



**CATHOLIC DEVELOPMENT FUND  
DIOCESE OF BROKEN BAY**

**FINANCIAL REPORT**

**Special Purpose Financial Statements for the year ended 30 June 2017**

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# Catholic Development Fund - Diocese of Broken Bay

## Statement of Comprehensive Income

For the year ended 30 June 2017

	Note	2017 \$	2016 \$
<b>REVENUE</b>			
Interest revenue	10	9,384,721	10,761,330
Interest expense	10	(3,973,300)	(4,954,368)
<b>NET INTEREST REVENUE</b>		<u>5,411,421</u>	<u>5,806,962</u>
Other revenue from ordinary activities		231	-
<b>TOTAL REVENUE</b>		<u>5,411,652</u>	<u>5,806,962</u>
<b>EXPENSES</b>			
Management fees and services		(393,526)	(341,253)
Occupancy expenses		(67,293)	(65,820)
Client chequing expenses		(35,568)	(41,884)
Computer support		(33,526)	(32,072)
Professional fees		(49,529)	(34,405)
Promotional expenses		(42)	(20,394)
Other expenses		(9,782)	(12,541)
<b>TOTAL EXPENSES</b>		<u>(589,266)</u>	<u>(548,369)</u>
<b>SURPLUS FOR THE YEAR</b>		<u>4,822,386</u>	<u>5,258,593</u>

The notes on pages 5 to 20 are an integral part of these financial statements.

# Catholic Development Fund - Diocese of Broken Bay

## Statement of Financial Position

As at 30 June 2017

	Note	2017 \$	2016 \$
<b>ASSETS</b>			
Cash and cash equivalents	12(a)	1,503,606	2,037,384
Accrued receivables		686,891	836,671
Investment securities	2	87,721,507	82,326,464
Loans and receivables	4	123,727,032	117,304,788
Other assets	5	10,176	10,542
<b>TOTAL ASSETS</b>		<u>213,649,212</u>	<u>202,515,849</u>
-			
<b>LIABILITIES</b>			
Deposits	6	202,636,991	191,136,337
Trade and other payables	7	588,499	782,387
Other liabilities	8	2,805,422	3,128,825
Loan capital	9	2,000,000	2,000,000
<b>TOTAL LIABILITIES</b>		<u>208,030,912</u>	<u>197,047,549</u>
<b>NET ASSETS</b>		<u>5,618,300</u>	<u>5,468,300</u>
<b>EQUITY</b>			
Contributed equity		2,000,000	2,000,000
General reserve		-	2,820,129
Retained earnings		3,618,300	648,171
<b>TOTAL EQUITY</b>		<u>5,618,300</u>	<u>5,468,300</u>

The notes on pages 5 to 20 are an integral part of these financial statements.

## Catholic Development Fund - Diocese of Broken Bay

### Statement of Changes in Equity

For the year ended 30 June 2017

	Note	Contributed equity \$	General reserve \$	Retained earnings \$	Total equity \$
Balance as at 1 July 2015		2,000,000	2,670,129	648,171	5,318,300
Surplus for the year		-	-	5,258,593	5,258,593
Distributions	8(a)	-	-	(5,108,593)	(5,108,593)
Transfers to and from reserves		-	150,000	(150,000)	-
<b>Balance as at 30 June 2016</b>		<b>2,000,000</b>	<b>2,820,129</b>	<b>648,171</b>	<b>5,468,300</b>
Balance as at 1 July 2016		2,000,000	2,820,129	648,171	5,468,300
Surplus for the year		-	-	4,822,386	4,822,386
Distributions	8(a)	-	-	(4,672,386)	(4,672,386)
Transfers to and from reserves		-	(2,820,129)	2,820,129	-
<b>Balance as at 30 June 2017</b>		<b>2,000,000</b>	<b>-</b>	<b>3,618,300</b>	<b>5,618,300</b>

The notes on pages 5 to 20 are an integral part of these financial statements.

## Catholic Development Fund - Diocese of Broken Bay

### Statement of Changes in Cash Flows

For the year ended 30 June 2017

	Note	2017 \$	2016 \$
<b>Cash flows from operating activities</b>			
Interest received on loans		6,825,618	8,273,604
Interest received on cash and cash equivalents		2,708,885	2,297,429
Interest paid on deposits		(4,154,913)	(5,363,604)
Net (increase)/decrease in loans		(6,422,244)	1,855,873
Net increase in deposits		11,500,654	10,817,779
Other income		623	(3,229)
Cash paid to suppliers and employees		(601,569)	(555,341)
<b>Net cash provided by operating activities</b>	12(b)	<u>9,857,054</u>	<u>17,322,511</u>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		-	(2,291)
Net decrease / (increase) in investments (> 3 months)		8,500,000	(6,300,000)
<b>Net cash provided by/(used in) investing activities</b>		<u>8,500,000</u>	<u>(6,302,291)</u>
<b>Cash flows from financing activities</b>			
Distribution to Diocese of Broken Bay		(4,995,789)	(5,289,872)
<b>Net cash (used in) financing activities</b>		<u>(4,995,789)</u>	<u>(5,289,872)</u>
<b>Net increase in cash held</b>		13,361,265	5,730,348
Cash at the beginning of the reporting period		<u>70,863,848</u>	<u>65,133,500</u>
<b>Cash at the end of the reporting period</b>	12(a)	<u><u>84,225,113</u></u>	<u><u>70,863,848</u></u>

The notes on pages 5 to 20 are an integral part of these financial statements.

# Catholic Development Fund - Diocese of Broken Bay

## Notes to and forming part of the Financial Statements

For the year ended 30 June 2017

### 1. Statement of accounting policies

#### Summary of significant accounting policies

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

The financial report was authorised for issue by the Board on 8 November 2017.

#### Statement of compliance

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

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

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

The financial report has been prepared on an accruals basis and is based on historical costs.

#### Accounting policies

##### *Basis of preparation*

The financial report is presented in Australian dollars.

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

# Catholic Development Fund - Diocese of Broken Bay

## Notes to and forming part of the Financial Statements

For the year ended 30 June 2017

### 1. Statement of accounting policies (ctd.)

#### ***New, revised and future Accounting Standards and Interpretations***

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

#### ***AASB 9 Financial Instruments***

AASB 9, approved in December 2014, replaces the existing guidance in AASB 139 *Financial Instruments: Recognition and Measurements*. AASB 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from AASB 139. AASB 9 is effective for annual reporting periods beginning on or after 1 January 2018. The CDF is assessing the potential impact on its financial statements resulting from the application of AASB 9.

#### ***AASB 15 Revenue from Contracts with Customers***

AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including AASB 118 *Revenue*, AASB 111 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*. AASB 15 is effective for annual reporting periods beginning on or after 1 January 2018. The CDF is assessing the potential impact on its financial statements resulting from the application of AASB 15.

#### ***Voluntary changes in accounting policies***

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

#### ***Critical accounting estimates and judgements***

There are not considered to be any accounting estimates and assumptions used or judgements made which have a significant impact on the amounts recognised in the financial report (2016 – none).

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

#### ***Financial instruments***

##### ***Recognition and initial measurement***

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the CDF becomes a party to the contractual provisions of the instrument.

Financial instruments are initially measured at fair value plus transactions costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below.

# Catholic Development Fund - Diocese of Broken Bay

## Notes to and forming part of the Financial Statements

For the year ended 30 June 2017

### 1. Statement of accounting policies (ctd.)

#### *Derecognition*

Financial assets are derecognised where the contractual rights to receive cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

#### *Classification and subsequent measurement*

##### *(i) Financial assets at fair value through profit or loss*

A financial asset is classified as at fair value through profit or loss if it is classified as held-for-trading or designated as such on initial recognition. Directly attributable transaction costs are recognised in profit or loss as incurred. Financial assets at fair value through profit or loss are measure at fair value and changes therein, which take into account dividend income are recognised in profit or loss.

##### *(ii) Loans and receivables*

Loans are recognised when cash is advanced to customers. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost using the effective interest rate method. Loans are subject to an impairment assessment to determine if there is objective evidence that any loan is impaired at each balance date. All known bad debts are written off in the period in which they are identified. Specific impairment provisions are recognised when there is objective evidence that an individual loan is impaired. Collective impairment provisions for groups of loans with similar credit characteristics are based on historical loss experience.

##### *(iii) Investment securities*

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the CDF's intention to hold these investments to maturity. Investments comprising term deposits, bank bills, negotiable certificates of deposit, commercial papers, promissory notes and floating rate notes are classified as held to maturity investments and subsequently measured at each reporting date at amortised cost using the effective interest method.

##### *(iv) Financial liabilities*

Non-derivative financial liabilities which include customer deposits and subordinated debt are subsequently measured at amortised cost using the effective interest rate method.

#### *Fair value*

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

For Accrued Income, Trade and Other Payables and Cash and Cash Equivalents the carrying value is deemed to be a reasonable approximation of fair value due to their short term nature.

#### *Impairment*

At each reporting date, the CDF assesses whether there is objective evidence that a financial instrument, or any loans have been impaired. Impairment losses are recognised in profit or loss once identified.



# Catholic Development Fund - Diocese of Broken Bay

## Notes to and forming part of the Financial Statements

For the year ended 30 June 2017

### 1. Statement of accounting policies (ctd.)

#### **Depreciation/amortisation of fixed assets**

Depreciation is used to write off the cost of fixed assets less their estimated residual values using the straight line basis over their estimated useful lives, and is generally recognised in profit or loss.

Fixed assets are depreciated at 33 1/3% of cost, with low value items being fully depreciated at the time of purchase.

#### **Income tax**

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

#### **Rounding**

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

#### **Revenue**

Interest revenue is recognised on an accruals basis using the effective interest method.

#### **Goods and services tax**

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

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

#### **Trade and other payables**

Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the CDF. Trade accounts payable are recognised at amortised cost as they are normally settled within 30 days.

## Catholic Development Fund - Diocese of Broken Bay

### Notes to and forming part of the Financial Statements

For the year ended 30 June 2017

	2017 \$	2016 \$
<b>2. Investment securities</b>		
At call deposits		
- Catholic Development Fund, Archdiocese of Sydney	5,321,507	4,020,621
- Commonwealth Bank of Australia	5,000,000	5,843
	<u>10,321,507</u>	<u>4,026,464</u>
Term deposits		
- Catholic Development Fund, Archdiocese of Sydney	-	-
- Term deposits with Authorised Deposit-Taking Institutions (ADIs)	77,400,000	78,300,000
	<u>77,400,000</u>	<u>78,300,000</u>
	<u>87,721,507</u>	<u>82,326,464</u>
<i>Maturity analysis</i>		
At call	10,321,507	4,026,464
Not longer than 3 months	72,400,000	64,800,000
Longer than 3 months and not longer than 12 months	5,000,000	13,500,000
	<u>87,721,507</u>	<u>82,326,464</u>
<b>3. Auditors' remuneration</b>		
Current year - audit services	28,000	28,000
	<u>28,000</u>	<u>28,000</u>
<b>4. Loans and receivables</b>		
Diocesan Loans	116,079,911	110,237,059
Non Diocesan Loans	7,647,121	7,067,729
	<u>123,727,032</u>	<u>117,304,788</u>
<i>Maturity analysis</i>		
Overdrafts	-	-
Not longer than 3 months	1,703,156	1,775,057
Longer than 3 months and not longer than 12 months	5,474,089	6,169,858
Longer than 1 year and not longer than 5 years	46,497,949	34,039,504
Longer than 5 years	70,051,838	75,320,369
	<u>123,727,032</u>	<u>117,304,788</u>

A parish loan with a balance at 30 June 2016 of \$1,203,458 was recognised by the CDF as impaired. The loan was repaid in full by the Diocesan Procurement Fund on 16 September 2016 and therefore no Provision for loss was required to be made in these Financial Statements.

## Catholic Development Fund - Diocese of Broken Bay

### Notes to and forming part of the Financial Statements

For the year ended 30 June 2017

	2017 \$	2016 \$
<b>5. Other assets</b>		
Prepayments	8,470	8,442
GST receivable	1,706	2,100
	<u>10,176</u>	<u>10,542</u>
<b>6. Deposits</b>		
Depositors' savings:		
Call deposits		
Diocesan entities	105,133,213	96,104,553
Non Diocesan entities	2,674,624	5,033,401
Non church deposits	-	422
	<u>107,807,837</u>	<u>101,138,376</u>
Fixed term deposits		
Diocesan entities	94,114,096	85,730,749
Non Diocesan entities	601,405	793,825
Non Church deposits	113,653	3,473,387
	<u>94,829,154</u>	<u>89,997,961</u>
	<u>202,636,991</u>	<u>191,136,337</u>
<i>Maturity analysis</i>		
On call	107,807,837	101,138,376
Not longer than 3 months	75,444,198	70,209,593
Longer than 3 months and not longer than 12 months	19,384,956	19,788,368
	<u>202,636,991</u>	<u>191,136,337</u>
<b>7. Trade and other payables</b>		
Creditors and accruals	30,373	42,568
Accrued interest on depositors monies	558,126	739,819
	<u>588,499</u>	<u>782,387</u>
<b>8. Other liabilities</b>		
Proposed distribution of surplus - Diocese	2,805,422	3,128,825
	<u>2,805,422</u>	<u>3,128,825</u>
<b>8(a). Distributions</b>		
Interim distribution paid to Diocese	1,866,964	1,979,768
Proposed final distribution to Diocese	2,805,422	3,128,825
Total distribution from the CDF for the Year	<u>4,672,386</u>	<u>5,108,593</u>
<b>9. Loan capital</b>		
Perpetual subordinated debt - Diocese of Broken Bay	2,000,000	2,000,000
	<u>2,000,000</u>	<u>2,000,000</u>

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

## Catholic Development Fund - Diocese of Broken Bay

### Notes to and forming part of the Financial Statements

For the year ended 30 June 2017

	2017 \$	2016 \$
<b>10. Interest revenue and interest expense</b>		
Interest revenue		
Investments		
- Current accounts	34,766	39,146
- At call investments	134,532	142,207
- Term deposits	2,437,495	2,342,779
	<u>2,606,793</u>	<u>2,524,132</u>
Loans		
- Loans to Diocesan entities	6,468,205	7,872,415
- Loans to Non Diocesan entities	309,723	364,783
	<u>6,777,928</u>	<u>8,237,198</u>
	<u>9,384,721</u>	<u>10,761,330</u>
Interest expense		
Depositors' savings		
Call deposits		
- Deposits from Diocesan entities	1,493,464	1,748,484
- Deposits from Non Diocesan entities	58,545	115,031
- Non church deposits	570	5
	<u>1,552,579</u>	<u>1,863,520</u>
Fixed term deposits		
- Deposits from Diocesan entities	2,313,123	2,901,126
- Deposits from Non Diocesan entities	15,505	28,421
- Non church deposits	35,457	96,112
	<u>2,364,085</u>	<u>3,025,659</u>
Perpetual subordinated debt	56,556	65,093
Overdrawn interest charge	80	96
	<u>3,973,300</u>	<u>4,954,368</u>

### 11. Related party transactions

#### Board Members

The Advisory Board members who held office during the year ended 30 June 2017 were as follows:

Mr William d'Apice (Chairman)

Ms Helen Bentham

Mr Joe Bracken (Audit Committee - Member)

Mr Michael Lucas (Audit Committee - Member)

Mr Patrick McCudden (Audit Committee - Chair) (Retired April 2017)

Ms Emma McDonald - Ex Officio

Rev William Stevens

# Catholic Development Fund - Diocese of Broken Bay

## Notes to and forming part of the Financial Statements

For the year ended 30 June 2017

### 11. Related party transactions (ctd.)

The Chairman of the Board, Mr William d'Apice, is a partner in the firm Makinson d'Apice Lawyers. Makinson d'Apice Lawyers provide legal services to the CDF on normal commercial terms and conditions. For the year ended 30 June 2017 payments of \$4,087 were made to Makinson d'Apice Lawyers (2016: \$5,420). Mr d'Apice is also a member of the Board of the Catholic Development Fund Archdiocese of Sydney (retired 30 June 2017), and a member of the Diocesan Finance Committee. CDF Sydney provide administrative and management services. The administrative and management services are provided under an interdiocesan agreement dated 1 July 2015, on normal commercial terms and conditions.

A Board Member, Ms Emma McDonald is the Diocesan Financial Administrator for the Catholic Diocese of Broken Bay, and is a member of the Diocesan Finance Committee and the Diocesan Investment Committee, and ex-officio member of the Catholic Schools Office Finance Committee and the Diocesan Audit and Risk Committee. The Diocese and Catholic Schools Office conducts various financial transactions with the CDF on normal terms and conditions.

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

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

A Board Member, Mr Patrick McCudden (retired April 2017) is a member of the finance committee of The Entrance Catholic Parish, Diocese of Broken Bay. The Parish conducts various financial transactions with the CDF on normal terms and conditions.

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

#### Key management personnel

Mr Chris Field – Manager (resigned 20 July 2017)

Mr Peter Bokeyar – Interim General Manager (appointed 1 August 2017)

Ms Emma McDonald – Diocesan Financial Administrator

#### Controlling entities

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

# Catholic Development Fund - Diocese of Broken Bay

## Notes to and forming part of the Financial Statements

For the year ended 30 June 2017

### 11. Related party transactions (ctd.)

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

Aggregate interest revenue and expenses received from and paid to Diocesan entities are detailed in note 10 to the financial statements.

As detailed in note 8 to the financial statements, payments were made to the Diocese of Broken Bay during the year representing distributions of the CDF's surplus.

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

### 12. Cash inflow information

#### (a) Reconciliation of cash

For the purposes of the statement of cash flows, cash includes cash on hand and deposits at call maturing in less than 3 months. Cash at the end of the reporting period as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

	2017	2016
	\$	\$
Cash	1,503,606	2,037,384
Investment securities maturing in less than 3 months	82,721,507	68,826,464
	<u>84,225,113</u>	<u>70,863,848</u>

#### (b) Reconciliation of net cash provided by operating surplus

Operating surplus	4,822,386	5,258,593
Depreciation	-	2,291
Decrease/(Increase) in interest receivable	149,780	(190,297)
(Decrease) in interest payable	(181,693)	(409,332)
Net (increase)/decrease in loans	(6,422,244)	1,855,873
Net increase in deposits	11,500,654	10,817,779
(Decrease) in creditors and accruals	(12,195)	(9,168)
Decrease/(Increase) in other assets	366	(3,228)
Net cash provided by operating activities	<u>9,857,054</u>	<u>17,322,511</u>

### 13. Catholic Development Fund details

#### Principal activity

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

# Catholic Development Fund - Diocese of Broken Bay

## Notes to and forming part of the Financial Statements

For the year ended 30 June 2017

### 13. Catholic Development Fund details (ctd.)

#### Principal place of business

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

#### Legal form

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

### 14. Commitments to extend credit

The following loans approved at 30 June 2017 had not been drawn at that date.

	2017 \$	2016 \$
Diocesan loans (including undrawn overdrafts)	13,709,847	9,426
Non Diocesan loans	5,623,611	5,788,889
	<u>19,333,458</u>	<u>5,798,315</u>

### 15. Financial risk management

#### Overview

The CDF's financial instruments consist of investments with CDF Sydney and Authorised Deposit-Taking Institutions (ADIs), loans receivable, short term borrowings and subordinated loans.

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

The CDF did not utilise derivatives for the financial year ended 30 June 2017 and currently has no plans to utilise derivatives in the foreseeable future.

#### (i) Financial risk exposures and management

The CDF's lending, deposit-taking and investing activities expose it to the following risks from its use of financial instruments:

- Credit risk;
- Interest rate risk;
- Liquidity risk; and
- Other (market) price risk.

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

## Catholic Development Fund - Diocese of Broken Bay

### Notes to and forming part of the Financial Statements

For the year ended 30 June 2017

#### 15. Financial risk management (ctd.)

##### (ii) Capital adequacy

The CDF has determined that it should maintain capital at a ratio of a minimum of 8% of risk weighted assets. The capital ratio at 30 June 2017 was 9.54% (30 June 2016: 10.16%)

##### Counterparty investment credit risk

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

##### (iii) Credit risk

The CDF's Investment Policy specifies that the CDF may only invest in the following:

- deposits with any Authorised Deposit-Taking Institution (ADI) regulated by the Australian Prudential Regulation Authority (APRA) that has a Standard and Poors (S&P) long term rating of A- or higher;
- deposits with the Catholic Development Fund, Archdiocese of Sydney; or
- an investment trust managed by CCI Investment Management Limited up to a maximum of 10% of the trust fund's assets, providing any such investment has been approved by the CDF Board beforehand.

Additionally, the following limits have been set with regard to exposure limits to these counterparties and counterparty rating groups:

S&P long term rating		Limit of pools		
Rating range		Individual issuer	Rating group	
From	To		Minimum	Maximum
AAA	AA-	50%	50%	100%
A+	A-	25%	0%	50%

The CDF's exposure per counterparty rating group at balance date was as follows:

S&P long term rating	2017		2016	
	\$'000	% of Total	\$'000	% of Total
AAA to AA-	50,704	57%	68,830	82%
A+ to A-	9,000	10%	9,500	11%
BBB+	22,700	25%	-	0%
Non rated	6,821	8%	6,034	7%
Total	89,225	100%	84,364	100%

As at 30 June 2017 the CDF was in breach of their investment policy by holding investments rated BBB+. This was due to a rating review by Standards and Poors on the 21 May 2017 which saw Bank of Queensland downgraded from A- to BBB+. This was raised with Board at their meeting of the 19 July 2017. The CDF will be back within policy limits by the 25 October 2017.



## Catholic Development Fund - Diocese of Broken Bay

### Notes to and forming part of the Financial Statements

For the year ended 30 June 2017

#### 15. Financial risk management (ctd.)

##### Loan Receivable Credit Risk

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

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

#### (iv) Interest rate risk

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

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

## Catholic Development Fund - Diocese of Broken Bay

### Notes to and forming part of the Financial Statements

For the year ended 30 June 2017

#### 15. Financial risk management (ctd.)

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

Floating interest rate	Fixed interest rate maturing in:				Total carrying amount as per the statement of financial position		Weighted average effective interest			
	1 year or less		Non-interest bearing							
2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000	2017 %	2016 %	
<b>(i) Financial assets</b>										
Cash and cash equivalents / investment securities	11,825	6,063	77,400	78,300	-	-	89,225	84,363	2.52%	2.51%
Loans and receivables	123,727	117,305	-	-	-	-	123,727	117,305	5.84%	6.90%
Accrued receivables / other assets	-	-	-	-	697	847	697	847	-	-
<b>Total financial assets</b>	<b>135,552</b>	<b>123,368</b>	<b>77,400</b>	<b>78,300</b>	<b>697</b>	<b>847</b>	<b>213,649</b>	<b>202,515</b>		
<b>(ii) Financial Liabilities</b>										
Deposits	107,808	101,138	94,829	89,998	-	-	202,637	191,136	1.88%	2.34%
Trade and other payables	-	-	-	-	588	782	588	782	-	-
Other liabilities	-	-	-	-	2,805	3,129	2,805	3,129	-	-
Loan capital	-	-	2,000	2,000	-	-	2,000	2,000	2.80%	3.25%
<b>Total financial liabilities</b>	<b>107,808</b>	<b>101,138</b>	<b>96,829</b>	<b>91,998</b>	<b>3,393</b>	<b>3,911</b>	<b>208,030</b>	<b>197,047</b>		

## Catholic Development Fund - Diocese of Broken Bay

### Notes to and forming part of the Financial Statements

For the year ended 30 June 2017

#### 15. Financial risk management (ctd.)

##### (v) Liquidity risk

The CDF manages liquidity by investing only in liquid securities which are realisable when the need arises. The CDF is only permitted to invest investment funds in the following:

- ADI's regulated by APRA, that have a S&P long term rating of A- or higher;
- the Catholic Development Fund Archdiocese of Sydney;
- investment trusts managed by CCI Investment Management Limited up to a maximum of 10% of the trust fund's assets, providing any such investment has been approved by the CDF Board.

##### (vi) Net fair value

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

Note	2017		2016	
	Carrying amount \$'000	Net fair value \$'000	Carrying amount \$'000	Net fair value \$'000
<i>Financial assets</i>				
	11,825	11,825	6,063	6,063
Cash and cash equivalents				
Investment Securities	77,400	77,400	78,300	78,300
Loans and receivables	123,727	123,727	117,305	117,305
Accrued receivables/other assets	697	697	847	847
	213,649	213,649	202,515	202,515
<i>Financial liabilities</i>				
Deposits	202,637	202,637	191,136	191,136
Trade and other payables	588	588	782	782
Other liabilities	2,805	2,805	3,129	3,129
Loan capital	2,000	2,000	2,000	2,000
	208,030	208,030	197,047	197,047

Fair values are materially in line with carrying values.

The concentrations of credit risk on loans and receivables in the following categories:

	2017		2016	
	Percentage of total loans receivable %	Amount \$'000	Percentage of total loans receivable %	Amount \$'000
Diocesan	93.82%	116,079,911	93.97%	110,237,059
Non Diocesan	6.18%	7,647,121	6.03%	7,067,729
	100.00%	123,727,032	100.00%	117,304,788

# Catholic Development Fund - Diocese of Broken Bay

## Notes to and forming part of the Financial Statements

For the year ended 30 June 2017

### 15. Financial risk management (ctd.)

#### (vii) Sensitivity analysis

Interest rate risk, foreign currency risk and price risk

##### Interest Rate Sensitivity Analysis

During the financial year the CDF adopted an interest rate policy to set Deposit and Loan interest rates. Loan interest rates and variable Deposit interest rates were linked to movements in the RBA Official Cash Rate. Term Deposit interest rates moved in line with the term deposit interest rate market.

In August 2016 the CDF adopted a new interest rate policy whereby Loan interest rates from 1 September 2016 would be linked to movements in the 90 day bank bill swap rate (BBSY). Interest rates applying to variable interest rate deposit products will be linked to the Commonwealth Bank's deposit products. Interest rates on fixed Term Deposits would be determined by comparison to the market.

Interest rates on Investments of the CDF are dependant on the market rates offered to the CDF by the ADIs.

##### Foreign currency sensitivity analysis

At 30 June 2017 there is no effect on surplus and equity as a result of changes in the value of the Australian Dollar to the any other currency, as instances where the CDF operates in foreign currency is very occasional and is completed at spot rates for client transactions. Therefore, no sensitivity analysis has been performed.

##### Price risk sensitivity analysis

At 30 June 2017, the effect on surplus and equity as a result of changes in prices is considered negligible as very few prices of services and commodities effect the CDF's operations. Therefore, no sensitivity analysis has been performed.

### 16. Contingent liabilities

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

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

	2017	2016
	\$	\$
Maximum exposure as at balance date.	1,336,238	1,818,800

# Catholic Development Fund - Diocese of Broken Bay

## Notes to and forming part of the Financial Statements

For the year ended 30 June 2017

### 17. Regulatory exemptions and status

#### *Banking Act (Act)*

Banking Act Exemption No 2 of 2015 was issued on 12 November 2015, which is an extension of the previous exemption No. 4 of 2014. This exemption expired on 31 December 2016. APRA has issued a new determination, Banking Exemption No. 1 of 2016, dated 31 August 2016 which commenced on 1 January 2017.

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

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

At a Board Meeting held in August 2016 the CDF resolved to discontinue offering retail investments and has begun a process to repay all retail investments. As the total retail investments are very small in comparison to the total CDF Liabilities the CDF does not expect this action to adversely impact the CDF.

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

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

### 18. Subsequent events

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


## Catholic Development Fund - Diocese of Broken Bay

### Statement by Approved Officers

We, state to the best of our knowledge and belief that the attached financial statements for the Catholic Development Fund – Diocese of Broken Bay gives a true and fair view of the performance of the Development Fund for the year ended 30 June 2017 and its financial position as at that date.

In our opinion there are reasonable grounds to believe that the Catholic Development Fund – Diocese of Broken Bay will be able to pay its debts as and when they become payable.

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



Mr Bill d'Apice (Chairman)

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

8 November 2017

Date



Mr Peter Bokeyar

Interim Manager – Catholic Development Fund – Diocese of Broken Bay

8 November 2017

Date



# Independent Auditor's Report

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

## Opinion

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

In our opinion, the accompanying Financial Report presents fairly, in all material respects, the financial position of Broken Bay CDF as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with the accounting policies described in Note 1 to the financial statements.

The **Financial Report** comprises:

- Statement of Financial Position as at 30 June 2017;
- Statement of Comprehensive Income, Statement of Changes in Equity, and Statement of Changes in Cash Flows for the year ended on 30 June 2017;
- Notes including a summary of significant accounting policies; and
- Statement by Approved Officers.

## Basis for opinion

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

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

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

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

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

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

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

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



## Other Information

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

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

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

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

## Responsibilities of the Approved Officers for the Financial Report

The Approved Officers are responsible for:

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

## Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this 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\\_files/ar3.pdf](http://www.auasb.gov.au/auditors_files/ar3.pdf). This description forms part of our Auditor's Report.

  
KPMG



Michael O Connell

Partner

Sydney

8 November 2017

## Catholic Development Fund - Diocese of Broken Bay

### DETAILED STATEMENT OF INCOME AND EXPENDITURE (UNAUDITED)

For the year ended 30 June 2017

	2017 \$	2016 \$
<b>INTEREST REVENUE</b>		
Interest - Cash Deposits and Investments	2,606,793	2,524,132
Interest - Loans	6,777,928	8,237,198
	<u>9,384,721</u>	<u>10,761,330</u>
<b>Less: BORROWING COSTS</b>		
Interest on Customer Deposits	3,916,664	4,889,179
Interest on Subordinated Debt	56,556	65,093
Interest on Short Term Borrowings	80	96
	<u>3,973,300</u>	<u>4,954,368</u>
<b>NET INTEREST REVENUE</b>	5,411,421	5,806,962
<b>OTHER REVENUE</b>		
Sundry income	231	-
	<u>231</u>	<u>-</u>
<b>NET INTEREST REVENUE</b>	<u>5,411,652</u>	<u>5,806,962</u>
<b>Less: ADMINISTRATION EXPENSES</b>		
<b>Management and Service fees</b>		
Services fee - CDF Sydney	182,340	180,000
Management Services	211,186	161,253
	<u>393,526</u>	<u>341,253</u>
<b>Occupancy Expenses</b>		
General expenses	1,701	1,638
Light & Power	2,696	2,617
Insurance - General	12,740	12,870
Rent - Premises	50,156	48,695
	<u>67,293</u>	<u>65,820</u>
<b>Depreciation</b>		
Office furniture	-	2,115
Computer Software	-	176
	<u>-</u>	<u>2,291</u>
<b>Other Expenses</b>		
Board Costs	56	-
Cheque Accounts - Bank Fees	31,734	36,864
Cheque Accounts - Printing	3,834	5,020
Computer Services	33,526	32,072
Conferences - Fund	1,588	1,293
Couriers	62	284
General Expenses - Other	-	23
Parish Incentive Payments	(1)	19,982
Postage	3,388	3,153
Printing & Stationary	3,291	4,020
Professional Fees - Audit	38,642	28,985
Professional Fees - Legal	10,887	5,420
Promotional Expenses	43	412
Telephone and Facsimile	1,388	1,415
Travel - Fund (exc. Board)	9	62
	<u>128,447</u>	<u>139,005</u>
Total Administration Expenses	<u>589,266</u>	<u>548,369</u>
<b>OPERATING SURPLUS</b>	<u>4,822,386</u>	<u>5,258,593</u>