ARCHDIOCESE OF MELBOURNE CATHOLIC DEVELOPMENT FUND

SPECIAL PURPOSE FINANCIAL REPORT

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020

ARCHDIOCESE OF MELBOURNE
CATHOLIC DEVELOPMENT FUND

BOARD MEMBERS' REPORT

The Board Members submit herewith their report on the Archdiocese of Melbourne Catholic Development Fund ("the Fund") for the year ended 30 June 2020.

Board Members

The Board Members of the Fund in office at any time during or since the end of the financial year are:

- Most Rev. P.A. Comensoli, DD (Chairperson)
  Joined the Board 1 August 2018
  Archbishop of Melbourne

- Mr T. O'Leary BA (Hons), GradDipPhil (Deputy Chairperson)
  Joined the Board in January 2020
  Executive Director Stewardship, Catholic Archdiocese of Melbourne

- Mr. F.X. Moore, LL.B B.Comm (Deputy Chairperson) (Resigned on 12 Dec 2019)
  Joined the Board in November 2004
  Former Executive Director, Administration Catholic Archdiocese of Melbourne

- Mr. C. Griss, TFASFA
  Joined the Board in December 2003
  Former Group CFO, ANZ Banking Group
  Former CEO, Esanda Finance Corp. Ltd.

- Mr. A. Ryan, B. Bus. (Acc), FCPA, GAICD
  Joined the Board in August 2008
  Former CEO, MyLife MyFinance

- Mr. E. Passaris, B.Ec., CA, FCPA, RCA
  Joined the Board in December 2009
  Partner - Audit, Grant Thornton

- Rev. Msgr. A.J. Ireland, PP., E.V., B. Theol., STL, MA, STD, GAICD
  Joined the Board in December 2011
  Parish Priest of Doncaster Parish

- Dr. J.E. Ballard, BA, MHA, DBA, GAICD
  Joined the Board in June 2013
  Associate Vice Chancellor, Australian Catholic University

- Mr. P. Velten, B.Ec., CPA
  Joined the Board in December 2013
  Director, Finance and Operations, Catholic Archdiocese of Melbourne

- Ms. C. Proske, B.Com., PG. Dip. (App.Sc), CPA, M. Environmental Sc.
  Joined the Board in March 2017
  General Manager, Digital Loans, Speckle

BOARD MEMBERS' REPORT

Board Members (continued)

- Rev. A. Doran, BA(Hons), BTheol, GradDipEd(Sec), MTS, AAICD
  Joined the Board in April 2017
  Parish Priest of Our Lady of Perpetual Help, Ringwood

- Mr. J Miles, BA, B.Com., Grad.Dip.(Ec.), M.Com
  Joined the Board in December 2018
  Executive Director, Catholic Education Melbourne

Principal Activity

The principal activity of the Fund in the course of the financial year was to borrow monies from the Catholic Community to fund Catholic Capital Projects principally but not exclusively in the Archdiocese of Melbourne, the Diocese of Sale and the Diocese of Bunbury to assist in achieving their Catholic Mission.

Operating Results

The net profit for the year ended 30 June 2020 was $28.914m which was before a provision for distribution of $15.823m to the Catholic Archdiocese of Melbourne, $1.629m to the Diocese of Sale, $1.136m to the Diocese of Bunbury and Equity withdrawal by the Diocese of Bunbury of $0.391m. This compares to the 30 June 2019 financial year when the net profit was $29.580m before a distribution of $12.747m to the Catholic Archdiocese of Melbourne, $1.352m to the Diocese of Sale and $1.179m to the Diocese of Bunbury.

Significant Changes in the State of Affairs

There were no significant changes in the state of affairs for the Fund.

BOARD MEMBERS' REPORT

Subsequent events

The Fund is under stage 4 restrictions on account of COVID-19 pandemic in Melbourne, Victoria. The Fund will assess the impact as the situation evolves as the longer-term impacts of the pandemic become clearer.

Review of operations

The Fund has operated satisfactorily in the financial period ended 30 June 2020 and has met borrowing needs of Catholic Organisations in pursuit of its mission.

The Fund is also progressively implementing a significant IT Transformation project, including expanded IT capabilities. This has resulted in an increased employee headcount.

Board Members' Remuneration

Other than as reported below, no Board Member of the Fund had received or become entitled to a benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by Board Members shown in these Accounts, or the fixed salary of a full time employee of the Fund) by reason of a contract made by the Fund or a related corporation with the Board Member or with a firm of which they are a member, or with a company in which they have a substantial financial interest.

Indemnification of Officers and Auditors

Insurance premiums have been paid to insure each of the Board Members and officers of the Fund, against any costs and expenses incurred by them in defending any legal proceeding arising of their conduct while acting in their capacity as an officer of the Fund. In accordance with normal commercial practice, disclosure of the premium amount and the nature of the insured liabilities is prohibited by a confidentiality clause in the contract.

No insurance cover has been provided for the benefit of the auditors of the Fund.

Environmental regulation

The Fund's operations are not subject to any significant environmental regulation under a law of the Commonwealth or of a State or Territory.

ARCHDIOCESE OF MELBOURNE
CATHOLIC DEVELOPMENT FUND

BOARD MEMBERS' REPORT

Rounding of amounts to the nearest thousand dollars

The amounts contained in this report and in the financial report have been rounded to the nearest thousand dollars (where rounding is applicable), or in certain cases, to the nearest dollar.

Signed in accordance with a resolution of Board Members

…………………………………………
Mr. T. O'Leary

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Mr. G. Griss

Dated at Melbourne this 29 day of September 2020.

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

477 Collins Street
Melbourne VIC 3000
GPO Box 78
Melbourne VIC 3001 Australia

Tel: +61 3 9671 7000
Fax: +61 3 9671 7001
www.deloitte.com.au

Independent Auditor's Report to the Board Members of the Archdiocese of Melbourne Catholic Development Fund

Opinion

We have audited the financial report being a special purpose financial report, of the Archdiocese of Melbourne Catholic Development Fund ("the Fund"), which comprises the statement of financial position as at 30 June 2020, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the Board Members' declaration as set out on pages 8 to 36.

In our opinion, the accompanying financial report presents fairly, in all material respects, the Fund's financial position as at 30 June 2020 and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Fund in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Basis of Accounting and Restriction on Distribution and Use

We draw attention to Note 1 to the financial report, which describes the basis of accounting. The financial report has been prepared to assist the Fund to meet the financial reporting requirements of Australian Accounting Standards. As a result, the financial report may not be suitable for another purpose. Our report is intended solely for the Board Members and should not be distributed or used by parties other than the Board Members. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises the Director's report for the year ended 30 June 2020, but does not include the financial report and our auditor's report thereon.

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

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and the Board Members for the Financial Report

Management of the Entity is responsible for the preparation and fair presentation of the financial report and has determined that the basis of preparation and accounting policies described in Note 1 to the financial report is appropriate to meet the requirements of Australian Accounting Standards and is appropriate to meet the needs of the Board Members. Management's responsibility also includes such internal control as management determine is necessary to enable the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.

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- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with The Board Members and management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

DELOITTE TOUCHE TOHMATSU

Mark Stretton
Partner
Chartered Accountants
Melbourne, 29 September 2020

ARCHDIOCESE OF MELBOURNE
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DECLARATION BY BOARD MEMBERS

As detailed in Note 1 to the financial statements, the Fund is not a reporting entity because in the opinion of the Board Members there are unlikely to exist users of the financial report who are unable to command the preparation of reports tailored so as to satisfy specifically all of their information needs.

Accordingly, this ‘special purpose financial report’ has been prepared to satisfy the Board Members’ reporting requirements under the applicable accounting standards as outlined in Note 1.

The Board Members declare that:

(a) the attached financial statements and notes thereto are in compliance with applicable accounting standards as outlined in Note 1 and give a true and fair view of the financial position as at 30 June 2020, and performance of the year ended on that date; and

(b) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board and is signed for and on behalf of the Board Members by:

T O'Leary

…………………………………………….
Mr. T. O’Leary

…………………………………………
Mr. C. Griss

Dated this 29 day of September 2020

ARCHDIOCESE OF MELBOURNE
CATHOLIC DEVELOPMENT FUND

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2020

	Notes	2020 $'000	2019 $'000
Interest revenue	3	**58,233**	62,347
Interest expense	4(a)	**(21,357)**	(25,819)
Net interest revenue		**36,876**	36,528
Other revenue	3	**4,487**	4,424
Employee benefits expense		**(6,447)**	(6,138)
Depreciation and amortisation expense	4(a)	**(563)**	(211)
Other expenses	4(b)	**(5,439)**	(5,023)
Net profit for the year		**28,914**	29,580
Total comprehensive income		**28,914**	29,580

The accompanying notes should be read in conjunction with these financial statements.

ARCHDIOCESE OF MELBOURNE
CATHOLIC DEVELOPMENT FUND

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2020

	Notes	2020 $'000	2019 $'000
ASSETS			
Cash and cash equivalents	5	**509,094**	198,428
Floating rate notes	5	**277,095**	252,376
Other financial assets	5	**4,000**	50,000
Receivables	6	**2,940**	3,369
Loans and advances	7	**1,180,143**	1,182,465
Property plant and equipment	8	**1,173**	1,237
Right-of-use Asset	8	**2,770**	-
Intangibles	9	**425**	13
TOTAL ASSETS		**1,977,640**	1,687,888
LIABILITIES			
Customer Investments	10	**1,763,326**	1,431,843
Payables and other liabilities	11	**5,799**	59,763
Employee entitlement provisions	12	**887**	833
Provision for distribution to Archdiocese/Diocese	13	**255**	873
Lease liabilities	14	**2,862**	-
TOTAL LIABILITIES		**1,773,129**	1,493,312
NET ASSETS		**204,511**	194,576
EQUITY			
Reserves	15	**5,586**	5,586
Retained funds	16	**198,925**	188,990
TOTAL EQUITY		**204,511**	194,576

The accompanying notes should be read in conjunction with these financial statements.

ARCHDIOCESE OF MELBOURNE
CATHOLIC DEVELOPMENT FUND

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2020

	Retained earnings $'000	General Reserve for Credit Losses $'000	Total $'000
Balance at 30 June 2018	175,458	4,816	180,274
Distribution to Archdiocese of Melbourne	(12,747)	-	(12,747)
Distribution to Diocese of Sale	(1,352)	-	(1,352)
Distribution to Diocese of Bunbury	(1,179)	-	(1,179)
Net Profit for the year	29,580	-	29,580
Transfer to General Reserve for credit losses	(770)	770	-
Balance at 30 June 2019	**188,990**	**5,586**	**194,576**
Balance at 30 June 2019	188,990	5,586	194,576
Equity Withdrawal by Diocese of Bunbury	(391)	-	(391)
Distribution to Archdiocese of Melbourne	(15,823)	-	(15,823)
Distribution to Diocese of Sale	(1,629)	-	(1,629)
Distribution to Diocese of Bunbury	(1,136)	-	(1,136)
Net Profit for the year	28,914	-	28,914
Balance at 30 June 2020	**198,925**	**5,586**	**204,511**

The accompanying notes should be read in conjunction with these financial statements.

ARCHDIOCESE OF MELBOURNE
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STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2020

	Notes	2020 $'000	2019 $'000
Cash flows from operating activities			
Customer loans granted		**(295,328)**	(324,450)
Customer loans repaid		**297,650**	170,527
Interest and bill discounts received		**59,021**	61,679
Interest and other costs of finance paid		**(23,957)**	(25,580)
Fees and commissions received		**4,128**	4,666
Fees and commissions paid		**(1,663)**	(1,663)
FRN Repurchase Facility net		**(50,760)**	50,760
Payments to suppliers and employees		**(11,198)**	(8,252)
Net cash (used in) from operating activities	20(c)	**(22,108)**	(72,313)
Cash flows from investing activities			
Redemption/(Investment) of term deposits > 3 months		**46,000**	(46,000)
(Investment)/Redemption floating rate notes		**(24,719)**	14,807
Net increase in customers' savings investments		**64,765**	30,303
Net increase in customers' fixed term investments		**266,718**	148,465
Payments for property, plant and equipment		**(222)**	(75)
Payments for intangible software		**(531)**	(3)
Net cash provided by from investing activities		**352,011**	147,497
Cash flows from financing activities			
Payments to lease liabilities		**(259)**	-
Distributions paid		**(18,979)**	(15,183)
Net cash (used in) from financing activities		**(19,238)**	(15,183)
Net increase in cash held		**310,667**	60,000
Cash at the beginning of the reporting period		**198,428**	138,428
Cash at end of the reporting period	**20(a)**	**509,093**	198,428

The accompanying notes should be read in conjunction with these financial statements.

ARCHDIOCESE OF MELBOURNE
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General Information

The Archdiocese of Melbourne Catholic Development Fund is an unincorporated activity of the Catholic Archdiocese of Melbourne. The financial report of the Fund for the year ended 30 June 2020 was authorised for issue in accordance with a resolution of the Board Members on 29 September 2020 .

The principal activities of the Fund during the year was to borrow monies from the Catholic Community to fund Catholic Capital Projects principally but not exclusively in the Archdiocese of Melbourne, the Diocese of Sale and the Diocese of Bunbury to assist in achieving their Catholic Mission.

Financial Reporting Framework

The Fund is not a reporting entity because in the opinion of the Board Members of the Fund, there are unlikely to exist users of the financial report who are unable to command the preparation of reports tailored so as to satisfy specifically all of their information needs. Accordingly, this 'special purpose financial report' has been prepared to satisfy the Board's reporting requirements. The Fund is registered with the Australian Charities and Not-For Profits Commission as a Basic Religious Charity. The Fund has applied not-for-profit specific requirements contained in Australian Accounting Standards in the preparation of these financial statements.

Statement of Compliance

The financial report is a special purpose report which has been prepared in accordance with the recognition and measurement requirements specified by the relevant Accounting Standards and Interpretations, and the disclosure requirements of accounting standards AASB 101*: Presentation of Financial Statements*, AASB 107*: Cash Flow Statements,* AASB 108*: Accounting Policies, Changes in Accounting Estimates and Errors, AASB 1048: Interpretation of Standards, and AASB 1054: Australian Additional Disclosures.*

The financial report is for the entity "Archdiocese of Melbourne Catholic Development Fund" which is an activity of the Archdiocese of Melbourne.

Basis of preparation

This financial report has been prepared on an accrual basis and is based on historical costs, except for certain financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below. All amounts are presented in Australian dollars, unless otherwise noted.

Amounts in the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

Critical accounting judgments and key sources of estimation uncertainty

In the application of the Fund's accounting policies, Management have made an assessment of the impact of COVID on expected credit losses on loans. The assessment takes account of past trends, current debt servicing capacity and loan security provided. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Adoption of new and revised Accounting Standards

In the current year, the Fund has not adopted any new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the "AASB") that are relevant to its operations and effective for the current annual reporting period save for those identified in the Statement of Compliance.

The following is a summary of the material accounting policies adopted by the Fund in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

The key changes in significant accounting policies and impacts from the transition are summarised below:

• AASB 16 *Leases*

• AASB 15 *Revenue from Contracts with Customers*

• AASB 1058 *Income of Not-for-Profit Entities*

Classification and subsequent measurement:

Leases

(i) Right-of-use assets (ROU) and lease liabilities

The Fund is a party to lease contracts for buildings.

Leases are recognised, measured and presented in line with AASB 16 *Leases* according to the modified retrospective method. There was no effect on retained earnings upon adoption of the method as at 1 July 2019.

The Fund assesses whether a contract is or contains a lease, at inception of the contract. The Fund recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (less than $5,000). For these leases, the Fund recognises the lease payments as an operating expense on a straight-line basis over the term of the lease.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the Fund’s incremental borrowing rate (IBR). The incremental borrowing rate is defined as the rate of interest that the lessee would have to pay to borrow over a similar term and with a similar security the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

In calculating the IBR, Management has taken account of the baseline reference rate and made adjustments relating to the currency, economic environment as well as adjustments according to the asset type and term of each lease.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Classification and subsequent measurement: (continued)

Leases (continued)

The lease term determined comprises the non-cancellable period of lease contracts, periods covered by an enforceable option to extend the lease if the Fund is reasonably certain to exercise that option. Subsequent to initial measurement, the lease liability is measured by increasing the carrying amount to reflect interest on the lease liability and reducing it by lease payments made. The lease liability is remeasured when the Fund changes its assessment of whether it will exercise an extension or termination option.

Right-of-use assets are initially measured at cost, comprising the initial measurement of the lease liability, plus any initial direct costs and an estimate of asset retirement obligations, less any lease incentives. Subsequently, right-of-use assets are measured at cost, less accumulated depreciation and any accumulated impairment losses, and are adjusted for certain measurements of the lease liability. Depreciation is calculated on a straight-line basis over the length of the lease.

Right-of-use assets are presented within assets on the face of the balance sheet and lease liabilities are shown separately in liabilities.

(ii) Leased assets (Modified Retrospective Approach)

Assets held by the Fund under leases which transfer to the Fund substantially all of the risks and rewards of ownership are classified as finance leases. On initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation within loans and borrowings.

Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Assets held under other leases are classified as operating leases and are not recognised in the Fund's statement of financial position.

(iii) Lease payments (Modified Retrospective Approach)

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

1.

Classification and subsequent measurement: (continued)

Leases (continued)

Financial impact of the initial application of AASB 16

Impact on profit or loss	2020 $'000
Increase in amortisation	**(243)**
Decrease in operating lease expense	**259**
Increase in finance costs	**(102)**
Increase / (Decrease) in profit for the year	**(86)**

Impact on assets, liabilities and equity	1 July 2019 $'000	30 June 2020 $'000
Right-of-use assets	3,013	2,770
Net impact on total assets	**3,013**	**2,770**
Lease liabilities	3,013	2,862
Net impact on total liabilities	**3,013**	**2,862**
Retained earnings	**-**	**(92)**

Impact on cash flows	30 June 2020 $'000
Payments to suppliers and employees	(259)
Decrease in cash outflows from operating activities	**(259)**
Payments of lease liabilities	173
Payments of interest on lease liabilities	86
Increase in outflows from financing liabilities	**259**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Classification and subsequent measurement: (continued)

Revenue

AASB 15 *Revenue from Contracts with Customers* establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. There has been no effect on accounting for revenue by the Fund as a result of the adoption of the standard.

Under AASB 15 recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Revenue is measured based on the consideration to which the Fund expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. Loan interest revenue is recognised as interest accrues using the effective interest method. The effective interest method uses the effective interest rate, which is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial asset.

The Fund recognises revenue from the following major sources at a point in time:

<u>Loan interest revenue</u>

Loan interest is calculated on the daily loan balance outstanding and is charged in arrears to the loan account on the last day of each monthly or quarterly repayment period as the case may be.

<u>Investment interest revenue</u>

Investment interest revenue from financial assets is recognised on a time-proportionate basis using effective interest method.

<u>Fees</u>

All fees are recognised upon the rendering of the service to the customer.

<u>Donations and Grants</u>

Donations and grants are measured at the fair value of consideration received or receivable

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Tax

No income tax is payable because the Fund is an endorsed Income Tax Exempt Charity.

Going concern

The directors have prepared the Fund financial statements on the going concern basis, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the normal course of business.

In preparing the financial statements, the directors note that at 30 June 2020, the Fund had net assets of $ 204,511K (2019: net assets $194,576K).

Intangible assets

Computer Software

Computer software that is not integral to the operation of a related piece of hardware is classified as an intangible asset and is initially recognised at cost. Subsequent to initial recognition, computer software is carried at its cost less accumulated amortisation and any impairment losses.

Customer Investment

Client investments are brought to account at fair value. Interest on investments is brought to account on an accruals basis. Interest accrued to balance date is shown as a part of clients' investments.

Employee benefits

Provision is made for the liability for employee benefits arising from services rendered by employees to the balance date. Liabilities recognised in respect of long term employee benefits, such as long service leave and annual leave not expected to be taken in 12 months are measured as the present value of the estimated future cash outflows to be made by the Fund in respect of services provided by employees up to reporting date.

<u>Superannuation Contributions – Accumulation Fund</u>

Contributions are made by the Fund to Employee Superannuation Funds and are charged as expenses when incurred.

Derivative Financial Instruments

The Fund uses derivative financial instruments such as interest rate swaps to hedge its risk associated with interest rate fluctuations. Such derivative financial instruments are stated at fair value, with any increase or decrease in value recognised in the profit or loss.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets and liabilities

Financial assets and financial liabilities are recognised when the Fund becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. All recognised financial assets are measured subsequently in their entirety at amortised cost.

Classification of financial assets

Debt instruments that meet the following conditions are measured subsequently at amortised cost:

• the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

• the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Loans and receivables

The Fund's financial assets at amortised cost includes loans and trade receivables. These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the asset is derecognised or impaired.

Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Amortised cost and effective interest method (continued)

the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Impairment of financial assets

The Fund recognises a loss allowance for expected credit losses on loans and receivables. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Fund recognises lifetime expected credit losses (ECL) for loans and receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Fund's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. During 2020, no impairment of loans and receivables has been recorded (2019: nil).

Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Fund's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Fund in accordance with the contract and all the cash flows that the Fund expects to receive, discounted at the original effective interest rate.

If the Fund has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Fund measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Fund recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets

The Fund derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another Company. If the Fund neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Fund recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Fund retains substantially all the risks and rewards of ownership of a transferred financial asset, the Fund continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities

Financial liabilities, including trade and other payables, are initially measured at fair value, net of transaction costs. All financial liabilities are measured subsequently at amortised cost using the effective interest method.

Derecognition

The Fund derecognises financial liabilities when, and only when, the Fund's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Goods & Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Comparative Figures

Where necessary, comparative figures have been adjusted to conform with the changes in presentation in the current year.

Standards and Interpretations in issue not yet in effect

At the date of authorisation of the financial statements, there were no Standards and Interpretations in issue but not yet effective, that would have a material impact on the Fund.

2. INTEREST REVENUE AND EXPENSE

The following tables show the average balance for each of the major categories of interest-bearing assets and liabilities, the amount of interest revenue or expense and the average interest rate.

1 July 2019 to 30 June 2020

	Average Balance $'000	Interest $'000	Average Rate Per Annum %
Interest earning Assets			
Deposits with other financial institutions	892,675	14,121	1.57
Loans and advances	1,173,165	44,112	3.76
	2,065,840	58,233	2.81
Interest incurring Liabilities			
Customer investments	1,849,739	21,357	1.15

1 July 2018 to 30 June 2019

	Average Balance $'000	Interest $'000	Average Rate Per Annum %
Interest earning Assets			
Deposits with other financial institutions	671,867	16,864	2.51
Loans and advances	1,098,625	45,483	4.14
	1,770,492	62,347	3.52
Interest incurring Liabilities			
Customer investments	1,574,333	25,819	1.64

3. REVENUE

	2020 $'000	2019 $'000
Interest revenue	**58,233**	62,347
Service fees & cost recoveries	**3,560**	3,452
Management fees	**910**	958
Other income	**17**	14
Total other revenue	**4,487**	4,424
Total revenue	**62,720**	66,771

4. PROFIT BEFORE INCOME TAX EXPENSE

Profit/(Loss) before income tax expense has been determined after:

(a) Expenses

	2020 $'000	2019 $'000
Interest expense	**21,357**	25,819
Depreciation Expense		
- Plant and equipment	**304**	100
- Buildings and fixtures	**140**	104
Total depreciation expense	**444**	204
Amortisation expense	**119**	7
Total depreciation & amortisation expense	**563**	211

(b) Other expenses:

	2020 $'000	2019 $'000
Other expenses	**5,439**	5,023

Inclusive of Insurance, Bank Charges, Consultancy and IT Maintenance

5. CASH, CASH EQUIVALENT AND INVESTMENTS

	2020 $'000	2019 $'000
Cash on hand and at banks	**19,094**	25,422
Deposits at call	**20,000**	63,006
Term deposits <3 months	**470,000**	110,000
Cash and cash equivalents	**509,094**	198,428
Floating rate notes	**277,095**	252,376
	790,189	450,804
Term deposits >3 months	**4,000**	50,000
Total Cash and cash equivalents & investments	**790,189**	500,804

6. RECEIVABLES

	2020 $'000	2019 $'000
Interest receivable	**1,527**	2,315
Other	**1,413**	1,054
	2,940	3,369

7. LOANS AND ADVANCES

	2020 $'000	2019 $'000
Overdrafts	**1,324**	14,179
Term loans	**1,178,819**	1,168,286
Gross loans and advances	**1,180,143**	1,182,465
Net loans and advances	**1,180,143**	1,182,465

	2020 $'000	2019 $'000
Maturity Analysis		
Overdrafts	**1,324**	14,179
Not longer than 3 months	**27,207**	28,616
Longer than 3 and not longer than 12 months	**75,564**	81,229
Longer than 1 and not longer than 5 years	**338,327**	347,086
Longer than 5 years	**737,721**	711,355
	1,180,143	1,182,465

8. PROPERTY PLANT AND EQUIPMENT

	Buildings and Fixtures $'000	Office Furniture & Equipment $'000	Computer Equipment $'000	Tangible Computer Software $'000	Motor Vehicle $'000	ROU $'000	Total $'000
Cost							
Balance at 1 July 2018	1,204	240	318	54	250	-	2,066
Additions	-	28	-	10	30	-	68
Balance at 30 June 2019	1,204	268	318	64	280	-	2,134
Accumulated Depreciation at 30 June 2019	(337)	(119)	(302)	(51)	(88)	-	(897)
Net book value as at 30 June 2019	**867**	**149**	**16**	**13**	**192**	**-**	**1,237**
Cost							
Balance at 1 July 2019	1,204	268	318	64	280	-	2,134
Additions	-	10	10	129	73	3,013	3,235
Disposals	-	-	-	-	(85)	-	(85)
Balance at 30 June 2020	**1,204**	**278**	**328**	**193**	**268**	**3,013**	**5,284**
Accumulated Depreciation							
Accumulated depreciation	(337)	(119)	(302)	(51)	(88)	-	(897)
Depreciation charge	(140)	(14)	(5)	(6)	(36)	(243)	(444)
Balance at 30 June 2020	(477)	(133)	(307)	(57)	(124)	(243)	(1,341)
Net book value as at 30 June 2020	**727**	**145**	**21**	**136**	**144**	**2,770**	**3,943**
At 30 June 2020							
Cost	1,204	278	328	193	268	3,013	5,284
Accumulated depreciation	(477)	(133)	(307)	(57)	(124)	(243)	(1,341)
Net book amount	**727**	**145**	**21**	**136**	**144**	**2,770**	**3,943**

9. INTANGIBLES

	Computer software $'000	Total $'000
Cost		
Balance at 1 July 2018	152	152
Additions	-	-
Balance at 30 June 2019	152	152
Accumulated Amortisation		
Accumulated amortisation	(135)	(135)
Amortisation charge	(4)	(4)
	(139)	(139)
Net book value as at 30 June 2019	13	13
Balance at 1 July 2019	**152**	**152**
Additions	**531**	**531**
Balance at 30 June 2020	**683**	**683**
Accumulated Amortisation		
Balance at 1 July 2019	**(139)**	**(139)**
Amortisation charge	**(119)**	**(119)**
	(258)	**(258)**
Net book value as at 30 June 2020	**425**	**425**

10. CUSTOMER INVESTMENTS

	2020 $'000	2019 $'000
Customers' savings investments	**599,519**	534,754
Customers' fixed term investments	**1,163,807**	897,089
	1,763,326	1,431,843

10. CUSTOMER INVESTMENTS (continued)

Maturity analysis	2020	2019
	$'000	$'000
Less than 1 day	**599,519**	534,754
1 day - 3 months	**763,372**	526,411
3 months - 12 months	**394,447**	358,929
1 year - 5 years	**5,988**	11,749
Longer than 5 years	**-**	-
	1,763,326	1,431,843

11. PAYABLES AND OTHER LIABILITIES

	2020	2019
	$'000	$'000
Interest payable	**4,512**	7,112
FRN repurchase facility liability	**-**	50,760
Other liabilities	**1,287**	1,891
	5,799	59,763

Securities sold under repurchase agreements represent a liability to repurchase the financial assets that remain on the balance sheet since the risks and rewards of ownership remain with the Fund. Over the life of the repurchase agreement, the Fund recognises the difference between the sale price and the repurchase price and charge it to interest expense in the Statement of Profit and Loss and Other Comprehensive Income.

12. PROVISIONS FOR EMPLOYEE ENTITLEMENTS

	2020	2019
	$'000	$'000
Provision for annual leave	**410**	305
Provision for long service leave	**477**	528
	887	833
Number of employees FTE at the end of the year	**48**	45

13. PROVISION FOR DISTRIBUTION TO ARCHDIOCESE/DIOCESE

	2020 $'000	2019 $'000
Provision for Melbourne Archdiocese distribution	**284**	811
Excess payment for Sale Diocese distribution	**(59)**	33
Provision for Bunbury Diocese distribution	**30**	29
	255	873

14. Lease Liability

	2020 $'000	2019 $'000
Current lease liability	**164**	**-**
Non-current lease liability	**2,698**	**-**
	2,862	**-**

15. RESERVES

(a) General Reserve for Credit Losses

	2020 $'000	2019 $'000
General Reserve for Credit Losses at the beginning of the financial year	**5,586**	4,816
Appropriation of retained funds	**-**	770
General Reserve for Credit Losses at the end of the financial year	**5,586**	5,586
Total Reserves	**5,586**	5,586

The General Reserve for Credit Losses (GRCL) refers to a reserve held against potential losses reasonably assessed to be possible (but not certain) to arise from existing loans which are currently satisfying their contractual terms. Such possible losses reflect the credit risk intrinsic in the business which the Fund undertakes. A GRCL is freely available to meet any credit losses that may subsequently materialise. The Fund's policy for GRCL is to maintain an amount equal to 0.50% of the drawn term loans as at the end of financial year.

16. RETAINED FUNDS

	2020 $'000	2019 $'000
Retained funds at the beginning of the financial period	**188,990**	175,458
Net profit	**28,914**	29,580
Total available for appropriation	**217,904**	205,038
Distributions provided for or paid	**(18,588)**	(15,278)
Equity withdrawal by Diocese of Bunbury	**(391)**	-
Transfer to General Reserve for Credit Losses	**-**	(770)
Retained funds at the end of the reporting period	**198,925**	188,990

17. RELATED PARTY DISCLOSURES

	2020	2019
Amounts received or due and receivable from the Fund by Board Members and Committee Members of the Fund	**178,714**	164,390
Number of Board Members and Committee Members of the Fund whose income was within the following bands:		
$0 - $9,999	**8**	8
$10,000 - $19,999	**4**	5
$20,000 - $29,999	**2**	2
$30,000 - $39,999	**1**	-
$40,000 - $49,999	**1**	1

18. FINANCIAL INSTRUMENTS

The Fund's financial instruments consist of deposits with Australian banks, investment securities, loans to customers, investments from customers, accounts receivable and payable, and derivatives.

The main purpose of non-derivative financial instruments is to provide a source of finance and credit and other expenditures in the work of the Catholic Church within the Archdiocese of Melbourne, Diocese of Sale and Diocese of Bunbury.

Derivatives are used by the Fund for hedging purposes on fixed rate loans. Such instruments include swapping 180 days Bank Bill Swap Reference Rate for fixed rate loans. The Fund does not speculate in the trade of derivative instruments.

Financial Risk Exposures and Management

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

(a) Credit risk
(b) Interest rate risk
(c) Liquidity risk

The Board has overall responsibility for the establishment and oversight of the risk management framework. Towards this end, the Board has established the Audit and Risk Management Committee and the Finance Committee. The committees regularly report on their activities to the Board.

(a) Credit risk

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

Credit Risk in loans receivable is managed by a careful evaluation of lending proposals by the Senior Management, the Chief Executive Officer, Finance Committee and the Board. All loans require ratification by the Board.

The quality of the loan portfolio is monitored by the Finance Committee with regular reports from management on overdrawn accounts, accounts in arrears and loans with larger exposures. Securities on the loans provided by the Fund are as follows:

18. FINANCIAL INSTRUMENTS (continued)

(a) Credit risk (continued)

i. Loans to Parishes, Parish Primary Schools and Archdiocesan Colleges are secured by title held by the Roman Catholic Trust Corporation.

ii. Loans to Orders are guaranteed by a letter of guarantee from the Order or by a mortgage on land and/or the business.

In response to COVID-19 related events, the Fund has granted repayment relief on some loans to various customer segments. Terms of relief include both repayment holidays or interest only repayments for periods of between 6 to 12 months.

In addition, management have reviewed COVID-19 impacted economic circumstances in each of the various customer segments including the effects on customer liquidity balances and the loan security held by the Fund.

The Fund has reviewed the loan portfolio including probability of default, loss given default and exposure at default assumptions based on historical data and taking into account forward looking information. Based on this assessment, including security arrangements, the Fund has determined that an expected credit loss provision is not required at 30 June 2020.

The full impacts of the COVID-19 pandemic were yet to be felt at the balance date. The Expected Credit Losses (ECL) model used by the Fund does not yet fully capture loans and credit commitments for which there has been a significant increase in credit risk as a result of COVID-19, as we have not yet observed any significant impact to customer loan arrears. We expect that the treatment of these loans and credit commitments will evolve as the situation unfolds and more data is available to understand the credit risk implications from the COVID-19 pandemic on the Fund.

The Fund notes that while deferral of payments by customers in hardship arrangements is generally treated as an indication of a significant increase in credit risk (SICR), the deferral of payments under the current COVID-19 support packages for customer loans has not, in isolation, been treated as an indication of SICR. CDF debt servicing relief is available to customers who have had income losses as a result of COVID-19 and who otherwise had up to date payment status prior to the onset of COVID-19. The relief allows for full or partial repayment deferrals which will be repaid over the remaining term of the loan. This relief has been provided to provide short-term cash flow support while the most significant COVID-19 restrictions are in place. As these are expected to be short-term in nature there is an expectation that most customers making use of the arrangements will subsequently return to normal trading arrangements. Accordingly, at this stage, we do not consider that customers making use of the packages have necessarily experienced a significant increase in credit risk as this assessment is based on changes in lifetime probability of default.

(b) Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of financial instruments will fluctuate because of changes in market interest rates. The Fund is exposed to this risk as it raises deposit and also lends and invest funds.

Market interest rates are monitored daily. The Fund's rates are reviewed at each Finance Committee meeting. Recommended interest rate changes are approved by the Finance Committee.

Interest Rate Sensitivity Analysis

The Fund's investment taking, lending and investment policies are all aimed at ensuring its financial position is not materially exposed to interest rate risk through changes in interest rates. To this end the Fund accepts investments 'at call', or with minor exceptions, with short term maturity not beyond 12 months. Similarly, loans (again with minor exceptions) are made at variable interest rates (or where at fixed rates are covered by 180-day bank bill Interest Rate Swap Agreements). Additionally, the Fund has the ability to adjust variable interest rate loans subject to market/competitive forces, to ensure that a satisfactory operating margin is achieved. Investments are principally cash, fixed rate bank deposits/Bank Bills and floating rate notes of varying maturities not exceeding 12 months as at balance date.

The Fund's Board is of the opinion that these policies and practices together with prudent capital and liquidity management ensure that the Fund's exposure to interest rate movements in any one year are immaterial in the context on annual net operating profit and the net equity of the Fund.

In support of this, the following Interest Rate Sensitivity Analysis shows the Net impact of one off 1%.

18. FINANCIAL INSTRUMENTS (continued)

change in interest rates, on only those liabilities and assets which would be immediately impacted as at the end of the balance date. Any liabilities or assets as at balance date, with a maturity during the year or beyond are not included in the rate sensitivity calculation unless they were capable of being re-priced as at the end of the relevant reporting period. The following table details the calculations, showing a Net Operating Profit impact of +/- $2,973K as at 30 June 2020 and +/- $242K as at 30 June 2019.

Financial instrument assets			**1%+/- VARIANCE**	
	2020	**2019**	**2020**	**2019**
	$'000	**$'000**	**$'000**	**$'000**
Cash and liquid assets	**19,093**	25,422	**191**	254
Floating rate notes	**277,095**	252,376	**2,771**	2,524
Loans and advances	**1,163,807**	1,166,492	**11,638**	11,665
TOTAL FINANCIAL INSTRUMENTS ASSETS	**1,459,995**	1,444,290	**14,600**	14,443
Customer Investments	**1,757,338**	1,420,094	**17,573**	14,201
TOTAL FINANCIAL INSTRUMENT LIABILITIES	**1,757,338**	1,420,094	**17,573**	14,201
NET CHANGE			**2,973**	242

Net fair values

	2020		**2019**	
	Carrying amount $'000	**Net Fair value $'000**	**Carrying amount $'000**	**Net Fair value $'000**
Financial Assets				
Cash on hands and at banks	**39,094**	**39,094**	88,428	88,428
Term deposits	**474,000**	**474,071**	160,000	160,000
Floating rate notes	**277,095**	**280,721**	252,376	254,235
Loans and Receivable	**1,183,083**	**1,311,002**	1,185,834	1,344,882
	1,973,272	**2,104,890**	1,686,638	1,847,545
Financial Liabilities				
Customer Investments	**599,519**	**599,519**	534,754	534,754
Customer Term Investments	**1,163,807**	**1,163,807**	897,089	897,089
	1,763,326	**1,763,326**	1,431,843	1,431,843

Aggregate net fair values and carrying amounts of financial assets and financial liabilities at balance date. The Fund's operations allow it to re-price interest rates for loan and investment products running variable rates to allow for market movements in interest rates. Loan products on fixed rates have interest rate swap arrangements in place to compensate for market movements. These factors would have ensured that any impact on the surplus and equity of the Fund would be immaterial to the year ended 30 June 2020.

18. FINANCIAL INSTRUMENTS (continued)

(c) Liquidity risk

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund limits its exposure to liquidity by investing in highly liquid securities which are realisable when the need arises.

The approved Investment Policy regarding credit and liquidity risk is as follows:

Liquid Assets Management

Liquid assets management is the responsibility of the Fund's Treasury Department.

The investment portfolio, including bank account balances, is monitored daily. Liquid assets are to be managed in a way to ensure that:

(i) Capital value is preserved;

(ii) Optimum return is achieved; and

(iii) Sufficient cash-flow is maintained to cover the Fund's operational commitments.

Liquid assets are managed in accordance with the Fund's Investment Guidelines and Liquidity Management Policy.

Liquidity Management

The Fund monitors liquidity on a daily basis in accordance with its liquidity management policy.

The minimum liquidity holding (MLH) target ratio is set at 12%.

Liquidity and interest risk tables

The following tables detail the Fund's remaining contractual maturity for its derivative and non-derivative financial assets and liabilities. The tables have been drawn up based on the undiscounted cash flows of the financial assets and liabilities based on the earliest date on which the Fund can be required to pay. The table includes both interest and principal cash flows. Whilst current liabilities exceed current assets; investments held by the Fund are considered non-volatile as clients have a contractual agreement when borrowing to invest surplus funds with the Fund. There has been no change to the risk management policy since the prior year.

ARCHDIOCESE OF MELBOURNE
CATHOLIC DEVELOPMENT FUND

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

Liquidity and interest risk tables	**Weighted average eff. interest rate**	**Less than 1 month**	**1-3 months**	**3 months to 1 year**	**1-5 years**	**Over 5 years**	**Total**
ASSETS	**%**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
2020							
Variable interest rate deposits	**1.07%**	**-**	**470,000**	**4,000**	**-**	**-**	**474,000**
Variable interest rate FRNs	**1.03%**	**3,000**	**-**	**93, 000**	**181,095**		**277,095**
Variable interest rate loans	**3.76%**	**3,826**	**23,521**	**86,328**	**379,966**	**686,502**	**1,180,143**
Fixed interest rate loans	**-**	**-**	**-**	**-**	**-**	**-**	**-**
		8,615	**493,521**	**184,234**	**561,992**	**686,502**	**1,934,864**
2019							
Variable interest rate deposits	2.26	86,000	24,000	46,000	4,000	-	160,000
Variable interest rate FRNs	2.42	5,100	12,350	60,376	160,550	14,000	252,376
Variable interest rate loans	4.14	9,502	19,114	81,228	347,086	725,210	1,182,140
Fixed interest rate loans	7.70	-	-	324	-	-	324
		100,602	55,464	187,928	511,636	739,210	1,594,840

Liquidity and interest risk tables	**Weighted average eff. interest rate**	**Less than 1 month**	**1-3 months**	**3 months to 1 year**	**1-5 years**	**Over 5 years**	**Total**
LIABILITIES	**%**	**$’000**	**$’000**	**$’000**	**$’000**	**$’000**	**$’000**
2020							
Variable interest rate investments	**0.10**	**599,519**	**-**	**-**	**-**	**-**	**599,519**
Fixed interest rate term investments	**1.20**	**319,045**	**445,668**	**393,126**	**5,988**	**-**	**1,163,807**
	-	**918,544**	**445,668**	**393,126**	**5,988**	**-**	**1,763,326**
2019							
Variable interest rate investments	0.58	534,754	-	-	-	-	534,754
Fixed interest rate term investments	2.54	171,837	354,575	358,929	11,748	-	897,089
		706,591	354,575	358,929	11,748	-	1,431,843

18. FINANCIAL INSTRUMENTS (continued)

The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. All Interest Rate Swaps are classified as Level 2 inputs (2019: Level 2).

Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Quoted prices (unadjusted in active markets for identical assets & liabilities that the Fund can access at the time of measurement	Inputs other than quoted prices included in Level 1 that are directly or indirectly observable.	Inputs that are not based on observable market data. The assumptions used must reflect those that market participants would use, including risk

19. AUDITORS' REMUNERATION

	2020 $	2019 $
Amounts received or due and receivable by the auditors for:		
Auditing the financial report	**68,000**	61,500
Other Services	**13,500**	-
	81,500	61,500

The auditor of the Fund is Deloitte Touche Tohmatsu.

20. COMMITMENTS

	2020 $'000	2019 $'000
Loans approved but not disbursed	**162,500**	235,154

21. CASH FLOW INFORMATION

(a) Reconciliation of cash

For the purpose of the cash flow statement, cash includes cash on hand, 'at call' deposits and term deposits with other financial institutions. Cash at the end of the reporting period as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows:

	2020 $'000	2019 $'000
Cash	**19,094**	25,422
Deposits at call & Term investments	**494,000**	223,006
	513,094	248,428
Less Term deposits >3 months	**(4,000)**	(50,000)
Cash	**509,094**	198,428

21. CASH FLOW INFORMATION (continued)

(b) Cash flows presented on a net basis

Cash flows arising from the following activities are on a net basis in the cash flow statement:

(i) customer investments in and withdrawals from savings, money market and other deposit accounts;
(ii) sales and purchases of dealing securities;
(iii) sales and purchases of maturing certificates of deposit; and
(iv) short-term borrowings.

(c) Reconciliation of the Net Cash flow provided by Operating Activities to Operating Profit

	2020 $'000	2019 $'000
Operating Profit before distribution	**28,914**	29,580
Net loans granted	**(2,322)**	(153,923)
Depreciation and amortisation	**563**	211
Increase/(decrease) in interest receivable	**(788)**	(668)
Increase/(decrease) in other debtors	**359**	258
Increase/(decrease) in accrued expenses and commitments	**(53,531)**	52,147
Increase/(decrease) in employee entitlements	**54**	82
Net cash used in operating activities	**(22,107)**	(72,313)

22. SUBSEQUENT EVENTS

The Fund is under stage 4 restrictions on account of COVID-19 pandemic in Melbourne, Victoria. The Fund will assess the impact as the situation evolves as the longer-term impacts of the pandemic become clearer.

23. FUND DETAILS

The registered office of the Fund is:

Archdiocese of Melbourne, Catholic Development Fund
Level 4, 486 Albert Street
EAST MELBOURNE VIC 3002
Tel: (03) 9926 2200