Annual Report

FOR THE YEAR ENDED 30 JUNE 2021

Catholic Development Fund
DIOCESE OF MAITLAND-NEWCASTLE

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Financial Report **Page**

Operator’s Report
For the year ended 30 June 2021

The Operators of Catholic Development Fund Diocese of Maitland-Newcastle (the Fund) present their report on the entity for the year ended 30 June 2021. Throughout the report, the entity is referred to as the Fund.

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 (deceased 31 May 2021)

T Chirackal

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

Advisory board

The following persons were members of the Fund’s Advisory Board during the financial year:

A Doohan (appointed 29 October 2020)

S Scanlon

A Haynes

J O’Connor

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
- provide the Diocese of Maitland-Newcastle with a financial return that will be used to further its pastoral mission.

Registered office

841 Hunter Street, Newcastle West. NSW. 2302.

Operator's Report
For the year ended 30 June 2021 (continued…)

Solicitors

Thynne Macartney

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

Investment advisors

Laminar Capital

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

FIIG Securities

Level 20, 126 Phillip Street, Sydney. NSW. 2000.

Bankers

Commonwealth Bank of Australia

Level 6, 24 Honeysuckle Drive, Newcastle. NSW. 2300.

Auditors

PwC

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

Capital management and distributions

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

	2021 $000	2020 $000
Final distribution for year ended 30 June 2020 (2020: 30 June 2019)	2,564	2,250
Interim distribution for year ended 30 June 2021 (2020: 30 June 2020)	2,500	2,437
Total	**5,064**	**4,687**

Management will recommend to the CDF Advisory Board at the 21 October 2021 CDF Advisory Board meeting that the Board approve and recommend to the Bishop the payment of the final distribution of $2,500,000 for payment on 22 October 2021 out of retained earnings at 30 June 2021.

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.

Operator's Report
For the year ended 30 June 2021 (continued…)

Capital management and distributions (continued)

ii. The Fund's Capital Adequacy and Distributions Policy

On a regular 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 7.96% (2020: 8.01%) based on distributions paid and 7.66% (2020: 7.95%) based on distributions paid and provided.

Review of operations

The Fund had a continued solid performance for the financial year with an Operating profit of $6.78m (2020: $4.15m).

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 through providing cost-effective financial arrangements for capital works and other essential pastoral programs.

During the financial year the Fund supported the work of the Catholic Schools Office and Diocesan School Building Fund through the funding of various school development projects which included the construction of a new secondary school Catherine McAuley Catholic College Medowie and expansion of facilities at St Bede's Catholic College Chisholm, St Mary's Catholic College Gateshead, St Therese's Primary School New Lambton, St Patrick's Primary School Lochinvar, Rosary Park Catholic School Branxton, etc.

The Fund supported the Diocese's continued expansion into early education through its agency, St Nicholas Early Education, providing funding for the development of early education facilities at Newcastle West, Medowie, Gillieston Heights, Maitland and Muswellbrook.

Projects such as the opening of new counselling facilities in Hamilton for the Rosewood Centre and an acquisition by the Diocese for the development of a social housing project were also funded during the year.

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

Significant changes in the state of affairs

On 12 March 2020, the World Health Organisation declared an outbreak of Coronavirus (COVID-19) a global pandemic, causing a national lockdown of economic activities in various countries around the world including Australia. The effects of the ongoing COVID-19 pandemic on society have been profound and the effect on the global economy has been unprecedented in both scale and speed. Notwithstanding health and economic policy responses from governments globally, there remains a significant degree of uncertainty about the further spread of the virus and its continued economic impact. During the financial year the global COVID-19 pandemic had only minimal impact on the operations of the Fund with the Fund continuing operations during this time with minimal disruption. The economic fall-out from the pandemic and in particular its impact on the Australian interest rate market has impacted the value of the Fund's financial investments in floating rate note and residential mortgage-backed securities with provisions included in the financial report for the impairment of these assets.

Operator's Report
For the year ended 30 June 2021 (continued…)

Events since the end of the financial year

No matters or circumstances have arisen since 30 June 2021 that have significantly affected the Funds operations, results or state of affairs.

Insurance of Officers & indemnities

During the financial year, the Fund incurred insurance expenditure of $10,840 (2020: $4,763) 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 of 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 wilful 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.

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*.

Auditor's 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.

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

As lead auditor for the audit of Catholic Development Fund Diocese Maitland-Newcastle for the year ended 30 June 2021, 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.

Vincenzo Dede

Vincenzo Dede
Partner
PricewaterhouseCoopers

Newcastle
21 September 2021

Statement of Profit or Loss and Other Comprehensive Income
For the year ended 30 June 2021

	Note	2021 $'000	2020 $'000
Interest income	3	8,529	9,123
Interest expense	3	(1,452)	(2,694)
Net interest income		**7,077**	**6,430**
Fee and commission expense		(90)	(96)
Net fee and commission expense		**(90)**	**(96)**
Other operating income	5	1,013	10
Employee-related expenses		(339)	(356)
Dormant funds		0	10
Other operating expenses	4	(883)	(1,842)
Net other income and expenses		**(209)**	**(2,178)**
Profit for the year		**6,778**	**4,154**
Other comprehensive for the year		**-**	**-**
Total comprehensive income for the year		**6,778**	**4,154**
Distributions for the year - current year profits		(5,000)	(5,000)
Total comprehensive income/(loss) for the year after distributions		**1,778**	**(846)**

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

Statement of Financial Position
As at 30 June 2021

	Note	2021 $'000	2020 $'000
ASSETS			
Current Assets			
Cash and cash equivalents	**6**	48,777	43,820
Other assets	**7**	50	27
Financial investments	**8**	82,974	104,478
Loans and advances to clients	**9**	221,815	159,155
Fixed assets	**10**	9	-
Total Assets		**353,625**	**307,480**
LIABILITIES			
Current Liabilities			
Deposits	**11**	312,246	279,546
Borrowings	**12**	11,673	-
Payables	**13**	2,801	2,815
Provisions	**14**	63	55
Total Liabilities		**326,783**	**282,416**
Net Assets		**26,842**	**25,064**
Retained profits	**15**	26,842	25,064
Equity		**26,842**	**25,064**

The above statement of financial position should be read in conjunction with the accompanying notes.

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

	Note	Retained Earnings $'000	Total $'000
Balance at 30 June 2019		**25,910**	**25,910**
Total comprehensive income/(loss) for the year		4,154	4,154
Distributions for the year - prior year profits		-	-
Distributions for the year - current year profits		(5,000)	(5,000)
Balance at 30 June 2020		**25,064**	**25,064**
Total comprehensive income/(loss) for the year		6,778	6,778
Distributions for the year - prior year profits		-	-
Distributions for the year - current year profits		(5,000)	(5,000)
Balance at 30 June 2021		**26,842**	**26,842**

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

Statement of Cash Flow
For the year ended 30 June 2021

	Note	2021 $'000	2020 $'000
Cash flows from operating activities			
Interest received		8,529	9,325
Other revenue received		210	10
Interest paid		(1,257)	(2,720)
Fees and commissions paid		(90)	(90)
Payments to employees and suppliers (inclusive of goods and services tax)		(1,184)	(1,480)
Net (increase)/decrease in investments		22,111	(1,628)
Net (increase)/decrease in loans and advances to clients		(62,663)	(32,857)
Net increase/(decrease) in deposits due to clients		32,700	8,088
Net cash inflow/(outflow) from operating activities	**18**	**(1,644)**	**(21,352)**
Cash flows from investing activities			
Payments for property, plant and equipment		(9)	-
Net cash inflow/(outflow) from investing activities		**(9)**	**-**
Cash flows from financing activities			
Proceeds from borrowings		12,000	-
Repayment of borrowings		(327)	-
Distribution paid		(5,064)	(4,687)
Net cash inflow/(outflow) from financing activities		**6,610**	**(4,687)**
Net (decrease)/increase in cash and cash equivalents		4,957	(26,039)
Cash and cash equivalents at the beginning of the financial year		43,820	69,859
Cash and cash equivalents at end of year	**6**	**48,777**	**43,820**

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

Notes to the Financial Statements
For the year ended 30 June 2021

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Notes to the Financial Statements
For the year ended 30 June 2021 (continued)…

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 under which the Fund operates requires preparation of financial statements for the financial year that comply with all the recognition requirements and measurement requirements that apply to reporting entities. This instrument also requires the Fund to provide a 31-day notice period for all non-associate retail investments and for the Fund to hold an Australian Financial Services Licence (AFSL). This is held by a related company CDFMN AFSL Limited, 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.

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards Tier 2 - Reduced Disclosure Requirements and Interpretations as issued by the Australian Accounting Standards Board (AASB) and the *Australian Charities and Not-for-profits Commission Act 2012*. The entity is a not-for-profit entity for financial reporting purposes under Australian Accounting Standards.

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 1(c).

Going concern

As a holder of an AFSL, the CDFMN AFSL Limited is required to meet the Financial Requirements of RG166 Licensing: 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.

On 12 March 2020, the World Health Organisation declared an outbreak of Coronavirus (COVID-19) a global pandemic, causing a national lockdown of economic activities in various countries around the world including Australia. The effects of the ongoing COVID-19 pandemic on society have been profound and the effect on the global economy has been unprecedented in both scale and speed. Notwithstanding health and economic policy responses from governments globally, there remains a significant degree of uncertainty about the further spread of the virus and its continued economic impact. During the financial year the global COVID-19 pandemic had only minimal impact on the operations of the Fund with the Fund continuing operations during this time with minimal disruption. The economic fall-out from the pandemic and in particular its impact on the Australian interest rate market has impacted the value of the Fund's financial investments in floating rate note and residential mortgage-backed securities with provisions included in the financial report for the impairment of these assets.

Notes to the Financial Statements
For the year ended 30 June 2021 (continued)…

1. Summary of significant accounting policies (continued)

Income tax

The Catholic Development Fund is exempt from Income tax under section 50-5 of the *Income Tax Assessment Act 1997*.

New, revised and amended standards adopted

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2021 reporting period. A summary of the new standards is set out below:

AASB 1060 General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Entities (effective financial years commencing on or after 1 July 2021)

AASB 1060 is a new stand-alone disclosure standard to replace the current reduced disclosure requirements (RDR) framework and provides for an increase in disclosures compared to Special Purpose Financial Statements, particularly related parties, financial instruments and tax.

(b) Changes in accounting policies

There has been no changes in accounting policies.

(c) 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 including impairment on investments and loans, 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. Assumptions and estimates that are significant to the financial statements are disclosed in the following notes.

Notes to the Financial Statements
For the year ended 30 June 2021 (continued)…

2. Financial risk management

The Fund's principal financial assets and liabilities comprise cash and cash equivalents, loans and advances to clients, amortised cost investments, investments at fair value through profit or loss, 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 31 July 2021 sees the contractual Net Interest Income at Risk to a 1% (100 basis points) fall in interest rates is -$299,464. The market value interest rate sensitivity as measured by a 1% (100 basis points) parallel downward shift in the yield curve is -$263,591 meaning that if rates fall by 1% the notional market value of the balance sheet decreases by this amount.

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 (ADI's).

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.

Notes to the Financial Statements
For the year ended 30 June 2021 (continued)…

2. Financial risk management (continued)

Credit quality

The credit quality of financial investments at balance date is:

Credit Rating (S&Ps)	Policy Max (%)	Market Value ($'000)	Market Value (%)
AAA	100	1,005	1
AA	100	61,158	46
A	60	62,567	47
BBB	20	-	-
Unrated	10	7,325	6
TOTAL		132,055	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 free of encumbrances and can 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 15% (2020: 20%), above its policy minimum of 11% and its trigger minimum of 13%.

(i) Financing arrangements

The Trustees entered into a Syndicated Loan Facility Agreement with The Corporation of The Trustees of The Roman Catholic Archdiocese of Brisbane on 23 April 2020. The Development Funds party to the syndication agree to provide the $120m loan facility to The Trustees to fund the works program for early education centres and schools.

Notes to the Financial Statements
For the year ended 30 June 2021 (continued)…

2. Financial risk management (continued)

(ii) Maturities of financial liabilities

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

2021	**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	43,841	4,936	-	-	-	-	-	-	48,777
Financial investments	-	58,389	6,629	5,685	12,811	10,963	-	-	94,477
Loans and advances to clients	-	9,886	9,873	19,413	19,228	19,004	17,962	126,449	221,815
Receivables	-	50	-	-	-	-	-	-	50
	43,841	73,261	16,502	25,098	32,039	29,967	17,962	126,449	365,119
LIABILITIES									
Deposits due to clients - notice accounts	-	3,384	-	-	-	-	-	-	3,384
Deposits due to clients - term investments	-	65,306	17,683	-	-	-	-	-	82,990
Deposits due to clients - other	225,679	-	-	-	-	-	-	-	225,679
Borrowings	-	342	342	683	683	683	683	8,257	11,673
Payables	-	0	75	-	-	-	-	-	75
	225,679	69,033	18,100	683	683	683	683	8,257	323,801
NET LIQUIDITY	**(181,838)**	**4,228**	**(1,597)**	**24,415**	**31,355**	**29,283**	**17,279**	**118,192**	**41,318**

2020	**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	34,317	9,504	-	-	-	-	-	-	43,821
Financial investments	-	60,245	3,399	7,268	8,896	6,492	11,816	2,815	100,932
Loans and advances to clients	-	7,385	7,278	14,438	14,256	14,072	13,172	88,556	159,155
Receivables	-	28	-	-	-	-	-	-	28
	34,317	77,162	10,676	21,706	23,152	20,564	24,988	91,371	303,936
LIABILITIES									
Deposits due to clients - notice accounts	-	2,693	-	-	-	-	-	-	2,693
Deposits due to clients - term investments	-	68,344	15,714	-	-	-	-	-	84,058
Deposits due to clients - other	192,394	-	-	-	-	-	-	-	192,394
Borrowings	-	-	-	-	-	-	-	-	-
Payables	-	-	59	-	-	-	-	-	59
	192,394	71,037	15,773	-	-	-	-	-	279,204
NET LIQUIDITY	**(158,076)**	**6,125**	**(5,097)**	**21,706**	**23,152**	**20,564**	**24,988**	**91,371**	**24,731**

Notes to the Financial Statements
For the year ended 30 June 2021 (continued)…

2. Financial risk management (continued)

Liabilities due to clients – other constitutes 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 clients – other are $10.0m and future cash flows are expected to be similar with sufficient liquidity to meet requirements.

3. Interest and investment income/expense

3. Interest and investment income/expense	Note	2021 $'000	2020 $'000
Interest on cash and cash equivalents		215	570
Interest on financial investments		1,507	2,994
Interest on loans and advances		6,807	5,559
Total interest income		**8,529**	**9,123**
Interest on deposits		1,138	2,521
Interest on borrowings		119	-
Investment premiums		195	173
Total interest expense		**1,452**	**2,694**

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.

Notes to the Financial Statements
For the year ended 30 June 2021 (continued)…

4. Other operating expense	Note	2021 $'000	2020 $'000
Shared service costs		(917)	(824)
Fair value loss on investments		-	(962)
Other operating expense		(395)	(56)
Total other operating expense		**(1,312)**	**(1,842)**

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.

Other expenses

Other expenses are accounted for on an accrual basis recognising the financial effects of transactions or other events in the financial years in which they occur

5. Other operating income	Note	2021 $'000	2020 $'000
Fair value gain on sale of investments		197	-
Sundry income		13	10
Fair value gain on investments		803	-
Total other operating income		**1,013**	**10**

6. Cash and cash equivalents	Note	2021 $'000	2020 $'000
Cash at bank and on hand		532	1,397
Deposits at call		48,244	42,422
Accrued interest		1	1
Total cash and cash equivalents		**48,777**	**43,820**

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, bank overdrafts and highly liquid investments which are subject to an insignificant risk of changes in value. Bank overdrafts are shown within other borrowed funds in liabilities on the balance sheet.

Notes to the Financial Statements
For the year ended 30 June 2021 (continued)…

7. Other assets	Note	2021 $'000	2020 $'000
GST receivable		3	16
Prepayments		16	8
Other receivables		31	3
Total other assets		**50**	**27**

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.

8. Financial investments	Note	2021 $'000	2020 $'000
Amortised cost			
Term deposits		57,900	56,100
Floating rate notes		-	16,772
Residential mortgage-backed securities		24,927	27,244
Accrued interest		147	485
		82,974	**100,601**
Investment held at fair value through Profit and Loss			
Convertible preference shares		-	3,877
		-	**3,877**
Total financial investments		**82,974**	**104,478**

Financial assets

Financial assets are classified into the following:
- investments at fair value through profit or loss
- investments at amortised cost

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 or 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.

Notes to the Financial Statements
For the year ended 30 June 2021 (continued)…

8. Financial investments (continued)

Investments at amortised cost

The financial assets are only classified at amortised cost 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.

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 3 above.

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.

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 assets 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.

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The entity uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the entity's past history and existing market conditions as well as forward-looking estimates at the end of each reporting period.

Notes to the Financial Statements
For the year ended 30 June 2021 (continued)…

8. Financial investments (continued)

Impairment losses on investments

The Fund reviews its investments 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 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.

9. Loans and advances	Note	2021 $'000	2020 $'000
Loans – Diocese		92,596	80,735
Loans – Parishes		292	539
Loans – Diocesan School System		124,498	72,565
Loans – Held by Diocesan School System for Parishes		4,429	5,316
Total loans and advances		**221,815**	**159,155**

Allowance for impairment losses

There was no allowance for expected credit losses on loans at 30 June 2021 (2020: Nil). Management has recognised a nil provision for expected credit losses as it considers there to be a "low credit risk" for these types of loans given they are loans to related entities, historically have a low risk of default and have a history of meeting contractual obligations as they fall due.

There were no assets acquired through the enforcement of security held by the Fund at the end of the financial year (2020: Nil).

Impairment losses on loans

The Fund also applies the AASB 9 simplified approach to measuring expected credit losses on loans which uses a lifetime expected loss allowance for all loans and advances. To measure the expected credit losses, loans and advances are grouped based on shared credit risk characteristics and the expected loss rates. The expected loss rates are based on the payment profiles over a period of 36 months before 30 June 2020 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the loans and advances. The methodology and assumptions are reviewed annually.

Notes to the Financial Statements
For the year ended 30 June 2021 (continued)…

10. Fixed assets	Note	2021 $	2020 $
At 30 June 2020			
Cost		120,613	120,613
Accumulated depreciation		(120,613)	(120,613)
Net book amount		-	-
Movement			
Opening net book amount		-	-
Additions		9	-
Depreciation charge		-	-
Closing net book amount		9	-
At 30 June 2021			
Cost		120,621	120,613
Accumulated depreciation		(120,613)	(120,613)
Net book amount		**9**	**-**

11. Deposits	Note	2021 $'000	2020 $'000
Client deposits – Diocese		5,630	5,692
Client deposits – Parishes		22,860	24,218
Client deposits – Diocesan School System		218,995	189,252
Client deposits – CatholicCare		4,862	2,278
Client deposits – Other Associates		20,716	17,207
Client deposits – Other (including accrued interest)		39,183	40,899
Total deposits		**312,246**	**279,546**

Liabilities due to clients

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 clients 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 3 above.

Notes to the Financial Statements
For the year ended 30 June 2021 (continued)…

12. Borrowings	Note	2021 $'000	2020 $'000
Syndicate Loan Facility		11,673	-
		11,673	**-**

Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred and subsequently measured at amortised cost.

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.

The Trustees on 23 April 2020 entered into a syndicate loan facility agreement with The Corporation of the Trustees of The Roman Catholic Archdiocese of Brisbane, the purpose of the loan facility is to provide funding for the works program for education centres and schools being undertaken by the Diocese of Maitland-Newcastle and its agencies. The Fund as an agency of the Trustees facilitates the management of the agreement. The limit on the facility is $120m. It has a term of 5 years which commenced on 1 January 2020 and expires on 30 December 2024. During the period 3 months prior to 31 December 2023 negotiations between the parties to extend the term beyond the expiry date will be undertaken. Quarterly payments of interest are made on the facility. The interest rate is calculated with reference to the Australia Bank Bill Swap Reference Rate for 90 days on the first day of each quarter being the first day of January, April, July and October plus a margin of 2.50% per annum (June 2021 quarter rate 2.586%). Monthly repayments of principal are made based on the related loan repayments received by the Fund from the Diocese and the Diocesan School Building Fund. The amortised cost value approximates the fair value of the loan.

13. Payables	Note	2021 $'000	2020 $'000
Trade payables		-	-
Employee benefits - Annual leave		70	54
Dormant funds		5	5
Accrued expenses		226	192
Distribution payable		2,500	2,564
Total payables		**2,801**	**2,815**

Employee benefits

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.

Notes to the Financial Statements
For the year ended 30 June 2021 (continued)…

14. Provisions	**Note**	**2021** $'000	**2020** $'000
Employee benefits - long service leave		63	55
		63	**55**

Employee benefits – long service leave

Long service leave

Employee benefits not expected to be wholly settled within twelve months have been measured at the present value of the estimated future cash outflows to be made in respect of those benefits. In determining the liability, consideration is given to employee wage increases and the probability that the employee may not satisfy vesting requirements. Those estimated cash outflows are discounted using market yields on Milliman Group of 100 bonds with terms to maturity that match the expected timing of cash flows.

15. Retained profits	**Note**	**2021** $'000	**2020** $'000
Balance 1 July		25,064	25,910
Profit for the period		6,778	4,154
Distributions		(5,000)	(5,000)
Balance 30 June		**26,842**	**25,064**

16. Contingencies

Contingent liabilities

The Catholic Development Fund has no significant 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 $26,671,260 (2020: $18,499,375) as at balance date.

Notes to the Financial Statements
For the year ended 30 June 2021 (continued)…

18. Reconciliation of profit to net cash inflow from operating activities	Note	2021 $'000	2020 $'000
Profit for the year		6,778	4,154
Non-cash flows in profit from ordinary activities			
Revaluation of fair value assets		(803)	962
Amortisation of investment premiums		195	173
Change in operating assets and liabilities			
(Increase)/decrease in other receivables		(15)	-
(Increase)/decrease in prepayments		(7)	(15)
(Decrease)/increase in payables		36	(237)
(Decrease)/increase in provisions		25	8
(Increase)/decrease in investments		22,111	(1,628)
(Increase) in loans to members		(62,663)	(32,857)
(Decrease)/increase in deposits due to clients		32,700	8,088
Net cash inflow/(outflow) from operating activities		**(1,644)**	**(21,352)**

Notes to the Financial Statements
For the year ended 30 June 2021 (continued)…

19. Related party disclosures	Note	2021 $'000	2020 $'000

a) Key management personnel compensation

Short-term employee benefits		94	232
		94	**232**

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) Distribution paid by the Fund

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 regular 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.

Notes to the Financial Statements
For the year ended 30 June 2021 (continued)…

19. Related party disclosures (continued)	Note	2021 $'000	2020 $'000

c) Transactions with other related parties

The following transactions occurred with related parties:

Interest income			
Interest on loans - associates		6,806	5,559
Interest expense			
Interest on deposits - associates		764	1,742
Other expenses			
Shared service costs		578	824
Management fees (AFSL)		91	87
Other transactions			
Diocesan distribution		5,000	5,000

d) 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:

Loans with related parties			
Loans – Diocese		92,596	80,735
Loans – Parishes		292	539
Loans – Diocesan School System		124,498	72,565
Loans – Held by Diocesan School System for Parishes		4,429	5,316
Total loans with related parties		**221,815**	**159,155**
Deposits due to related parties			
Client deposits – Diocese		5,630	5,692
Client deposits – Parishes		22,860	24,218
Client deposits – Diocesan School System		218,995	189,251
Client deposits – Catholic Care		4,862	2,278
Client deposits – Other Associates		20,716	17,207
Total deposit due to related parties		**273,063**	**238,647**
Payables			
Diocesan distribution payable		2,500	2,264

Notes to the Financial Statements
For the year ended 30 June 2021 (continued)…

20. Subsequent events

No matters or circumstances have arisen since the end of the financial year which significantly affected or could significantly affect the operations of the Company, the results of those operations or the state of affairs of the Company in future financial years.

Operator's Declaration

The Operators of Catholic Development Fund Diocese of Maitland-Newcastle declare that:

a) in the Operators' opinion, there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable; and

b) in the Operators' opinion, the attached financial statements and notes thereto are in accordance with the *Australian Charities and Not-for-profits Commission Act 2012*, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Fund.

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 21 day of September 2021.

____
Sean Scanlon
Chief Executive Officer
Catholic Diocese of Maitland-Newcastle

Independent auditor's report

To the Operators of Catholic Development Fund Diocese Maitland-Newcastle

Our opinion

In our opinion:

The accompanying financial report of Catholic Development Fund Diocese 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 2021 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 statement of financial position as at 30 June 2021
- the statement statement of profit or loss and other comprehensive Income for the year then ended
- the statement of changes in equity for the year then ended
- the statement of cash flow for the year then ended
- the notes to the financial statements, which include significant accounting policies and other explanatory information
- the operator's 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 & 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 report for the year ended 30 June 2021, but does not include the financial report and our auditor's report thereon.

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 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 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 has no realistic alternative but to do so.

The Operators are responsible for overseeing the Fund's financial reporting process.

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.

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers

VINCENZO DEDE'

Vincenzo Dede
Partner

Newcastle
21 September 2021

SERVING THE COMMUNITY OF THE

CatholicDiocese
OF MAITLAND-NEWCASTLE

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