

ARMIDALE DIOCESAN INVESTMENT GROUP

AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JANUARY 2019



Armidale Diocesan Investment Group
Income Statement
For the year ended 31 January, 2019

	Note	2019 \$	2018 \$
Income from Loans & Investments	2	12,659,503	16,867,780
Interest Expense		(6,123,655)	(6,369,393)
Net Investment Income		6,535,848	10,498,387
Expenses from continuing operations		(1,815,994)	(1,948,626)
Profit from continuing operations	3	4,719,854	8,549,761
Add/(Less) - Transfers from/(to) Reserves	4	(887,209)	(4,626,317)
Surplus after reserve transfers		3,832,645	3,923,444
Add - Retained Profits brought forward		12,101,873	10,458,429
Total available for appropriation		15,934,518	14,381,873
Less - Distributions	5	(2,185,000)	(2,280,000)
Retained Profits carried forward		13,749,518	12,101,873

The accompanying notes form part of these financial statements.

Armidale Diocesan Investment Group

**Balance Sheet
As At 31 January, 2019**

	Note	2019 \$	2018 \$
<hr/>			
Assets			
Cash and cash equivalents	6	22,682,503	36,165,893
Trade and other receivables	7	659,004	300,896
Investment securities	8	260,662,033	207,138,488
Investment properties	9	35,620,250	33,857,750
Loans and advances	10	14,091,497	13,394,665
Plant, equipment and vehicles	11	375,579	181,349
Total Assets		<hr/> 334,090,866 <hr/>	<hr/> 291,039,041 <hr/>
Liabilities			
Amounts owed to depositors	12	296,647,916	254,928,982
Trade and other payables	13	643,340	235,602
Advance payments received	14	844,412	2,470,447
Provisions	15	105,027	88,693
Total Liabilities		<hr/> 298,240,695 <hr/>	<hr/> 257,723,724 <hr/>
Net Assets		<hr/> <u>35,850,171</u> <hr/>	<hr/> <u>33,315,317</u> <hr/>
Equity			
Reserves	16	22,100,653	21,213,444
Retained profits		13,749,518	12,101,873
Total Equity		<hr/> <u>35,850,171</u> <hr/>	<hr/> <u>33,315,317</u> <hr/>

The accompanying notes form part of these financial statements.

Armidale Diocesan Investment Group
Cash Flow Statement
For the year ended 31 January, 2019

	2019 \$	2018 \$
Cash Flow From Operating Activities		
Interest & distributions received on investments	7,582,174	5,990,308
Interest received on loans	485,257	627,620
Net rentals/distributions received on property investments	1,556,546	1,557,647
Interest paid on deposits	(6,615,381)	(5,741,356)
Payments to suppliers and employees	(1,598,559)	(1,905,953)
Net cash provided by operating activities (note 17)	<u>1,410,037</u>	<u>528,266</u>
Cash Flow From Investing Activities		
Payment for plant, equipment & vehicles	(137,957)	(33,805)
Proceeds from sale of plant, equipment & vehicles	0	21,510
Net reduction/(increase) in loans	(538,284)	(267,116)
Net reduction/(increase) in investments	(54,397,847)	(28,639,479)
Net cash provided by (used in) investing activities	<u>(55,074,088)</u>	<u>(28,918,890)</u>
Cash Flow From Financing Activities		
Net increase in deposits	42,210,661	11,915,909
Distributions paid	(2,030,000)	(2,280,000)
Net cash provided by financing activities	<u>40,180,661</u>	<u>9,635,909</u>
Net increase in cash held	(13,483,390)	(18,754,715)
Cash at the beginning of the year	36,165,893	54,920,608
Cash at the end of the year (note 6)	<u><u>22,682,503</u></u>	<u><u>36,165,893</u></u>

The accompanying notes form part of these financial statements.

Armidale Diocesan Investment Group
Notes to the Financial Statements
For the year ended 31 January, 2019

Note 1: Statement of Significant Accounting Policies

Basis of Preparation

The financial report is a special purpose financial report, prepared in order to satisfy the financial statement preparation requirements of the Board of the Armidale Diocesan Investment Group (the Group) and the Trustees of the Catholic Diocese of Armidale (the Trustees).

The Board and Trustees have determined that the Group is a non-reporting entity and therefore there is no requirement to apply Accounting Standards and other mandatory professional reporting requirements in the preparation and presentation of these statements.

The statements have been prepared in accordance with the requirements of the Board and the Trustees and the following Australian Accounting Standards and other mandatory professional reporting requirements:

AASB 110: Events Occurring after Reporting Date

AASB 116: Property, Plant & Equipment

AASB 119: Employee Benefit Provisions

AASB 136: Impairment of Assets

AASB 137: Provisions, Contingent Liabilities and Contingent Assets

AASB 9: Financial Instruments

No other Accounting Standards or other mandatory professional reporting requirements have been applied. The Group has considered the potential impact of AASB 1058 Income of Not-for-Profit Entities but deemed that it is not applicable or not expected to have any significant impact on the Financial Statements.

The statements are prepared on an accruals basis. Except as stated in the following specific accounting policies, the financial statements have been prepared on the basis of historic costs and do not take into account changing money values or, except where specifically stated, current valuations of assets.

Income tax

The Group is exempt from income tax under Division 50 of the Income Tax Assessment Act 1997 as it is part of a religious institution.

Plant, Equipment & Vehicles

Plant, Equipment and Vehicles are included at cost and are depreciated on a straight line basis over five years. Office furniture and fittings are depreciated on a straight line basis over 10 years.

Impairment

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. The recoverable amount of plant and equipment for not-for-profit-entities is the current replacement cost discounted to current asset condition. Impairment losses are recognised in the income statement.

Leases

The Group does not use finance leases.

The Group has not adopted AASB 16 - Leases which applies for reporting periods commencing after 01/01/2019. This standard requires operating lease liabilities to be brought to account in the Balance Sheet and offset by an asset for right to use. Payments made under operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred. All rental payments made by the Group are to related parties.

Armidale Diocesan Investment Group
Notes to the Financial Statements
For the year ended 31 January, 2019

Classes of Assets and Liabilities

Assets and liabilities have been grouped by their nature and listed on the Balance Sheet in the approximate order of their liquidity. These classes have not been allocated to their current and non-current portions.

Loans & Investment Securities

Loans and investments are included at cost except for publicly traded unit trusts and unit funds which are valued at their redemption value as at balance date. Direct property investments are included at fair market value as at balance date. Movements in fair market values are recognised as revenue items and included in the operating surplus in the income statement.

Under AASB 9: Financial Instruments, the Group has adopted the following classifications and asset recognition criteria for its financial instruments:

-Floating Rate Notes, Bank Bills & Deposits, Mortgage loans - are measured at amortised cost using the effective interest method, with revenue recognised on an effective yield basis. In addition, if there is objective evidence that the investment has been impaired, the financial asset is measured at the present value of estimated cash flows. Any changes to the carrying value of the investment are recognised in profit & loss.

-Unit Trusts & Cash Plus Funds - these investments are carried at fair value with subsequent changes in value recognised in profit & loss.

-Investment Property - these investments are carried at fair value with subsequent changes in value recognised in profit & loss.

Unrealised gains or losses on Unit Trusts, Cash Plus Funds and Investment Property are recognised in income.

Employee Entitlements

Provision is made for the Group's liability for annual leave and long service leave arising from services rendered by employees to the balance date.

All liabilities for annual leave have been included at their nominal value, including allowance for applicable on-costs. Long service leave is provided on a pro-rata basis for all employees who have completed 1 full year of service adjusted by probability factors relevant to the number of years service and the likelihood that the employee will ultimately qualify for a relevant benefit. The provision is based on current pay rates plus applicable on-costs indexed to expected future entitlement dates and then discounted to current values.

Statutory contributions are made by the Armidale Diocesan Investment Group to employee superannuation funds and are charged as expenses when incurred.

Provision for Impairment of Loans

In accordance with the relevant Australian equivalent to International Financial Reporting Standards (AIFRS), provision has been made for the write down of loans due to the possibility of some loans not being recoverable. In addition to this specific provision, the Group maintains a reserve for possible doubtful loans equal to at least 2.5% of net loans to reflect the additional risks over and above that required under AIFRS.

Cash and Cash Equivalent Assets

For the purpose of the statement of cash flows, cash includes cash on hand and in deposits with banks or financial institutions and investments in money market instruments maturing within one month, net of any bank overdrafts.

Armidale Diocesan Investment Group
Notes to the Financial Statements
For the year ended 31 January, 2019

Revenue Recognition

Interest and rental revenue are recognised on an accrued proportional basis taking into account the interest rates and current rentals applicable to the financial assets. Lease and rental incentives received in cash on acquisition of investment property assets are treated as deferred income and amortised to income over the relevant future periods to which they relate. Dividend revenue is recognised when received.

Interest Expense

Interest expenses relate to customer deposits and are expensed on an accrual basis as incurred.

Investment, Loan Asset & Sundry Reserves

The Group has adopted a reserving policy in relation to various classes of investments which aims to maintain the following minimum target reserve amounts as a percentage of related asset values at year end:

- Direct Investment Property Maintenance & Vacancies - 10.00%
- Property Investment Valuation Fluctuation - 10.00%
- Equity/Unit Trust Investment Valuation Fluctuation - 30.00%
- Loans - 2.50% (of loans net of any applicable provisions for write down)
- Fixed Interest Investments General Reserve - 1.00%

The policy provides for annual transfers to and from reserves to maintain the reserve balance at least equal to the minimum percentage of asset values but additional amounts may be transferred in appropriate circumstances. These transfers are not treated as revenue adjustments and do not affect the reported operating profit for the year. The transfers are shown below the operating profit line in the income statement.

Smoothing techniques are applied by the Group to the returns from equity based unit trust and property investments. Where returns are in excess of the long term expected earnings or "benchmark", the excess is transferred to the relevant Investment Fluctuation Reserve. Where returns are lower than the "benchmark", the shortfall is transferred (to the extent funds are available) from the Reserve.

In the case of direct property investments acquired during a financial year, the target reserve provision for maintenance and vacancies (of 10% of the asset value) would normally be accumulated over a period of up to 5 years following the year of purchase.

Previously the Group operated under an exemption from the Banking Act. In anticipation of regulatory changes arising from an APRA review of this exemption, the Group established a "Financial Regulation Special Reserve" to cover likely future initial compliance/setup costs that would be associated with the changes in the applicable regulatory regime. This reserve is now being utilised to fund those initial costs.

Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except to the extent that GST incurred is not recoverable from the Australian Taxation Office. In these circumstances, the GST is recognised as an item of expense.

Armidale Diocesan Investment Group
Notes to the Financial Statements
For the year ended 31 January, 2019

	2019 \$	2018 \$
Note 2: Revenue		
Investments:		
Interest receivable	5,054,516	4,590,682
Change in value of equity trusts & distributions	1,090,623	7,813,263
Net Property Rentals	2,301,977	2,687,854
Change in value of property unit trusts & distributions	1,825,832	1,153,954
Fair value adjustment for Investment Properties	1,762,500	0
Total investment income	12,035,448	16,245,753
Loans:		
Interest receivable from loans	624,055	622,027
Total Revenue	12,659,503	16,867,780

Refer to note 9 regarding the investment property transactions relating to the profit on sale and fair value adjustments shown above.

Note 3: Profit from Ordinary Activities

Profit from ordinary activities has been determined after:

Charging as Expenses:

Borrowing Costs (interest expense)	6,123,655	6,369,393
Net movement in provision for employee entitlements	16,334	1,685
Depreciation of plant, equipment & vehicles	65,713	30,766
Provision for bad debts/(write back)	(19,750)	(19,508)
Auditors Remuneration	23,990	21,230

Armidale Diocesan Investment Group
Notes to the Financial Statements
For the year ended 31 January, 2019

	2019 \$	2018 \$
Note 4: Transfer to/(from) Reserves		
<i>Transfers to Reserve Funds for the year:</i>		
- Equity/Unit Trust Investment Fluctuation Reserve	0	4,200,000
- Property Valuation Fluctuation Reserve	1,459,000	0
- Property Maintenance & Vacancy Reserve	1,459,000	620,000
- Fixed Interest General Reserve	285,000	0
- Doubtful Loans Reserve	14,155	6,317
	<u>3,217,155</u>	<u>4,826,317</u>
<i>Transfers from Reserve Funds for the year:</i>		
- Equity/Unit Trust Investment Fluctuation Reserve	(2,231,000)	0
- Financial Regulation Special Reserve	(98,946)	(200,000)
	<u>(2,329,946)</u>	<u>(200,000)</u>
Net Movement in Reserves	<u>887,209</u>	<u>4,626,317</u>

See also note 16.

Note 5: Distributions

Catholic Diocese of Armidale	1,200,000	1,150,000
Special Distribution - Wilcannia Forbes Diocese	285,000	0
Grants to Parishes	600,000	580,000
Grants to Priests Retirement Foundation	100,000	50,000
Special Distribution - Clergy Remuneration Support	0	500,000
	<u>2,185,000</u>	<u>2,280,000</u>

Note 6: Cash and Cash Equivalents

Bank operating accounts	508,131	751,458
Cash on hand and in transit	34,750	58,694
Bank deposits with less than 1 month to maturity	22,139,622	35,355,741
	<u>22,682,503</u>	<u>36,165,893</u>

Note 7: Trade and other receivables

Debtors & prepayments	659,004	300,896
	<u>659,004</u>	<u>300,896</u>

Armidale Diocesan Investment Group
Notes to the Financial Statements
For the year ended 31 January, 2019

	2019 \$	2018 \$
Note 8: Investment Securities		
<i>Investments in financial assets held at amortised cost</i>		
- Fixed Interest Deposits with Banks - at cost	129,139,623	115,355,741
- Floating Rate Notes - at amortised cost	80,167,358	61,727,617
- Mortgage Loans - at cost	400,000	400,000
<i>Investments in financial assets designated at fair value through profit & loss</i>		
- Unit Trusts - at redemption value	64,583,556	56,526,876
- Property Trusts - at redemption value	7,250,623	7,173,219
<i>Other</i>		
- Accrued Interest on Investments	1,260,496	1,310,776
	<u>282,801,656</u>	<u>242,494,229</u>
- Less - cash equivalent financial assets with less than 30 day maturities	(22,139,623)	(35,355,741)
	<u>260,662,033</u>	<u>207,138,488</u>

Note 9: Investment Properties

Opening balance 1 February 2018	33,857,750	33,857,750
Add - Additions	0	0
Less - Disposals (book value)	0	0
Net gain/(loss) from fair value adjustment	1,762,500	0
Closing balance 31 January 2019	<u>35,620,250</u>	<u>33,857,750</u>

Investment properties are stated at fair value, which is determined based on valuations performed by independent valuers on a bi-annual basis. In the intervening years, fair value is determined using available property indices and other relevant market information. The last formal valuation obtained for the Tamworth property was 31/01/2018 with the Brisbane property revalued 31/01/2019.

The purchase contract for the Brisbane in 2017 property provided for the vendor to pay an amount to the purchaser to cover existing lease incentives provided to tenants as well as covering existing rental vacancies and the amortised value of this payment has been included in liabilities as income in advance - see note 14 for details.

Note 10: Loans and advances to customers

- Loans to Church Institutions	13,860,546	13,316,012
- Loans to Priest's Car Fund (net of credit balances)	(67,134)	(60,884)
- Accrued Interest on Loans	338,686	199,888
	<u>14,132,098</u>	<u>13,455,016</u>
- Less: Provision for Impairment	(40,601)	(60,351)
Total Loans	<u>14,091,497</u>	<u>13,394,665</u>

Armidale Diocesan Investment Group
Notes to the Financial Statements
For the year ended 31 January, 2019

	2019 \$	2018 \$
Note 11: Plant, Equipment & Vehicles		
Plant and equipment:		
- At cost	367,926	107,982
- Less: Accumulated depreciation	(121,201)	(85,299)
	<u>246,725</u>	<u>22,683</u>
Office furniture & fittings:		
- At cost	222,294	222,294
- Less: Accumulated depreciation	(125,166)	(110,518)
	<u>97,128</u>	<u>111,776</u>
Motor vehicles:		
- At cost	80,254	80,254
- Less: Accumulated depreciation	(48,528)	(33,364)
	<u>31,726</u>	<u>46,890</u>
Total Plant, Equipment & Vehicles	<u><u>375,579</u></u>	<u><u>181,349</u></u>

Note 12: Amounts owed to depositors

- Individuals	84,821,230	88,989,831
- Church Institutions	105,933,523	73,218,306
- Parish Growth Accounts	23,678,070	22,100,734
- Cheque Accounts	5,483,184	4,989,175
- Accrued Interest	1,170,634	1,662,361
-Sub-total	<u>221,086,641</u>	<u>190,960,407</u>
- CSO Short term Deposits	<u>75,561,275</u>	<u>63,968,575</u>
- Total Deposits	<u><u>296,647,916</u></u>	<u><u>254,928,982</u></u>

Note 13: Trade and other payables

- Trade Creditors	643,340	235,602
	<u><u>643,340</u></u>	<u><u>235,602</u></u>

Armidale Diocesan Investment Group
Notes to the Financial Statements
For the year ended 31 January, 2019

	2019 \$	2018 \$
Note 14: Advance payments received		
Deferred rental and lease incentives on investment property	<u>844,412</u>	<u>2,470,447</u>
<p>In 2017 the Group purchased an investment property (see note 9) and this included a provision for the vendor to pay a sum of \$3,925,270 relating to certain lease incentives provided by the vendor to existing tenants and rental guarantees for existing vacancies. The incentives were paid in cash on settlement and have been included in liabilities as an advance payment for rent. This amount is being amortised to rental income over the 3 year period to which it relates.</p>		
Note 15: Provisions		
Provision for employee annual leave and long service leave	<u>105,027</u>	<u>88,693</u>
Note 16: Reserve Funds		
Equity Investment Fluctuation Reserve		
- Opening balance	14,440,165	10,240,165
- Add - transfers to reserve for year	0	4,200,000
- Less - transfers from reserve for year	<u>(2,231,000)</u>	<u>0</u>
- Closing balance	<u>12,209,165</u>	<u>14,440,165</u>
Investment Property Maintenance & Vacancy Reserve		
- Opening balance	1,818,000	1,198,000
- Add - transfers to reserve for year	1,459,000	620,000
- Less - transfers from reserve for year	<u>0</u>	<u>0</u>
- Closing balance	<u>3,277,000</u>	<u>1,818,000</u>
Property Investment Valuation Fluctuation Reserve		
- Opening balance	2,541,000	2,541,000
- Add - transfers to reserve for year	1,459,000	0
- Less - transfers from reserve for year	<u>0</u>	<u>0</u>
- Closing balance	<u>4,000,000</u>	<u>2,541,000</u>
Doubtful Loans Reserve		
- Opening balance	335,296	328,979
- Add - transfers to reserve for year	14,155	6,317
- Less - transfers from reserve for year	<u>0</u>	<u>0</u>
- Closing balance	<u>349,451</u>	<u>335,296</u>

Armidale Diocesan Investment Group
Notes to the Financial Statements
For the year ended 31 January, 2019

	2019 \$	2018 \$
Interest Investments General Reserve		
- Opening balance	1,825,000	1,825,000
- Add - transfers to reserve for year	285,000	0
- Less - transfers from reserve for year	0	0
- Closing balance	<u>2,110,000</u>	<u>1,825,000</u>
Financial Regulation Special Reserve		
- Opening balance	253,983	453,983
- Add - transfers to reserve for year	0	0
- Less - transfers from reserve for year	(98,946)	(200,000)
- Closing balance	<u>155,037</u>	<u>253,983</u>
Total Reserve Funds	<u><u>22,100,653</u></u>	<u><u>21,213,444</u></u>

**Note 17: Reconciliation of Net Cash
Provided by/used in Operating
Activities to Net Profit**

Operating Profit	4,719,854	8,549,761
Depreciation	65,713	30,766
Increase/(reduction) in provision for employee entitlements	16,334	1,685
Increase/(reduction) in provision for bad debts	(19,750)	(19,508)
Increase/(reduction) in trade creditors	130,751	(262,280)
Increase/(reduction) in accrued interest on deposits	(491,727)	628,037
Decrease/(increase) in debtors & prepayments	(358,108)	736
Decrease/(increase) in value of property investments (net)	(1,762,500)	0
Decrease/(increase) in value of Property Trusts	(1,072,404)	(538,064)
Decrease/(Increase) in value of Equity/Unit Funds	1,943,320	(5,697,087)
Amortisation of deferred rental income	(1,626,035)	(1,454,823)
Amortisation of gain on Floating Rate Notes	(46,895)	606,309
(Increase)/Reduction in accrued interest on loans & investments	<u>(88,516)</u>	<u>(1,317,266)</u>
Net cash flow used in operating activities	<u><u>1,410,037</u></u>	<u><u>528,266</u></u>

Armidale Diocesan Investment Group
Notes to the Financial Statements
For the year ended 31 January, 2019

	2019 \$	2018 \$
Note 18: Expenditure Commitments		
(a) Operating lease commitments not capitalised in financial statements		
- Office rent due not longer than 1 year	<u>107,496</u>	<u>106,056</u>
(b) Capital expenditure commitments at balance date	<u>0</u>	<u>0</u>
(c) Loan funding commitments at balance date	<u>0</u>	<u>0</u>

Note 19: Contingent Liabilities

The Group has arranged a master credit card facility with its bankers covering a number of Diocesan agencies. Each agency is responsible for the control and payment of its respective cards and no defaults are expected. However, in the event of a default by any of those agencies, the Group would be required to meet the liability. As at the end of the financial year, the total facility applicable to other Diocesan agencies was \$800,000.

Note 20: Future Operations

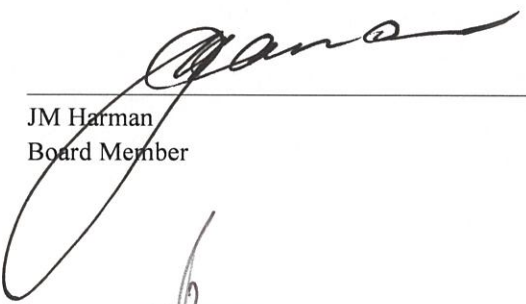
During the previous financial year the Group re-arranged its operating procedures to ensure compliance with new APRA regulations, particularly in relation to the effects on non-affiliated individual depositors. These regulations took full effect from 1st January 2018. The Group has also undertaken an extensive strategic review to position the organisation for future growth and development. This is expected to give rise to changes in operations and staffing structures. It is expected that there will be some additional ongoing compliance and operating costs associated with the new operational environment but the Group does not anticipate any significant adverse effects on its financial position or future operations.

Armidale Diocesan Investment Group
Declaration by Members of the Board


The members of the Board of the Armidale Diocesan Investment Group, hereby declare that:

1. The financial report comprising the Income Statement, Balance Sheet, Statement of Cash Flows and the Notes to the Financial Statements:
 - (a) have been prepared in accordance with the accounting policies described in note 1 and the accounting policies are appropriate to the needs of the Board and the Trustees of the Roman Catholic Church for the Diocese of Armidale; and
 - (b) give a true and fair view of the financial position as at 31 January, 2019 and of the performance of the Group for the year ended on that date.
2. In the opinion of the Board members, there are reasonable grounds to believe that the Group 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 members of the Board.



JM Harman
Board Member



RJ Locke
Board Member

Dated: 23 May 2019
