



**CATHOLIC DEVELOPMENT FUND
DIOCESE OF BROKEN BAY**

FINANCIAL REPORT

Special Purpose Financial Statements for the year ended 30 June 2018

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

Catholic Development Fund - Diocese of Broken Bay

Statement of Comprehensive Income

For the year ended 30 June 2018

	Note	2018 \$	2017 \$
REVENUE			
Interest revenue	10	9,528,280	9,384,721
Interest expense	10	(3,920,053)	(3,973,300)
NET INTEREST REVENUE		<u>5,608,227</u>	<u>5,411,421</u>
Other revenue from ordinary activities		-	231
TOTAL REVENUE		<u>5,608,227</u>	<u>5,411,652</u>
EXPENSES			
Management fees and services		(346,335)	(393,526)
Occupancy expenses		(61,841)	(67,293)
Client chequing expenses		(22,246)	(35,568)
Computer support		(36,822)	(33,526)
Professional fees		(46,697)	(49,529)
Promotional expenses		-	(42)
Other expenses		(6,903)	(9,782)
TOTAL EXPENSES		<u>(520,844)</u>	<u>(589,266)</u>
SURPLUS FOR THE YEAR		<u><u>5,087,383</u></u>	<u><u>4,822,386</u></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 2018

	Note	2018 \$	2017 \$
ASSETS			
Cash and cash equivalents	12(a)	2,369,442	1,503,606
Accrued receivables		625,888	686,891
Investment securities	2	85,612,066	87,721,507
Loans and receivables	4	131,007,727	123,727,032
Other assets	5	14,527	10,176
TOTAL ASSETS		<u>219,629,650</u>	<u>213,649,212</u>
LIABILITIES			
Deposits	6	208,275,575	202,636,991
Trade and other payables	7	633,564	588,499
Provision for distributions	8	2,952,211	2,805,422
Loan capital	9	2,000,000	2,000,000
TOTAL LIABILITIES		<u>213,861,350</u>	<u>208,030,912</u>
NET ASSETS		<u>5,768,300</u>	<u>5,618,300</u>
EQUITY			
Contributed equity		2,000,000	2,000,000
Retained earnings		3,768,300	3,618,300
TOTAL EQUITY		<u>5,768,300</u>	<u>5,618,300</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 2018

	Note	Contributed equity \$	General reserve \$	Retained earnings \$	Total equity \$
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	-
Balance as at 30 June 2017		2,000,000	-	3,618,300	5,618,300
Balance as at 1 July 2017		2,000,000	-	3,618,300	5,618,300
Surplus for the year		-	-	5,087,383	5,087,383
Distributions	8(a)	-	-	(4,937,383)	(4,937,383)
Transfers to and from reserves		-	-	-	-
Balance as at 30 June 2018		2,000,000	-	3,768,300	5,768,300

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 2018

	Note	2018 \$	2017 \$
Cash flows from operating activities			
Interest received on loans		7,173,986	6,825,618
Interest received on cash and cash equivalents		2,415,297	2,708,885
Interest paid on deposits		(3,873,325)	(4,154,913)
Net increase in loans		(7,280,695)	(6,422,244)
Net increase in deposits		5,638,584	11,500,654
Other income		265	623
Cash paid to suppliers and employees		(527,123)	(601,569)
Net cash provided by operating activities	12(b)	<u>3,546,989</u>	<u>9,857,054</u>
Cash flows from investing activities			
Net decrease / (increase) in investments (> 3 months)		<u>(10,000,000)</u>	<u>8,500,000</u>
Net cash (used in)/provided by investing activities		<u>(10,000,000)</u>	<u>8,500,000</u>
Cash flows from financing activities			
Distribution to Diocese of Broken Bay		<u>(4,790,594)</u>	<u>(4,995,789)</u>
Net cash used in financing activities		<u>(4,790,594)</u>	<u>(4,995,789)</u>
Net (decrease)/increase in cash held		(11,243,605)	13,361,265
Cash at the beginning of the reporting period		<u>84,225,113</u>	<u>70,863,848</u>
Cash at the end of the reporting period	12(a)	<u><u>72,981,508</u></u>	<u><u>84,225,113</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 2018

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 17 October 2018.

Statement of compliance

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

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

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

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

Accounting policies

Basis of preparation

The financial report is presented in Australian dollars.

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

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:

Catholic Development Fund - Diocese of Broken Bay

Notes to and forming part of the Financial Statements

For the year ended 30 June 2018

1. Statement of accounting policies (ctd.)

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 and will be adopted by the CDF as of 1 July 2018.

Based on the analysis undertaken by the CDF, AASB 9 will result in a \$639,000 adjustment to opening retained earnings and opening loans receivable.

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.

AASB 16 Leases

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

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 (2017 – 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 2018

1. Statement of accounting policies (ctd.)

Derecognition

Financial assets are derecognised where the contractual rights to receive cash flow expire 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 measured 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 receivables, Trade and other payables and Cash and cash equivalents the carrying value is deemed to be a reasonable approximation of fair value due to their short term nature.

Impairment

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 2018

1. Statement of accounting policies (ctd.)

Provision for distributions

The Board has adopted a policy based on distributing the full net operating surplus less \$150,000 to the Diocese. The remaining balance of \$150,000 is retained to build up Capital in the Fund to meet prudential requirements. The policy also prescribes when payments are to be made.

A provision is maintained for any distributions approved but unpaid - see note 8.

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 and expense

Interest revenue and interest expense 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 2018

	2018 \$	2017 \$
2. Investment securities		
At call deposits		
- Catholic Development Fund - Archdiocese of Sydney	6,612,066	5,321,507
- Commonwealth Bank of Australia	-	5,000,000
	<u>6,612,066</u>	<u>10,321,507</u>
Term deposits		
- Catholic Development Fund - Archdiocese of Sydney	79,000,000	-
- Term deposits with Authorised Deposit-Taking Institutions (ADIs)	-	77,400,000
	<u>79,000,000</u>	<u>77,400,000</u>
	<u>85,612,066</u>	<u>87,721,507</u>
<i>Maturity analysis</i>		
At call	6,612,066	10,321,507
Not longer than 3 months	64,000,000	72,400,000
Longer than 3 months and not longer than 12 months	15,000,000	5,000,000
	<u>85,612,066</u>	<u>87,721,507</u>
3. Auditors' remuneration		
Current year - audit services	33,700	28,000
Current year - other services	2,598	-
	<u>36,298</u>	<u>28,000</u>
4. Loans and receivables		
Diocesan Loans	119,741,091	116,079,911
Non Diocesan Loans	11,266,636	7,647,121
	<u>131,007,727</u>	<u>123,727,032</u>
<i>Maturity analysis</i>		
Overdrafts	-	-
Not longer than 3 months	2,203,291	1,703,156
Longer than 3 months and not longer than 12 months	7,292,795	5,474,089
Longer than 1 year and not longer than 5 years	45,353,613	46,497,949
Longer than 5 years	76,158,028	70,051,838
	<u>131,007,727</u>	<u>123,727,032</u>

Catholic Development Fund - Diocese of Broken Bay

Notes to and forming part of the Financial Statements

For the year ended 30 June 2018

	2018 \$	2017 \$
5. Other assets		
Prepayments	13,086	8,470
GST receivable	1,441	1,706
	<u>14,527</u>	<u>10,176</u>
6. Deposits		
Depositors' savings:		
Call deposits		
Diocesan entities	93,464,591	104,434,370
Non Diocesan entities	3,836,868	3,373,467
Non church deposits	-	-
	<u>97,301,459</u>	<u>107,807,837</u>
Fixed term deposits		
Diocesan entities	109,769,437	93,118,818
Non Diocesan entities	1,204,679	1,596,683
Non church deposits	-	113,653
	<u>110,974,116</u>	<u>94,829,154</u>
	<u>208,275,575</u>	<u>202,636,991</u>
<i>Maturity analysis</i>		
On call	97,301,459	107,807,837
Not longer than 3 months	98,308,854	75,444,198
Longer than 3 months and not longer than 12 months	12,665,262	19,384,956
	<u>208,275,575</u>	<u>202,636,991</u>
7. Trade and other payables		
Creditors and accruals	28,760	30,373
Accrued interest on depositors monies	604,804	558,126
	<u>633,564</u>	<u>588,499</u>
8. Provision for distributions		
Proposed distribution of surplus - Diocese	2,952,211	2,805,422
	<u>2,952,211</u>	<u>2,805,422</u>
8 (a). Distributions		
Interim distribution paid to diocese	1,985,172	1,866,964
Proposed final distribution to diocese	2,952,211	2,805,422
Total distribution from the CDF for the Year	<u>4,937,383</u>	<u>4,672,386</u>
9. Loan capital		
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 2018

	2018 \$	2017 \$
10. Interest revenue and interest expense		
Interest revenue		
Investments		
- Current accounts	28,675	34,766
- At call investments	132,692	134,532
- Term deposits	2,204,967	2,437,495
	<u>2,366,334</u>	<u>2,606,793</u>
Loans		
- Loans to Diocesan entities	6,698,493	6,468,205
- Loans to Non Diocesan entities	463,453	309,723
	<u>7,161,946</u>	<u>6,777,928</u>
	<u>9,528,280</u>	<u>9,384,721</u>
Interest expense		
Depositors' savings		
Call deposits		
- Diocesan entities	1,404,941	1,473,464
- Non Diocesan entities	47,053	78,545
- Non church deposits	-	570
	<u>1,451,994</u>	<u>1,552,579</u>
Fixed term deposits		
- Diocesan entities	2,383,968	2,288,129
- Non Diocesan entities	27,667	40,499
- Non church deposits	329	35,457
	<u>2,411,964</u>	<u>2,364,085</u>
Perpetual subordinated debt	56,045	56,556
Overdrawn interest charge	50	80
	<u>56,095</u>	<u>56,636</u>
	<u>3,920,053</u>	<u>3,973,300</u>

11. Related party transactions

Board Members

The Advisory Board members who held office during the year ended 30 June 2018 were as follows:

Mr William d'Apice (Chairman)

Ms Helen Bentham (Audit Committee – Member)

Mr Adam Bowe (Appointed 7 March 2018) (Lending Committee – Member)

Mr Joe Bracken (Audit Committee - Member)

Mr Michael Lucas (Audit Committee - Member)

Ms Catherine Manuel (Appointed 1 January 2018) (Lending Committee – Member)

Ms Emma McDonald - Ex Officio (Lending Committee – Member)

Rev William Stevens (Lending Committee – Member)

Catholic Development Fund - Diocese of Broken Bay

Notes to and forming part of the Financial Statements

For the year ended 30 June 2018

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 2018 payments of \$5,950 were made to Makinson d'Apice Lawyers (2017: \$4,087). Mr d'Apice is also member of the Diocesan Finance Committee.

A Board Member, Ms Emma McDonald is the Diocesan Financial Administrator for the Catholic Diocese of Broken Bay, and is 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.

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

Key management personnel

Mr Peter Bokeyar – General Manager

Ms Emma McDonald – Diocesan Financial Administrator

Effective from the 21st July 2017 the Services and Facilities agreement dated 4 November 2010 was varied appointing the General Manager of the Sydney CDF as the General Manager of Broken Bay CDF for a period of 6 months. This agreement was later extended until 30 June 2018 and then again extended for a further 3 years.

Controlling entities

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

Catholic Development Fund - Diocese of Broken Bay

Notes to and forming part of the Financial Statements

For the year ended 30 June 2018

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 that requires relevant Board Members to declare any conflicts of interest as a result of their holding such positions and abstain from voting on decisions taken in respect of those organisations.

Aggregate interest revenue and expenses received from and paid to Diocesan entities are detailed in note 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, less \$150,000.

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:

	2018 \$	2017 \$
Cash	2,369,442	1,503,606
Investment securities maturing in less than 3 months	70,612,066	82,721,507
	<u>72,981,508</u>	<u>84,225,113</u>

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

Operating surplus	5,087,383	4,822,386
Decrease in interest receivable	61,003	149,780
Increase/(Decrease) in interest payable	46,678	(181,693)
Net increase in loans	(7,280,695)	(6,422,244)
Net increase in deposits	5,638,584	11,500,654
Decrease in creditors and accruals	(1,613)	(12,195)
Decrease in other assets	(4,351)	366
Net cash provided by operating activities	<u>3,546,989</u>	<u>9,857,054</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 2018

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.

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

14. Commitments to extend credit

The following loans approved at 30 June 2018 had not been drawn at that date.

	2018 \$	2017 \$
Diocesan loans (including undrawn overdrafts)	3,490,095	13,709,847
Non Diocesan loans	1,681,697	5,623,611
	<u>5,171,792</u>	<u>19,333,458</u>

15. Financial risk management

Overview

The CDF's financial instruments consist of investments with the Catholic Development Fund – Archdiocese of Sydney (Sydney CDF), loans and receivables, 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 2018 and currently has no plans to utilise derivatives in the foreseeable future.

Catholic Development Fund - Diocese of Broken Bay

Notes to and forming part of the Financial Statements

For the year ended 30 June 2018

(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.

(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 2018 was 9.79% (30 June 2017: 9.54%)

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 Sydney CDF; 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%

Catholic Development Fund - Diocese of Broken Bay

Notes to and forming part of the Financial Statements

For the year ended 30 June 2018

15. Financial risk management (ctd.)

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

S&P long term rating	2018		2017	
	\$'000	% of Total	\$'000	% of Total
AAA to AA-	-	-	50,704	57%
A+ to A-	-	-	9,000	10%
BBB+	-	-	22,700	25%
Non rated	87,982	100%	6,821	8%
Total	87,982	100%	89,225	100%

15. Financial risk management (ctd.)

Clause 11 of the updated Services and Facilities agreement (referred to in note 11) stated that Broken Bay CDF's investments would be lodged with Sydney CDF. Existing investments in ADIs would continue until maturity. At maturity, they would either be redeemed or reinvested with Sydney CDF.

Loans and receivables Credit Risk

The CDF's maximum exposure to loans and receivables credit risk at balance date in relation to each class of recognised financial asset is the carrying amount of those assets as indicated in the statement of financial position. Credit risk in loans and receivables 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 2018

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					
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000	2018 %	2017 %
(i) Financial assets										
Cash and cash equivalents / investment securities	8,982	11,825	79,000	77,400	-	-	87,982	89,225	2.27%	2.52%
Loans and receivables	131,008	123,727	-	-	-	-	131,008	123,727	5.71%	5.84%
Accrued receivables / other assets	-	-	-	-	640	697	640	697	-	-
Total financial assets	139,990	135,552	79,000	77,400	640	697	219,630	213,649		
(ii) Financial Liabilities										
Deposits	97,301	107,808	110,975	94,829	-	-	208,276	202,637	1.77%	1.88%
Trade and other payables	-	-	-	-	634	588	634	588	-	-
Provision for distributions	-	-	-	-	2,952	2,805	2,952	2,805	-	-
Loan capital	-	-	2,000	2,000	-	-	2,000	2,000	2.80%	2.80%
Total financial liabilities	97,301	107,808	112,975	96,829	3,586	3,393	213,862	208,030		

Catholic Development Fund - Diocese of Broken Bay

Notes to and forming part of the Financial Statements

For the year ended 30 June 2018

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; or
- 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.

	2018		2017	
	Carrying amount \$'000	Net fair value \$'000	Carrying amount \$'000	Net fair value \$'000
<i>Financial assets</i>				
Available-for-sale financial assets	8,982	8,982	11,825	11,825
Held-to-maturity financial assets	79,000	79,000	77,400	77,400
Loans and receivables	131,008	131,008	123,727	123,727
Accrued receivables/other assets	640	640	697	697
	219,630	219,630	213,649	213,649
<i>Financial liabilities</i>				
Deposits	208,276	208,276	202,637	202,637
Trade and other payables	634	634	588	588
Provision for distribution	2,952	2,952	2,805	2,805
Loan capital	2,000	2,000	2,000	2,000
	213,862	213,862	208,030	208,030

Fair values are in line with carrying values.

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

	2018		2017	
	Percentage of total loans and receivables %	Amount \$'000	Percentage of total loans and receivables %	Amount \$'000
Diocesan	91.40%	119,741,091	93.82%	116,079,911
Non Diocesan	8.60%	11,266,636	6.18%	7,647,121
	100.00%	131,007,727	100.00%	123,727,032

Catholic Development Fund - Diocese of Broken Bay

Notes to and forming part of the Financial Statements

For the year ended 30 June 2018

15. Financial risk management (ctd.)

(vii) Sensitivity analysis

Interest rate risk, foreign currency risk and price risk

Interest Rate Sensitivity Analysis

Loan interest rates are linked to movements in the 90-day bank bill swap bid rate (BBSY). Interest rates applying to variable interest rate deposit products are linked to the Commonwealth Bank Of Australia's deposit products. Interest rates on Fixed Term Deposits are 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 2018 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 occasional and is completed at spot rates for client transactions. Therefore, no sensitivity analysis has been performed.

Price risk sensitivity analysis

At 30 June 2018, 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 Sydney CDF, in respect of client encashment, bank guarantees, payroll and corporate credit card facilities through the Commonwealth Bank of Australia provided to clients of the CDF.
- The CDF has undertaken to honour facilities up to the limit specified to each client of the fund.

	2018	2017
	\$	\$
Maximum exposure as at balance date	1,605,639	1,336,238

Catholic Development Fund - Diocese of Broken Bay

Notes to and forming part of the Financial Statements

For the year ended 30 June 2018

17. Regulatory exemptions and status

Banking Act 1959 (Act)

On 31 August 2016 APRA issued a new exemption order, Banking exemption No.1 of 2016, which took effect from 1 January 2017. Under Banking exemption No.1 of 2016, sections 7 and 8 of the *Banking Act 1959*, do not apply to the CDF provided that the CDF complies with the conditions specified in the exemption order.

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

The Australian Securities and Investments Commission (ASIC) have provided an exemption instrument - 2016/813 to CDPF Limited (CDPF), a company owned by the Australian Catholic Bishops Conference. 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 all retail investments were repaid by.

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 give a true and fair view of the performance of the Development Fund for the year ended 30 June 2018 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 William d'Apice (Chairman)
On Behalf of Board – Catholic Development Fund – Diocese of Broken Bay


.....
Date


.....
Mr Peter Bokeyar
General Manager – Catholic Development Fund – Diocese of Broken Bay


.....
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 the Catholic Development Fund – Diocese of Broken Bay (Broken Bay CDF).

In our opinion, the accompanying Financial Report presents fairly, in all material respects, the financial position of Broken Bay CDF as at 30 June 2018, 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 2018;
- Statement of comprehensive income, statement of changes in equity, and statement of changes in cash flows for the year ended on 30 June 2018; and
- Notes to and forming part of the financial statements.

Basis for opinion

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

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

We are independent of Broken Bay CDF in accordance with the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (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_responsibilities/ar4.pdf. This description forms part of our Auditor's Report.


KPMG

A handwritten signature in black ink, appearing to read 'Michael O Connell'.

Michael O Connell

Partner

Sydney

17 October 2018