and recognised as an adjustment to the effective interest rate on loans and debt instruments. The outstanding balance of the deferred origination expenses is recognised in the balance sheet as an increase in the balances outstanding.

(d) Financial assets

Financial assets are classified into the following categories following the adoption of AASB 9 Financial Instruments on 1 July 2018:

- Investments at fair value through profit or loss
- investments at amortised cost
- loans and receivables

Noted that as at 30 June 2018 there were also investments classified as held to maturity investments and available for sale investments.

(e) Investments at fair value through profit or loss

The following financial assets are classified at fair value through profit or loss (FVPL):

- debt investments that do not qualify for measurement at either amortised cost
- equity investments that are held for trading, and
- equity investments for which the entity has not elected to recognise fair value gains and losses through OCI, of which there are none.

(f) Investments at amortised cost

The financial assets are only classified at amortised cost only if both of the following criteria are met:

- the asset is held within a business model whose objective is to collect the contractual cash flows, and
- the contractual terms give rise to cash flows that are solely payments of principal and interest.

(g) Loans and receivables

Loans and receivables comprise loans to related parties of the Catholic Diocese of Maitland-Newcastle.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in the active market. They arise when the Fund provides money directly to a debtor with no intention of trading the receivables.

Loans are recognised when cash is advanced. Loans are initially recognised at fair value net of transaction costs. Loans and receivables are carried at amortised cost using the effective interest method. Interest calculated using the effective interest rate method is recognised in the statement of comprehensive income; refer to note 1(b) above.

(g) Held to maturity investments (applicable to 2018 comparative balances)

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Fund's management has the positive intention and ability to hold to maturity. Were the Fund to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available-for-sale.

Held to maturity assets are initially recognised at fair value net of transaction costs and subsequently measured at amortised cost using the effective interest method. Interest calculated using the effective interest rate method is recognised in the statement of comprehensive income; refer to note 1(b) above.

(h) Available-for-sale financial assets (applicable to 2018 comparative balances)

Available-for-sale financial assets, comprising principally marketable equity and debt securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. Available-for-sale financial assets are those intended to be held for an indefinite period of time, but which may be sold in response to needs for liquidity.

Available-for-sale investments are carried at fair value with changes in the fair value recognised through an available-for-sale reserve in equity until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity is recognised in the statement of comprehensive income.

(j) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(k) Impairment of financial assets

The Fund assesses at each balance date whether there is objective evidence that a financial asset or a group of financial asset is impaired, which includes observable data that comes to the attention of the Fund about loss events.

In the case of loans and receivables, the Fund first assesses whether objective evidence of impairment exists individually for loans that are not individually significant. If the Fund determines that no objective evidence of impairment exists for an individually assessed loan, whether significant or not, it includes the loan in a portfolio of loans with similar credit risk characteristics and collectively assesses them for impairment. Loans that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in the collective assessment of impairment.

If there is objective evidence that an impairment loss on loans has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the loan's original effective interest rate. The carrying amount of the loan is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

When a loan is uncollectible, it is written off against the related allowance for impairment loss. Such loans are written off after all the necessary procedures have been completed and the amount of the loan loss has been determined by management and approved by the Diocesan Finance Council. Subsequent recoveries of amounts previously written off shall be reversed directly or by adjusting the allowance for impairment loss. The reversal shall not result in a carrying amount of the loan that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in the statement of comprehensive income.

In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of a security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available for sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, is removed from equity and recognised in the statement of comprehensive income. Impairment losses recognised in the statement of comprehensive income on equity instruments classified as available for sale cannot be reversed. Impairment losses recognised in the statement of comprehensive income on debt instruments classified as available for sale can be reversed through the statement of comprehensive income.

(l) Impairment of non-financial assets

Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows, which are largely independent of the cash inflows from other assets or groups of assets (cash generating units). Non financial assets that suffered impairment are reviewed for possible reversal of the impairment at each balance date.

(m) Cash and cash equivalents

For cash flow statement presentation purposes, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash, interest accrued on bank accounts, deposits at call and highly liquid investments which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within other borrowed funds in liabilities on the balance sheet.

(n) Financial liabilities

Financial liabilities may be held at fair value through profit or loss or at amortised cost. When a financial liability is recognised, initially it should be measured at its fair value net of transaction costs, unless the financial instrument is designated as fair value through profit or loss.

(o) Liabilities due to members

These represent cash obligations accepted from related parties, other Catholic organisations and staff (associates) and retail investors of the Diocese of Maitland-Newcastle.

Liabilities due to members are initially recognised at fair value (being fair value of consideration received) and are subsequently measured at amortised cost using the effective interest method; refer to note 1(b) above.

(p) Employee benefits

(i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in the other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at balance date on Australian corporate bonds with terms to maturity, that match as closely as possible, the estimated future cash outflows.

(q) Goods and Services Tax (GST)

The Fund is treated as an input taxed entity for GST purposes. This means that in most circumstances, GST is not chargeable on the services provided and GST incurred by the Fund is not recoverable from the Australian Taxation Office. Accordingly, the amount of GST incurred that is not recoverable is recognised as part of the cost of acquisition of an asset or as part of an item of expense.

(r) Income Tax

The Catholic Development Fund is exempt from Income tax under section 50-5 of the Income Assessment Act.

2 Changes in accounting policies

Certain new accounting standards and interpretations have been published that are mandatory for the 30 June 2019 reporting period. A summary of the new standards is set out below.

Financial Instruments

The Company has applied AASB 9 Financial Instruments from 1 July 2018. AASB 9 addresses the classification and measurement of financial assets. See the impact of this within note 10 of the financial statements. The new accounting policies are set out in note 1 above.

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2019 reporting period. A summary of the new standards is set out below.

Revenue from Contracts with Customers (effective from periods commencing on or after 1 January 2019)

AASB 15 Revenue from Contracts with Customers addresses the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. Management is currently reviewing the impact of the new accounting standard on the Fund's revenue, however, this is not expected to be material.

Leases (effective from periods commencing on or after 1 January 2019)

AASB 16 Leases addresses the recognition, measurement, presentation and disclosure of leases. It is not expected to have a significant effect on the Fund's accounting as there are currently no leases held.

3 Critical accounting estimates and judgements in applying accounting policies

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Fund and that are believed to be reasonable under the circumstances.

The Fund makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstance.

i) Impairment losses on investments and loans

The Fund reviews its investments and loan portfolios to assess impairment at least on an annual basis. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Fund makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of investments and loans and/or with an individual investment and loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of counterparties or borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics, market based prices where available and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions are reviewed annually.

4 Financial Risk Management

The Fund's principal financial assets and liabilities comprise cash and cash equivalents, loans and advances to clients, held to maturity investments, available for sale investments, liabilities due to clients and payables.

The main risks arising from the Fund's financial assets and liabilities are Market Risk - Interest Rates, Credit Risk and Liquidity Risk. The Fund maintains policies and procedures for managing these risks.

Market Risk - Interest Rates

Exposure

Interest rate risk is the risk of loss to the Fund arising from adverse fluctuations in interest rates.

The Fund is exposed to interest rate risk to the extent that it borrows or invests for a fixed term at fixed rates. Exposure to interest rate risk is managed through the application and analysis of financial assets and liability profiles embedded in the Fund's Risk Management Framework.

Financial reporting to management and the Advisory board of all exposures occurs regularly. Interest rate sensitivity analysis is completed quarterly.

Sensitivity

The Interest rate sensitivity analysis based on exposures at balance date sees a negative impact on Net Interest Margin of $242,809 for a 100 basis point shift down in interest rates sees and a positive impact on Net Interest Margin of $242,809 for a

100 basis point shift up in interest rates.

Credit risk

Exposure

Credit risk arises from cash and cash equivalents, trade receivables, investments held at amortised cost and loans and advances to clients.

The Fund's Investment Policy sets counterparty exposure limits for cash and cash equivalents, held-to-maturity investments and available for sale investments based on independent credit ratings. Investments with counterparties below A Category (Long Term) and below A-1 (Short Term) are restricted to Authorised Deposit Taking Institutions (ADIs).

Loans and advances to clients are restricted to related parties within the Diocese funding schools, childcare centres, affordable housing, disability homes and other property. Loan approval is subject to assessment criteria and approval delegations.

Credit risk exposures are monitored on an ongoing basis and regularly reported to management and the Advisory Board.

Credit quality

The credit quality of financial investments at balance date is:

Credit Rating (S&Ps)	"Policy Max (%)"	"Market Value (%)"
AAA	100	-
AA	100	40
A	60	44
BBB	20	13
Unrated	10	3
TOTAL		**100**

All loans and advances are with Diocesan related parties who do not have an independent credit rating. No loans were considered impaired at balance date.

Liquidity risk

Liquidity risk is the risk that the Fund will have insufficient liquidity to meet commitments associated with financial assets and liabilities.

The Fund manages liquidity risk through its Liquidity Risk Policy by:

- Maintaining a minimum liquidity pool based on High Quality Liquid Assets (HQLA) which are be free of encumbrances and be readily convertible into cash within two business days
- Monitoring a minimum liquidity ratio, which is a minimum liquidity holdings comparison with adjusted liabilities.
- Investment counterparty limits
- Regular reporting of liquidity and associated controls

The Fund's liquidity ratio at balance date was 24% (2018: 21%), above its policy minimum of 11% and its trigger minimum of 15%.

The Fund's contractual cash flows (undiscounted) for its financial assets and liabilities at balance date are:

2019	On demand $000	0-6 Months $000	6-12 months $000	1-2 years $000	2-3 years $000	3-4 years $000	4-5 years $000	+5 years $000	TOTAL $000
ASSETS									
Cash and cash equivalents	40,518	29,340	-	-	-	-	-	-	69,859
Financial investments	-	92,699	1,253	6,234	4,955	-	-	-	105,142
Loans and advances to clients	-	6,877	6,873	13,539	13,202	12,455	11,863	61,489	126,298
Receivables	-	13	-	-	-	-	-	-	13
	40,518	128,930	8,126	19,774	18,157	12,455	11,863	61,489	301,311
LIABILITIES									
Deposits due to clients - notice accounts	-	5,336	-	-	-	-	-	-	5,336
Deposits due to clients - term investments	-	66,183	18,476	-	-	-	-	-	84,660
Deposits due to clients - other	180,861	-	-	-	-	-	-	-	180,861
Payables	-	110	43	-	-	-	-	-	153
	180,861	71,629	18,520	-	-	-	-	-	271,011
NET LIQUIDITY	**(140,343)**	**57,300**	**(10,394)**	**19,774**	**18,157**	**12,455**	**11,863**	**61,489**	**30,301**

2018	On demand $000	0-6 Months $000	6-12 months $000	1-2 years $000	2-3 years $000	3-4 years $000	4-5 years $000	+5 years $000	TOTAL $000
ASSETS									
Cash and cash equivalents	32,443	18,279	-	-	-	-	-	-	50,722
Financial investments	-	79,338	15,948	31,351	11,413	-	-	-	138,050
Loans and advances to clients	-	8,999	5,426	10,814	10,547	10,359	10,072	47,710	103,927
Receivables	-	36	-	-	-	-	-	-	36
	32,443	106,652	21,374	42,165	21,960	10,359	10,072	47,710	292,735
LIABILITIES									
Deposits due to clients - notice accounts	-	3,986	-	-	-	-	-	-	3,986
Deposits due to clients - term investments	-	73,756	16,128	-	-	-	-	-	89,884
Deposits due to clients - other	166,928	-	-	-	-	-	-	-	166,928
Payables	-	234	48	-	-	-	-	-	282
	166,928	77,976	16,176	-	-	-	-	-	261,080
NET LIQUIDITY	**(134,485)**	**28,676**	**5,198**	**42,165**	**21,960**	**10,359**	**10,072**	**47,710**	**31,654**

Liabilities due to members – other - constitute cash deposited by related parties and other Catholic associate non-retail investors. While contractually on demand, expected cash flows are considered minor. During the current period, cash outflows of liabilities due to members – other are $10.0m and future cash flows are expected to be similar with sufficient liquidity to meet requirements.

5 Interest and investment Income

	2019 $000	2018 $000
Interest on cash and cash equivalents	1,416	615
Interest on financial investments	4,229	5,605
Interest on loans and advances	5,696	4,774
Unrealised fair value gains and losses	145	
Total interest income	**11,486**	**10,994**

6 Interest Expense

	2019 $000	2018 $000
Interest on deposits	4,802	4,831
Investment premiums	101	168
Total interest expense	**4,903**	**4,999**

7 Other income & expenses

	2019 $000	2018 $000
Fee and commission expense	53	59
Employee benefit expense	426	643
Dormant funds	100	-
Other operating expenses	711	364
Total non-interest expense	**1,290**	**1,066**

8 Cash and cash equivalents

	2019 $000	2018 $000
Cash at bank and on hand	8,280	12,926
Deposits at call	61,569	37,780
Accrued interest	10	16
	69,859	**50,722**

9 Other Assets

	2019 $000	2018 $000
GST receivable	-	3
Prepayments	13	26
Other Receivables	-	7
	13	**36**

10 Financial Investments

	2019 $000	2018 $000
Held to maturity investments		
Term deposits	62,200	68,400
Floating rate notes	30,542	55,640
Residential mortgage backed securities	5,554	8,245
Accrued interest	707	990
	99,003	**133,275**
Investment held at fair value through Profit and Loss		
Convertible preference shares	4,983	-
	4,983	**-**
Available for sale investments (2018 classification)		
Floating rate ntoes	-	1,015
	-	**1,015**
Total Financial Investments	**103,986**	**134,290**

Adoption of AASB 9 Financial Instruments

On 1 July 2018 (the date of initial application of AASB 9), management has assessed which business models apply to the financial assets held by the group and has classified its financial instruments into the appropriate AASB 9 categories. The main effects resulting from this reclassification are as follows:

	FVPL	FVOCI (Available for Sale 2018)	Held to Maturity	Amortised Cost	TOTAL
Closing Balance 30 June 2018	-	1,015	133,275	-	134,290
Reclassify Convertible Notes from available-for-sale to FVPL	1,015	(1,015)	-	-	
Reclassify Floating Rate Notes from HTM to amortised cost	3,960		(3,960)		
Reclassify Term deposits, floating rate notes and residential mortgage backed securities from held-to-maturity to amortised cost*			(129,315)	129,315	
Opening balance 1 July 2018	4,975	-	-	129,315	134,290

**This has no impact on the measurement of these assets.*

The impact of these changes on the group's equity is as follows:

	Available for Sale Reserve	Retained Earnings
Closing Balance 30 June 2018	15	25,102
Reclassify investments from available-for-sale to FVPL and Amortised Cost	(15)	15
Opening balance 1 July 2018	-	25,117

(a) Reclassification from available-for-sale to FVPL

Certain investments in convertible preference shares were reclassified from available-for-sale to financial assets at FVPL. They do not meet the AASB 9 criteria for classification at amortised cost, because their cash flows do not represent solely payments of principal and interest. Related fair value gains of $15,000 were transferred from the available-for-sale financial assets reserve to retained earnings on 1 July 2018.

(b) Reclassification from amortised cost to FVPL

Certain investments in convertible preference shares were reclassified from held to maturity to amortised cost. They do not meet the AASB 9 criteria for classification at amortised cost, because their cash flows do not represent solely payments of principal and interest. The fair value of $3,960,000 as at 1 July 2018 was equivalent to the amortised cost for these assets. There was no impact on retained earnings at 1 July 2018.

11 Loans and advances to clients

	2019 $000	2018 $000
Loans – Diocese	53,987	50,459
Loans – Parishes	867	1,093
Loans – Diocesan School System	65,290	45,352
Loans – Held by Diocesan School System for Parishes	6,154	7,023
Total	**126,298**	**103,927**

(a) Allowance for impairment losses

There was no allowance for impairment losses on loans at 30 June 2019 (2018: Nil).

(b) Allowance for impairment losses

There were no assets acquired through the enforcement of security held by the Fund at the end of the financial year (2018: Nil).

12 Liabilities due to members

	2019 $000	2018 $000
Client deposits – Diocese	4,418	6,605
Client deposits - Parishes	24,328	22,845
Client deposits – Diocesan School System	176,576	161,382
Client deposits – Catholic Care	2,451	1,907
Client deposits - Other Associates	20,451	19,068
Client deposits – Other (including accrued interest)	43,234	49,697
	271,458	**261,504**

13 Payables

	2019 $000	2018 $000
Trade payables	5	3
Employee benefits - Annual leave	43	95
Dormant funds	105	-
Accrued expenses	335	184
Distribution payable	2,250	2,000
	2,739	**2,282**

14 Provisions

	2019 $000	2018 $000
Employee benefits - long service leave	49	72
	49	**72**

15 Reserves and Retained profits

	2019 $000	2018 $000
(a) Available for sale investment reserve		
Balance 1 July	15	172
Adjustment on adoption of AASB 9 (see note 10)	(15)	(150)
Gain/(loss) on fair value of financial investments	-	(7)
Balance 30 June	**-**	**15**
(b) Retained profits		
Balance 1 July	25,102	26,445
Profit for the period	5,293	5,157
Adjustment on adoption of AASB 9 (see note 10)	15	
Distributions	(4,500)	(6,500)
Balance 30 June	**25,910**	**25,102**

16 Contingencies

Contingent liabilities

The Catholic Development Fund has no material contingent liabilities as at balance date.

17 Commitments

(a) Capital commitments

The Fund did not have any outstanding capital commitments as at balance date.

(b) Loan commitments

The Fund had outstanding loan commitments of $38,488,894 (2018: $3,719,122) as at balance date.

18 Reconciliation of profit after income tax to net cash inflow from operating activities

	2019 $000	2018 $000
Surplus for the year	5,293	5,157
Non-Cash Flows in Profit from Ordinary Activities		
Revaluation of available for sale assets	(145)	-
Change in operating assets and liabilities		
(Increase)/decrease in other receivables	10	(8)
(Increase)/decrease in prepayments	13	(25)
Increase in payables	508	15
(Decrease)/increase in provisions	(75)	(19)
Decrease in investments	30,147	32,615
(Increase) in loans to members	(22,321)	(17,995)
(Decrease)/increase in deposits due to clients	9,956	(13,809)
Net cash inflow from operating activities	**23,387**	**5,931**

19 Related Party Disclosures

a) Key management personnel compensation

	2019 $000	2018 $000
Short-term employee benefits	230	457
Termination benefits	-	29
	230	**486**

We note certain key management personnel are paid by related entities. An appropriate allocation of their remuneration is reflected within the expenses of this entity.

b) Transactions with other related parties

The following transactions occurred with related parties:

	2019 $000	2018 $000
Interest Income		
Interest on loans - associates	5,696	4,774
Interest Expense		
Interest on deposits - associates	3,510	3,592
Other Expenses		
Employee-related expenses	0	643
Other operating expenses	186	103
Management fees (AFSL)	90	75
Other Transactions		
Diocesan distribution	4,500	6,500

c) Outstanding balances arising from related party transactions

The following balances are outstanding at the end of the period in relation to transactions with related parties:

	2019 $000	2018 $000
Loans with Related Parties		
Loans – Diocese	53,987	50,459
Loans – Parishes	867	1,093
Loans – Diocesan School System	65,290	45,352
Loans – Held by Diocesan School System for Parishes	6,154	7,023
TOTAL	**126,298**	**103,927**
Liabilities due to related parties		
Liabilities – Diocese	4,418	6,605
Liabilities - Parishes	24,328	22,845
Liabilities – Diocesan School System	176,576	161,382
Liabilities – Catholic Care	2,451	1,907
Liabilities - Other Associates	20,451	19,068
TOTAL	**228,224**	**211,807**
Payables		
Diocesan distribution payable	2,250	2,000

Operators' declaration

In the opinion of the Operators' of Catholic Development Fund Diocese of Maitland-Newcastle:

(a) Catholic Development Fund Diocese of Maitland-Newcastle is not a reporting entity.

(b) The financial statements are drawn up in accordance with the basis of accounting described in Note 1, to present fairly the results of Catholic Development Fund Diocese of Maitland-Newcastle for the financial year ended 30 June 2019 and the state of affairs as at that date.

(c) Catholic Development Fund Diocese of Maitland-Newcastle is able to pay all of its debts, as and when they become due and payable.

This declaration is made in accordance with a resolution of the Operators. The Catholic Development Fund Diocese of Maitland-Newcastle has the power to amend and reissue the Financial Report if required.

Dated at Newcastle this 21st day of October 2019.

Sean Scanlon
Chief Executive Officer
Catholic Diocese of Maitland-Newcastle

Independent auditor's report

To the Operators' of Catholic Development Fund Diocese of Maitland-Newcastle

Our opinion

In our opinion:

The accompanying financial report of Catholic Development Fund Diocese of Maitland-Newcastle (the Fund) is in accordance with Division 60 of the *Australian Charities and Not-for-profits Commission (ACNC) Act 2012*, including:

(a) giving a true and fair view of the Fund's financial position as at 30 June 2019 and of its financial performance for the year then ended

(b) complying with Australian Accounting Standards - Reduced Disclosure Requirements and Division 60 of the *Australian Charities and Not-for-profits Commission Regulation 2013*.

What we have audited

The financial report comprises:

- the balance sheet as at 30 June 2019
- the statement of comprehensive income for the year then ended
- the statement of changes in equity for the year then ended
- the cash flow statement for the year then ended
- the notes to the financial statements, which include a summary of significant accounting policies
- the Operators' Declaration.

Basis for opinion

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

Independence

We are independent of the Fund 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 also fulfilled our other ethical responsibilities in accordance with the Code.

Other information

The Operators are responsible for the other information. The other information comprises the information included in the Annual Financial Report for the year ended 30 June 2019, but does not include the financial report and our auditor's report thereon.

PricewaterhouseCoopers, ABN 52 780 433 757
Level 3, 45 Watt Street, PO Box 798, NEWCASTLE NSW 2300
T: +61 2 4925 1100, F: +61 2 4925 1199, www.pwc.com.au

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, 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.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Operators for the financial report

The Operators of the Fund are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards - Reduced Disclosure Requirements and the *Australian Charities and Not-for-profits Commission (ACNC) Act 2012* and for such internal control as the Operators determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Operators are responsible for assessing the ability of the Fund to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Operators either intend to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are 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 the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and 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.

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PricewaterhouseCoopers

C. Mara

Caroline Mara
Partner

Newcastle
21 October 2019

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SERVING THE COMMUNITY OF THE

CatholicDiocese
OF MAITLAND-NEWCASTLE

Catholic Community Fund

PO BOX 765 Newcastle NSW 2300 | 841 Hunter Street Newcastle West 2302

P 02 4979 1160 **F** 02 4979 1169 **E** ccf@mn.catholic.org.au ABN 59 728 447 508

www.myccf.org.au