

ARMIDALE DIOCESAN INVESTMENT GROUP

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JANUARY 2020

Armidale Diocesan Investment Group

Income Statement

For the year ended 31 January, 2020

	Note	2020	2019
		\$	\$
Income from Loans & Investments	2	23,360,359	12,659,503
Interest Expense		(7,606,816)	(6,123,655)
Net Investment Income		15,753,543	6,535,848
Expenses from continuing operations		(2,262,593)	(1,815,994)
Profit from continuing operations	3	13,490,950	4,719,854
Add/(Less) - Transfers from/(to) Reserves	4	(10,000,000)	(887,209)
Surplus after reserve transfers		3,490,950	3,832,645
Add - Accumulated Surpluses brought forward		13,749,518	12,101,873
Total available for appropriation		17,240,468	15,934,518
Less - Distributions	5	(2,538,283)	(2,185,000)
Accumulated Surpluses carried forward		14,702,186	13,749,518

The accompanying notes form part of these financial statements.

Armidale Diocesan Investment Group

Balance Sheet

For the year ended 31 January, 2020

	Note	2020	2019
		\$	\$
Assets			
Cash and cash equivalents	6	30,905,869	22,682,503
Trade and other receivables	7	627,210	659,004
Investment securities	8	286,293,198	260,662,033
Investment properties	9	35,837,911	35,620,250
Loans and advances	10	13,197,405	14,091,497
Plant, equipment and vehicles	11	302,175	375,579
Total Assets		367,163,768	334,090,866
Liabilities			
Amounts owed to depositors	12	320,022,398	296,647,916
Trade and other payables	13	517,015	643,340
Advance payments received	14	0	844,412
Provisions	15	170,967	105,027
Total Liabilities		320,710,380	298,240,695
Net Assets		46,453,388	35,850,171
Equity			
Reserves	16	31,751,202	22,100,653
Accumulated Surpluses		14,702,186	13,749,518
Total Equity		46,453,388	35,850,171

The accompanying notes form part of these financial statements.

Armidale Diocesan Investment Group

Cash Flow Statement

For the year ended 31 January, 2020

	2020	2019
	\$	\$
Cash Flow From Operating Activities		
Interest & distributions received on investments	10,210,044	7,582,174
Interest received on loans	921,938	485,257
Net rentals/distributions received on property investments	1,915,320	1,556,546
Interest paid on deposits	(6,001,014)	(6,615,381)
Payments to suppliers and employees	(2,071,575)	(1,598,559)
Net cash provided by operating activities (note 17)	4,974,713	1,410,037
Cash Flow From Investing Activities		
Payment for Investment Properties	(217,661)	0
Payment for plant, equipment & vehicles	0	(137,957)
Proceeds from sale of plant, equipment & vehicles	8,000	0
Net reduction/(increase) in loans	894,092	(538,284)
Net reduction/(increase) in investments	(16,709,458)	(54,397,847)
Net cash provided by (used in) investing activities	(16,025,027)	(55,074,088)
Cash Flow From Financing Activities		
Net increase in deposits	21,768,680	42,210,661
Distributions paid	(2,495,000)	(2,030,000)
Net cash provided by financing activities	19,273,680	40,180,661
Net increase in cash held	8,223,366	(13,483,390)
Cash at the beginning of the year	22,682,503	36,165,893
Cash at the end of the year (note 6)	30,905,869	22,682,503

The accompanying notes form part of these financial statements.

Armidale Diocesan Investment Group

Notes to the Financial Statements

For the year ended 31 January, 2020

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 Occuring 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 - Except expected credit loss provision

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.

Armidale Diocesan Investment Group

Notes to the Financial Statements

For the year ended 31 January, 2020

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.

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.

Armidale Diocesan Investment Group

Notes to the Financial Statements

For the year ended 31 January, 2020

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.

The Group has not adopted the the expected credit loss models prescribed by AASB9: Financial Instruments in developing its impairment provision in the Financial Statements.

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.

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.

Armidale Diocesan Investment Group

Notes to the Financial Statements

For the year ended 31 January, 2020

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%

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

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.

The financial regulation reserve has now been fully utilised.

In previous periods these reserve accounts have been held in individual reserve accounts for the purposes of financial reporting. While there has been no change to the calculation of reserves as outlined in this note, the 2019/20 Financial statements has consolidated all equity reserves into a single reserve balance for the purpose of accounting simplicity.

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, 2020

	2020	2019
	\$	\$
Note 2: Revenue		
Interest receivable	4,459,875	5,054,516
Change in value of equity trusts & distributions	15,222,419	1,090,623
Net Property Rentals	2,460,986	2,301,977
Change in value of property unit trusts & distributions	633,826	1,825,832
Fair value adjustment for Investment Properties	0	1,762,500
Total investment income	22,777,107	12,035,448
Loans:		
Interest receivable from loans	583,252	624,055
Total Revenue	23,360,359	12,659,503
Note 3: Profit from Ordinary Activities		
Profit from ordinary activities has been determined after:		
Charging as Expenses:		
Borrowing Costs (interest expense)	7,606,816	6,123,655
Expenses from Continuing Operations	2,140,887	1,729,707
Net movement in provision for employee entitlements	65,940	16,334
Depreciation of plant, equipment & vehicles	65,404	65,713
Provision for bad debts/(write back)	(31,662)	(19,750)
Auditors Remuneration	22,024	23,990
Total Expenses	9,869,409	7,939,649

Armidale Diocesan Investment Group

Notes to the Financial Statements

For the year ended 31 January, 2020

	2020	2019
	\$	\$
Note 4: Transfer to/(from) Reserves		
<i>Transfers to/(from) Reserve Funds for the year:</i>		
- Investment Fluctuation Reserve	19,542,037	0
- Equity/Unit Trust Investment Fluctuation Reserve	0	(2,231,000)
- Financial Regulation Special Reserve	(155,037)	(98,946)
- Property Valuation Fluctuation Reserve	(4,000,000)	1,459,000
- Property Maintenance & Vacancy Reserve	(3,277,000)	1,459,000
- Interest Investments General Reserve	(2,110,000)	285,000
- Doubtful Loans Reserve	0	14,155
Net Movement in Reserves	10,000,000	887,209
See also note 16.		
Note 5: Distributions		
Catholic Diocese of Armidale	1,375,000	1,200,000
Special Distribution - Wilcannia Forbes Diocese	463,283	285,000
Grants to Parishes	600,000	600,000
Grants to Priests Retirement Foundation	100,000	100,000
	2,538,283	2,185,000
Note 6: Cash and Cash Equivalents		
Bank operating accounts	281,822	508,131
Cash on hand and in transit	42,067	34,750
Bank deposits with less than 1 month to maturity	30,581,981	22,139,622
	30,905,869	22,682,503

Armidale Diocesan Investment Group

Notes to the Financial Statements

For the year ended 31 January, 2020

	2020	2019
	\$	\$
Note 7: Trade and other receivables		
Debtors & prepayments	627,210	659,004
	627,210	659,004
Note 8: Investment Securities		
<i>Investments in Financial Assets held at amortised cost</i>		
- Fixed Interest Deposits with Banks - at cost	133,081,981	129,139,623
- Floating Rate Notes - at amortised cost	101,836,121	80,167,358
- Mortgage Loans - at cost	400,000	400,000
<i>Investment in Financial Assets designated at fair value through profit & loss</i>		
- Unit Trusts - at redemption value	75,069,519	64,583,556
- Property Trusts - at redemption value	6,295,638	7,250,623
<i>Other financial assets:</i>		
- Accrued Interest on Investments	191,920	1,260,496
	316,875,179	282,801,656
- Less - cash equivalent financial assets with less than 30 day maturities	(30,581,981)	(22,139,622)
	286,293,198	260,662,033

Armidale Diocesan Investment Group

Notes to the Financial Statements

For the year ended 31 January, 2020

	2020	2019
	\$	\$
Note 9: Investment Properties		
Opening balance 1 February 2019	35,620,250	33,857,750
Add - Additions	217,661	0
Net gain/(loss) from fair value adjustment	0	1,762,500
Closing balance 31 January 2020	35,837,911	35,620,250

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	13,648,266	13,860,546
- Loans to Priest's Car Fund (net of credit balances)	(92,471)	(67,134)
- Accrued Interest on Loans	0	338,686
	13,555,795	14,132,098
- Less: Provision for Impairment	(358,390)	(40,601)
Total Loans	13,197,405	14,091,497

in 2020 Financial Year the provision was moved from equity reserves to a liability provision for Impairment.

Armidale Diocesan Investment Group

Notes to the Financial Statements

For the year ended 31 January, 2020

	2020	2019
	\$	\$
Note 11: Plant, Equipment & Vehicles		
Plant and equipment:		
- At cost	367,926	367,926
- Less: Accumulated depreciation	(170,545)	(121,201)
	<u>197,381</u>	<u>246,725</u>
Office furniture & fittings:		
- At cost	222,294	222,294
- Less: Accumulated depreciation	(134,879)	(125,166)
	<u>87,414</u>	<u>97,128</u>
Motor vehicles:		
- At cost	72,254	80,254
- Less: Accumulated depreciation	(54,874)	(48,528)
	<u>17,380</u>	<u>31,726</u>
Total Plant, Equipment & Vehicles	<u>302,175</u>	<u>375,579</u>
Note 12: Amounts owed to depositors		
- Individuals	87,401,398	84,821,230
- Church Institutions	117,401,723	105,933,523
- Parish Growth Accounts	27,572,779	23,678,070
- Cheque Accounts	4,335,303	5,483,184
- Accrued Interest	2,776,436	1,170,634
- <i>Sub-total</i>	<u>239,487,637</u>	<u>221,086,641</u>
- CSO Short term Deposits	<u>80,534,761</u>	<u>75,561,275</u>
- Total Deposits	<u>320,022,398</u>	<u>296,647,916</u>

Armidale Diocesan Investment Group
Notes to the Financial Statements
For the year ended 31 January, 2020

	2020	2019
	\$	\$
Note 13: Trade and other payables		
- Trade Creditors	517,015	643,340
	517,015	643,340
Note 14: Advance payments received		
Deferred rental and lease incentives on investment property	0	844,412
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		
Note 15: Provisions		
Provision for employee annual leave and long service leave	170,967	105,027
Note 16: Reserve Funds		
Equity Investment Fluctuation Reserve		
- Opening balance	12,209,165	14,440,165
- Less - transfers from reserve for year	(12,209,165)	(2,231,000)
- Closing balance	0	12,209,165
Investment Property Maintenance & Vacancy Reserve		
- Opening balance	3,277,000	1,818,000
- Add - transfers to reserve for year	0	1,459,000
- Less - transfers from reserve for year	(3,277,000)	0
- Closing balance	0	3,277,000
Property Investment Valuation Fluctuation Reserve		
- Opening balance	4,000,000	2,541,000
- Add - transfers to reserve for year	0	1,459,000
- Less - transfers from reserve for year	(4,000,000)	0
- Closing balance	0	4,000,000

Armidale Diocesan Investment Group

Notes to the Financial Statements

For the year ended 31 January, 2020

	2020	2019
	\$	\$
Doubtful Loans Reserve		
- Opening balance	349,451	335,296
- Add - transfers to reserve for year	0	14,155
- Less - transfers to provision for impairment	(349,451)	0
- Closing balance	0	349,451
Interest Investments General Reserve		
- Opening balance	2,110,000	1,825,000
- Add - transfers to reserve for year	0	285,000
- Less - transfers from reserve for year	(2,110,000)	0
- Closing balance	0	2,110,000
Financial Regulation Special Reserve		
- Opening balance	155,037	253,983
- Less - transfers from reserve for year	(155,037)	(98,946)
- Closing balance	0	155,037
Investment Fluctuation Reserve		
- Opening balance	0	0
- Add - transfers to reserve for year	31,751,202	0
- Closing balance	31,751,202	0
Total Reserve Funds	31,751,202	22,100,653

See also Note 1

Armidale Diocesan Investment Group

Notes to the Financial Statements

For the year ended 31 January, 2020

	2020	2019
	\$	\$
Note 17: Reconciliation of Net Cash Provided by/used in Operating Activities to Net Profit		
Operating Profit	13,490,950	4,719,854
Add:		
Depreciation	65,404	65,713
Increase/(reduction) in provision for employee entitlements	65,940	16,334
Increase/(reduction) in provision for bad debts	(31,662)	(19,750)
Increase/(reduction) in trade creditors	(126,325)	130,751
Increase/(reduction) in accrued interest on deposits	1,605,802	(491,727)
Decrease/(increase) in debtors & prepayments	31,794	(358,108)
Decrease/(increase) in value of property investments (net)	0	(1,762,500)
Decrease/(increase) in value of Property Trusts	(117,419)	(1,072,404)
Less:		
Decrease/(Increase) in value of Equity/Unit Funds	(10,572,621)	1,943,320
Amortisation of deferred rental income	(844,412)	(1,626,035)
Amortisation of gain on Floating Rate Notes	(78,033)	(46,895)
(Increase)/Reduction in accrued interest on loans & investments	1,485,295	(88,516)
Net cash flow used in operating activities	4,974,713	1,410,037
Note 18: Expenditure Commitments		
(a) Operating lease commitments not capitalised in financial statements		
- Office rent due not longer than 1 year	0	107,496
(b) Capital expenditure commitments at balance date	0	0
(c) Loan funding commitments at balance date	0	0

Armidale Diocesan Investment Group

Notes to the Financial Statements

For the year ended 31 January, 2020

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 \$2,000,000.

Note 20: Future Operations

During the year ended 2019/2020, ADIG implemented its new management structure and operations. The New Management team have been working to set the the business, operational and investment strategy to ensure ADIG continues to grow and perform strongly into the future. ADIG will continue to operate to deliver this strategy to provide financial support to the mission of the Armidale Diocese.

Note 21: Events Occuring Post Balance Date

From Balance Date until 31 March 2020, ADIGs equity exposure has experienced substantial volatility due to the financial market impact of the COVID-19 pandemic. The impact has resulted in an overall decline of 25% to ADIGs equity portfolio. Although this has had an impact on ADIGs balance sheet and capital adequacy, ADIG remains in a strong financial position due to its history of holding a prudent level of reserves. In addition, despite these falls ADIG remains in a strong net asset position.

Armidale Diocesan Investment Group

Declaration by Members of the Board

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

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, 2020 and of the performance of the Group for the year ended on that date.

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

A Hamilton
Board Member

Dated: 29 April 2020