

Catholic Church Endowment Society Inc.

**Special Purpose Consolidated
Financial Report**

For the year ended 31 December 2017

**Special Purpose Consolidated Financial Report
for the Financial Year Ended
31 December 2017**

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Chairman's Report

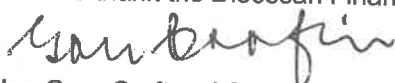
The Catholic Church Endowment Society Inc. (Association) Profit or Loss Statement for the year 2017 shows a profit after other comprehensive income of \$12.6m. Interest income has reduced due to lower returns and loan balances. A gain on investment properties has arisen due to revaluations at the end of 2017. Borrowing expenses have reduced as minimal external debt was utilized throughout 2017. The Association generated an underlying loss of \$0.1m, compared with a surplus of \$1.0m for 2016.

	2017	2016
	\$	\$
Total comprehensive income for the year	12,656,833	698,321
Loss on Derivative Liabilities	175,834	262,383
Gain on Investment Properties at fair value	(11,840,000)	-
Net value loss on Available-for-sale Investments	(1,118,214)	(134,479)
Share of other comprehensive income in Associates	-	127,987
Total underlying comprehensive income for the year	(125,547)	954,212

Agencies of the Association have contributed as follows:

- The Diocesan Centre supports the operations of parishes, schools and the Archbishop's office. Fiscal restraint has contributed towards employment savings, whilst Archdiocesan Policy has been effective in controlling legal and professional fees during 2017. The Diocesan Centre also incorporates the Archdiocese of Adelaide's treasury function (the Catholic Development Fund, CDF). The CDF maintains appropriate capital reserves in accordance with its prudential policies whilst delivering sustained investment returns in a falling interest rate environment. The final operating result for the Diocesan Centre loss of \$0.6m (2016: \$0.7m surplus).
- Catholic Education Office income from grants and levies has increased, assisting to further provide services to the education sector within the Archdiocese of Adelaide. The Catholic Education Office produced a surplus of \$0.8m for 2017 (2016: \$0.5m surplus).
- The Diocesan Presbytery Fund's loss of \$0.1m (2016: \$0.2m) results from income remaining constant whilst costs to support the aging clergy in the Diocese continue to rise.
- Catholic Diocesan Charities Appeal receives donations to continue the support of the charitable works in the Archdiocese of Adelaide. Distributions from the Appeal are consistent with that of previous years.
- Ecumenical Endeavours Pty Ltd is consolidated into these financial statements from 2017. It operates an investment property valued at \$3.0m collecting rental income from a commercial tenant, supporting the pastoral work of the Seaford Ecumenical Mission. The Association is now a majority shareholder of Ecumenical Endeavours Pty Ltd.
- The Net Assets of CCES Inc. have increased compared with 2016. Investments with Financial Institutions have declined to \$123m, Loans and Advances have also declined to \$75m whilst Cash and Cash Equivalents and Available for Sale Investments have increased due to the allocation of investments with external fund managers. Investment Properties have increased due to the revaluation during 2017. Deposits liability held by the CDF has remained stable at \$312m.

I wish to thank the Diocesan Finance Council (DFC) and staff for their stewardship over the past year.



Hon Greg Crafter, AO
Chairman

Diocesan Finance Council
Catholic Archdiocese of Adelaide

Finance Council Report to Members

In accordance with Section 35(5) of the Associations Incorporation Act 1985, the Diocesan Finance Council (the Council) of the Catholic Church Endowment Society Inc. (Association) hereby states that during the year ended 31 December 2017:

- (a) no officer of the Association;
- (b) no firm of which an officer is a member; and
- (c) no body corporate in which an officer has a substantial financial interest; has received or become entitled to receive a benefit as a result of a contract between the officer, firm or body corporate and the Association.

No officer of the Association has received directly or indirectly from the Association any payment or benefit of a pecuniary value.

This statement is made in accordance with a resolution of the Council and is signed for and on behalf of the Council by:



Chairman



Member of Finance Council

Adelaide, 24 APRIL 2018



Independent Auditor's Report

To the members of Catholic Church Endowment Society Inc

Opinion

We have audited the *Financial Report*, of the Catholic Church Endowment Society Inc (the Association).

In our opinion, the accompanying *Financial Report* of the *Group* presents fairly, in all material respects the *Group's* financial position as at 31 December 2017 and of its financial performance and its cash flows for the year ended on that date:

- (i) in accordance with Division 60 of the Australian Charities and Not-for-profits Commission (ACNC) Act 2012, and the Associations Incorporation Act 1985; and
- (ii) in compliance with Australian Accounting Standards and the Division 60 of Australian Charities and Not-for-profits Commission Regulation 2013.

The *Financial Report* comprises:

- (i) Statement of financial position as at 31 December 2017
- (ii) Statement of profit or loss and other comprehensive income, Statement of changes in equity, and Statement of cash flows for the year then ended.
- (iii) Notes including a summary of significant accounting policies.
- (iv) Finance Council declaration of the Association.

The *Group* consists of the Association and the entities it controlled at the year end or from time to time during the financial year.

Basis for opinion

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

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

We are independent of the Group in accordance with the auditor independence requirements of the ACNC Act 2012 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Emphasis of matter – basis of preparation and restriction on use

We draw attention to Note 2 to the Financial Report, which describes the basis of preparation.

The Financial Report has been prepared for the purpose of fulfilling the Finance Council members financial reporting responsibilities under the ACNC Act 2012 and the Associations Incorporations Act 1985. As a result, the Financial Report and this Auditor's Report may not be suitable for another purpose.

Our report is intended solely for the members of the Association and ACNC and should not be used by any other party. We disclaim any assumption of responsibility for any reliance on this Auditor's Report, or on the Financial Report to which it relates to any person other than the members of the Association and ACNC. Our opinion is not modified in respect of this matter.



Other information

Other Information is financial and non-financial information in the Association's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. This includes the Chairman's Report and the Finance Council's Report to Members. The Finance Council members are responsible for the Other Information.

The Other Information we obtained prior to the date of this Auditor's Report was the Chairman's Report.

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

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

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

Responsibilities of the Finance Council members for the Financial Report

The Finance Council members are responsible for:

- (i) Preparing a fairly presented Financial Report in accordance with *Australian Accounting Standards* to the extent described in Note 2, and the ACNC.
- (ii) Preparing the Financial Report in accordance with the *Associations Incorporations Act 1985*.
- (iii) Determining that the basis of preparation described in Note 2 to the Financial Report is appropriate to meet the requirements of the ACNC, and the *Associations Incorporations Act 1985*. The basis of preparation is also appropriate to meet the needs of the members.
- (iv) Implementing necessary internal control to enable the preparation of a Financial Report that is presented fairly and is free from material misstatement, whether due to fraud or error.
- (v) Assessing the Group's and Association's ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Association or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

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

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

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Financial Report.

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



Undertaking an audit in accordance with Australian Auditing Standards, means exercising professional judgment and maintaining professional skepticism.

We also:

- (i) 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.
- (ii) 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 registered Association's internal control.
- (iii) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Finance Council members.
- (iv) Conclude on the appropriateness of the Finance Council members' 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 registered Association's and the Group'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 registered Association and the Group to cease to continue as a going concern.
- (v) 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 Finance Council members of the registered Association 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.


KPMG


Darren Ball
Partner

Adelaide

24 April 2018

Finance Council Declaration

In the opinion of the Diocesan Finance Council of the Catholic Church Endowment Society Inc (Association):

- a) the Association is not publicly accountable nor a reporting entity;
- b) the consolidated financial statements and notes, set out on pages 7 to 31, are in accordance with the Australian Charities and Not-for profits Commission Act 2012 and the Associations Incorporations Act 1985 including:
 - (i) presents fairly in all material respects of the financial position of the Association as at 31 December 2017 and of its performance, as represented by the results of its operations for the financial year ended on that date in accordance with the statement of compliance and basis of preparation described in Note 2; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) to the extent described in Notes 2, and the Australian Charities and Not-for-profits Commission Regulation 2013; and
- c) there are reasonable grounds to believe that the Association will be able to pay its debts as and when they become due and payable.
- d) the Association has complied with its Constitution and Rules; and at the date of this declaration
- e) the Association has subsidiaries as detailed in the financial statements at Note 32; and
- f) the Association is not a trustee of a trust.

Signed in accordance with a resolution of the Finance Council:



Chairman



Member of Finance Council

Adelaide, 24 APRIL 2018

Catholic Church Endowment Society Inc.
Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31 December 2017

	Note	2017 \$	2016 \$
Income			
Interest Income		8,191,094	9,880,502
Interest Expense		(6,794,045)	(7,705,571)
Net Interest Income	8	1,397,049	2,174,931
Investment Income		11,785,295	11,970,310
Grants from Government		11,335,492	11,726,273
Levies and Fees Income		14,137,188	13,064,571
Unrealised Gain/(Loss) on Investment Properties at fair value		11,840,000	-
Donations		3,580,844	3,547,174
Other Income		2,425,339	2,174,084
Total Income		56,501,207	44,657,343
Expenses			
Employee Benefits Expense		(25,137,199)	(24,513,778)
Occupancy Expense		(5,501,312)	(5,365,617)
Depreciation Expense		(2,134,467)	(1,963,897)
Equipment Expense		(3,707,571)	(3,804,585)
Communication Expense		(1,299,491)	(1,194,276)
Community and Education Program Expense		(1,813,106)	(1,831,056)
Borrowing Expenses		(776,374)	(1,298,708)
General Administration Expense		(4,417,234)	(3,731,214)
Gain/(Loss) on Derivative Liabilities		(175,834)	(262,383)
Total Expenses		(44,962,588)	(43,965,514)
Profit/(Loss) for the year		11,538,619	691,829
Other Comprehensive Income / (Loss)			
Net value (loss)/gain on available-for-sale investments		1,118,214	134,479
Share of other comprehensive income in Associates		-	(127,987)
Total Other Comprehensive Income / (Loss)		1,118,214	6,492
Total Comprehensive (Loss) / Income for the year		12,656,833	698,321
Attributable to Catholic Church Endowment Society Inc		12,649,602	-
Attributable to Non-controlling Interests		7,231	-
		12,656,833	-

The above statements should be read in conjunction with the accompanying notes

Catholic Church Endowment Society Inc.
Statement of Financial Position
as at 31 December 2017

	Note	2017 \$	2016 \$
Assets			
Cash and Cash Equivalents	25	31,970,232	12,814,343
Due from Other Financial Institutions	9	123,447,558	135,596,538
Available for Sale Investments	10	45,013,540	10,462,522
Investment in Associates	11	-	695,868
Investment Properties	12	136,920,000	122,000,000
Property, Plant and Equipment	13	33,604,410	32,022,789
Trade and Other Receivables	14	10,657,673	10,042,418
Loans and Advances	15	75,179,245	90,734,007
Other Intangible Assets	16	1,042	84,346
Total Assets		456,793,700	414,452,831
Liabilities			
Deposits	17	312,542,440	311,571,318
Trade and Other Payables	18	6,467,159	5,322,754
Borrowings	19	37,000,000	10,000,000
Derivative Liabilities	20	2,263,683	2,087,848
Provisions	21	4,980,765	5,468,432
Income in Advance		308,089	123,687
Total liabilities		363,562,136	334,574,039
Net Assets		93,231,564	79,878,792
Equity			
Retained earnings	22	71,722,531	59,801,733
Reserves	23	20,805,863	20,077,059
Total Parent interest in equity		92,528,394	79,878,792
Non-controlling Interest in Controlled Entities	24	703,170	-
Total Equity		93,231,564	79,878,792

The above statements should be read in conjunction with the accompanying notes

**Catholic Church Endowment Society Inc.
Statement of Changes in Equity
for the year ended 31 December 2017**

	Non- Controlling Interest	General reserve	Share Investments reserve	Government funding reserve	Catholic charities reserve	Catholic education capital reserve	Retained earnings	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Balance at 1 January 2016	-	3,143,056	8,178,948	1,492,312	2,372,851	5,330,932	58,662,372	79,180,471
Profit for the year	-	-	-	-	-	-	691,829	691,829
Other comprehensive income for the year	-	-	134,479	-	-	-	(127,987)	6,492
Total comprehensive income for the year	-	-	134,479	-	-	-	563,842	698,321
Transfer from/(to) retained earnings	-	6,253	(812,393)	-	52,000	178,621	575,519	-
Balance at 31 December 2016	-	3,149,309	7,501,034	1,492,312	2,424,851	5,509,553	59,801,733	79,878,792
Balance at 1 January 2017	-	3,149,309	7,501,034	1,492,312	2,424,851	5,509,553	59,801,733	79,878,792
Profit for the year	-	-	-	-	-	-	11,538,619	11,538,619
Other comprehensive income for the year	-	-	1,118,214	-	-	-	-	1,118,214
Total comprehensive income for the year	-	-	1,118,214	-	-	-	11,538,619	12,656,833
Current year acquisition	-	-	-	-	-	-	-	-
Non-controlling Interest	695,939	-	-	-	-	-	-	695,939
Profit attributable to Non-controlling Interests	7,231	-	-	-	-	-	(7,231)	-
Transfer from/(to) retained earnings	-	(238,406)	-	-	(151,004)	-	389,410	-
Balance at 31 December 2017	703,170	2,910,903	8,619,248	1,492,312	2,273,847	5,509,553	71,722,531	93,231,564

The above statements should be read in conjunction with the accompanying notes

Catholic Church Endowment Society Inc.
Statement of Cash Flows
for the year ended 31 December 2017

	2017	2016
	\$	\$
<i>Operating Activities</i>		
Receipts from Customers	25,398,044	25,371,009
Donations and Other Receipts	5,648,900	5,721,258
Interest Received	8,191,094	9,880,502
Interest Paid	(5,470,802)	(5,990,685)
Payments to Suppliers, Employees and Others	(42,552,833)	(41,318,811)
	<u>(8,785,597)</u>	<u>(6,336,727)</u>
Net (increase)/decrease in Loans and Advances	15,554,762	10,987,119
Net increase/(decrease) in Deposits	971,122	26,342,142
Net (increase)/decrease in Amounts Due from other Financial Institutions	12,148,980	9,312,426
	<u>28,674,864</u>	<u>46,641,687</u>
<i>Net Cash Flows from Operating Activities</i>	<u>19,889,267</u>	<u>40,304,960</u>
<i>Investing Activities</i>		
Net (increase)/decrease in Available for Sale Investments	(33,432,804)	-
Proceeds from Sale of Fixed Assets	1,380,214	1,169,305
Payments for Fixed Assets	(4,670,529)	(4,034,312)
Dividends Received from Investments	419,599	386,917
Proceeds from Investment Properties	11,365,696	11,583,393
Borrowing Costs	(776,374)	(1,298,708)
Purchase of Shares in Controlled Entities	(695,937)	-
Interest Paid on Borrowings related Investments	(1,323,243)	(1,714,886)
<i>Net Cash Flows from Investing Activities</i>	<u>(27,733,378)</u>	<u>6,091,709</u>
<i>Cash Flows from Financing Activities</i>		
Drawdown/(Repayments) of Borrowings	27,000,000	(50,000,000)
<i>Net Cash Flows from Financing Activities</i>	<u>27,000,000</u>	<u>(50,000,000)</u>
<i>Net Increase/(Decrease) in Cash Held</i>	<u>19,155,889</u>	<u>(3,603,331)</u>
<i>Cash at the beginning of the Year</i>	<u>12,814,343</u>	<u>16,417,674</u>
<i>Cash at the end of the Year</i>	<u>31,970,232</u>	<u>12,814,343</u>

The above statements should be read in conjunction with the accompanying notes

Catholic Church Endowment Society Inc.
Notes to and forming part of the Financial Statements
For the year ended 31 December 2017

1 General Information

The Catholic Church Endowment Society Inc. (the Association) is an entity incorporated under the Associations Incorporation Act 1985 and operating in South Australia.

The Association's registered office and its principal places of business are as follows:

Registered Office:

39 Wakefield Street, Adelaide 5000
(08) 8210 8210

Principal Place of Business for:

Catholic Church Endowment Society Inc.
Catholic Development Fund - Adelaide
Catholic Diocesan Charities Appeal

Catholic Education Office

116 George Street, Thebarton 5031

Ecumenical Endeavours Pty Ltd

Grand Boulevard, Seaford 5169

2 Summary of Accounting Policies

Financial Reporting Framework

The Association is not a reporting entity because in the opinion of the Finance Council (the Council) 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 Council's reporting requirements under the Associations Incorporation Act 1985.

Statement of compliance

The special purpose consolidated financial report has been prepared in accordance with the requirements of the Associations Incorporation Act 1985 and the Australian Charities and Not-for-profits Commission Act 2012 and the recognition, measurement and classification aspects of all applicable Australian Accounting Standards (AASs) adopted by the Australian Accounting Standards Board (AASB).

The special purpose consolidated financial statements include only the disclosure requirements of the following AASBs and those disclosures considered necessary by the Council to meet the needs of users:

AASB 101 Presentation of Financial Statements

AASB 107 Statement of Cash Flows

AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors

AASB 1048 Interpretation and Application of Standards

AABS 1054 Australian Additional Disclosures.

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

Catholic Church Endowment Society Inc.
Notes to and forming part of the Financial Statements
For the year ended 31 December 2017

Basis of preparation

The financial report has been prepared on the basis of historical cost, except for the following items:

- Available for Sale Investments;
- Investment Properties; and
- Derivative Liabilities.

Cost is based on the fair values of the consideration given in exchange for assets. Unless otherwise indicated, all amounts are presented in Australian dollars.

Critical accounting judgements and key sources of estimation uncertainty

In the application of the Association's accounting policies, management is required to make judgments, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. 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.

The estimates and 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.

Judgements made by management in the application of the Association's accounting policies that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

(a) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash with other financial institutions excluding term investments greater than 3 months.

(b) Financial assets

Investments are recognised and derecognised on trade date where purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs.

Other financial assets are classified into the following specified categories:

Loans and Advances

Loans and advances are made to Parishes, Diocesan Schools, Religious Order Schools and Catholic Organisations in accordance with the prudential policy of the Association. These loans are recorded at amortised cost less impairment.

Catholic Church Endowment Society Inc.
Notes to and forming part of the Financial Statements
For the year ended 31 December 2017

Held-to-maturity investments

Due from Other Financial Institutions, bills of exchange and debentures are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method less impairment, with revenue recognised on an effective interest basis.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Receivables

Trade receivables and other receivables are recorded at amortised cost less impairment.

Available-for-sale financial assets

Shares and income securities held by the Association are classified as being available-for-sale and are stated at fair value less impairment. Gains and losses arising from changes in fair value are recognised directly in the revaluation reserve, until the investment is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in the revaluation reserve is included in profit or loss for the period. Fair value has been calculated using quoted prices for listed assets and with reference to net assets for unlisted assets.

(c) Investment in Associates

The Association's investment in associates comprises interests in equity-accounted associates. Associates are those entities in which the Association has significant influence, but not control, over the financial and operating policies. Interests in associates are accounted for using the equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Association's share of the profit or loss and other comprehensive income of equity-accounted investees, until the date on which significant influence ceases.

(d) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land and religious sites. Depreciation is calculated on a straight line basis so as to write off the net cost over its expected useful life to its estimated residual value. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period. The estimated useful lives used in the calculation of depreciation for the current and comparative period are as follows:

Buildings	20 – 40 years	Leasehold Improvements	5 – 25 years
Plant and equipment	1 – 10 years	Motor Vehicles	5 years

(e) Impairment of Assets

At each reporting date, the Association reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

(f) Investment Property

Property held to earn rentals and/or for capital appreciation is classified as an investment property and, is measured initially recognised at cost until the project is completed, including transaction costs. Subsequent to completion, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment are included in profit or loss in the period in which they arise.

(g) Provisions

Provisions are recognised when the Association has a present obligation (legal or constructive) as a result of a past event, if it is probable that the Association will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Catholic Church Endowment Society Inc.
Notes to and forming part of the Financial Statements
For the year ended 31 December 2017

(h) Employee benefits

Leave benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Association in respect of services provided by employees up to reporting date.

(i) Payables

Trade payables and other payable are recognised when the Association becomes obliged to make future payments resulting from the purchase of goods and services.

(j) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- (1) where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- (2) for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

(k) Taxation

The Association is a charitable institution exempt from income tax under the current provisions of Section 23(e) of the Income Tax Assessment Act 1997.

(l) Borrowings

Borrowings are recorded initially at fair value, net of transaction costs. Interest expense is recognised using the effective interest rate method.

Subsequent to initial recognition, borrowings are measured at amortised cost. Borrowing costs are expensed directly to profit and loss.

(m) Deposits

Deposits are recorded at the gross value outstanding to the customer. Interest expense is recognised on an accrual basis.

Catholic Church Endowment Society Inc.
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(n) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. The following specific recognition criteria must also be met before revenue is recognised:

Rendering of services – revenue from a contract to provide services is recognised by reference to the stage of completion of the contract.

Grants – income is recognised when the Association receives the grant or has a right to receive the grant or contractual milestones have occurred. Where grants are not fully expended during the year and there is an obligation to provide services after the financial year, this is recognised in the balance sheet as income in advance.

Interest – revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Donations – income is recognised when monies are received by the Association.

Rental Income - recognised on a straight line basis over the term of the lease.

(o) Leases

Operating lease payments are recognised as an expense on a straight-line basis over the lease terms, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

(p) Intangible Assets

Intangible Assets relates to software costs which have been capitalised and amortised over a 5 year period.

(q) Derivative financial instruments

The Association enters into derivative financial instruments to manage its exposure to interest rate risk, including interest rate swaps. Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured at their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event, the timing of recognition in profit or loss depends on the nature of the hedging relationship.

The Association has no derivatives designated as hedges as at 31 December 2017.

(r) Consolidation

The consolidated financial statements incorporate the financial statements of the Association and entities controlled by the Association and its subsidiaries. Control is achieved when the Association:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Association reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

3 New Standards and Interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2018, and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Association as set out below. Management has not assessed the impact of these standards on the Association. The Finance Council does not plan to early adopt these standards.

(a) AASB 9 Financial Instruments

AASB 9, replaces the existing guidance in AASB 139 Financial Instruments: Recognition and Measurement. AASB 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and de-recognition of financial instruments from AASB 139. AASB 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

(b) AASB 15 Revenue from Contracts with Customers

AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including AASB 118 Revenue, AASB 111 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. AASB 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

(c) AASB 1058 Income for Not-for-profit Entities

AASB 1058 replaces the income recognition requirements relating to private sector and majority of public sector not-for-profit (NFP) entities in AASB 1004 Contributions. AASB 1058 simplifies the income recognition requirements applicable to NFP entities and is applied in conjunction with AASB 15. AASB 1058 is effective for annual reporting periods beginning on or after 1 January 2019, with early adoption permitted.

(d) AASB 16 Leases

AASB 16 removes the lease classification test for lessees and requires all leases (including operating leases) to be brought onto the balance sheet. The definition of a lease is also amended and is now the new on/off balance sheet test for lessees. The standard does allow for exemptions for short term leases and leases of low value items. AASB 16 is effective for annual reporting periods beginning on or after 1 January 2019, with early adoption permitted where AASB 15 Revenue from Contracts with Customers is adopted at the same time.

**Catholic Church Endowment Society Inc.
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4 Segment Note Income Statement

	CCES			CEO			DPF			Charities			Seminary Fund			Ecumenical Endeavours			Eliminations			Total			
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	
Income																									
Interest Income	8,203	9,910	51	63	71	45	44	21	18																
Interest Expense	(6,992)	(7,875)	(12)	(30)	-	-	-	-	-																
Net Interest Income	1,211	2,035	39	33	71	45	44	21	18																
Investment Income	11,695	11,970	-	-	-	-	-	-	-																
Grants from Government	139	141	11,197	11,585	-	-	-	-	-																
Levies and Fees Income	2,815	2,685	11,047	10,117	699	691	-	-	-																
Unrealised Gain/(Loss) on Investment Properties at fair value	11,840																								
Donations	27	186	-	-	3,167	2,925	379	436	7																
Other Income	1,954	1,864	568	543	42	17	-	-	-																
Total Income	29,681	18,881	22,851	22,278	3,979	3,678	434	480	18	18	28	480	480	18	107	-	(579)	(678)	(678)	(678)	(678)	(678)	56,501	44,657	
Expenses																									
Employee Benefits Expense	(8,198)	(7,972)	(14,451)	(14,152)	(2,885)	(2,737)	(100)	(100)	-																
Occupancy Expense	(4,419)	(4,218)	(1,074)	(1,139)	(92)	(78)	-	-	-																
Depreciation Expense	(769)	(706)	(880)	(789)	(473)	(456)	(12)	(13)	-																
Equipment Expense	(331)	(375)	(2,757)	(2,880)	(632)	(570)	-	-	-																
Communication Expense	(847)	(814)	(359)	(293)	(51)	(45)	(43)	(42)	-																
Community and Education Program Expense	(150)	(326)	(1,218)	(1,234)	-	-	(491)	(317)	-																
Borrowing Expenses	(776)	(1,299)	-	-	-	-	-	-	-																
General Administration Expense	(3,030)	(2,494)	(1,257)	(1,279)	48	(12)	(12)	(23)	(18)																
Impairment of Financial Assets	-	-	-	-	-	-	-	-	-																
Gain/(Loss) on Derivative Liabilities	(176)	(262)	-	-	-	-	-	-	-																
Total Expenses	(18,696)	(18,466)	(21,996)	(21,766)	(4,085)	(3,898)	(658)	(495)	(21)	(18)	(86)	(495)	(495)	(18)	(86)	-	579	678	678	678	678	(176)	(44,963)	(43,965)	
Profit/(Loss) for the year	10,985	415	855	512	(106)	(220)	(224)	(15)	7	-	21	-	-	-	-	-	-	-	-	-	-	-	11,538	692	

Catholic Church Endowment Society Inc.
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5 Segment Note Balance Sheet

	GCES		CEO		DPF		Charities		Seminary Fund		Ecumenical Endeavours		Eliminations		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Assets																
Cash and Cash Equivalents	31,970	12,831	4,963	5,006	2,263	2,460	2,315	2,539	1,386	1,472	115	-	(11,042)	(11,494)	31,970	12,814
Due from Other Financial Institutions	123,448	135,597	-	-	-	-	-	-	-	-	-	-	-	-	123,448	135,597
Available for Sale Investments	45,014	10,463	-	-	-	-	-	-	-	-	-	-	-	-	8	7
Investment in Associates	-	696	-	-	-	-	-	-	-	-	-	-	-	-	45,014	10,463
Investment Properties	133,840	122,000	-	-	-	-	-	-	-	-	-	-	-	-	136,92	122,000
Property, Plant and Equipment	26,174	26,388	5,335	3,629	2,095	2,005	-	-	-	-	3,080	-	-	-	0	0
Trade and Other Receivables	6,522	4,871	3,791	4,207	840	919	1	1	93	45	7	-	(597)	-	33,604	32,022
Loans and Advances	77,490	92,655	-	-	-	-	-	-	-	-	-	-	-	-	10,657	10,043
Other Intangible Assets	1	84	-	-	-	-	-	-	-	-	-	-	(2,311)	(1,921)	75,179	90,734
Total Assets	444,459	405,585	14,089	12,842	5,198	5,384	2,316	2,540	1,479	1,517	3,202	-	(13,950)	(13,415)	456,79	414,45
Liabilities																
Deposits	323,585	323,056	2,311	1,921	-	-	-	-	-	-	-	-	(13,354)	(13,405)	312,54	311,57
Trade and Other Payables	1,037	809	4,156	3,684	777	839	-	-	-	-	1,092	-	(596)	(10)	2	2
Borrowings	37,000	10,000	-	-	-	-	-	-	-	-	-	-	-	-	6,466	5,322
Derivative Liabilities	2,264	2,088	-	-	-	-	-	-	-	-	-	-	-	-	37,000	10,000
Provisions	1,813	1,629	3,111	3,774	57	65	-	-	-	-	-	-	-	-	2,264	2,088
Income in Advance	-	-	308	115	-	9	-	-	-	-	-	-	-	-	4,981	5,468
Total liabilities	365,699	337,582	9,886	9,494	834	913	-	-	1,092	-	1,092	-	(13,950)	(13,415)	363,56	334,57
Net Assets	78,760	68,003	4,203	3,348	4,364	4,471	2,316	2,540	1,479	1,517	2,110	-	-	-	93,232	79,879
Equity																
Share Capital	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Retained earnings	60,228	50,351	4,203	3,348	4,364	4,471	42	115	1,479	1,517	1,407	-	-	-	71,723	59,802
Reserves	18,532	17,652	-	-	-	-	2,274	2,425	-	-	-	-	-	-	20,806	20,077
Non-controlling interest	-	-	-	-	-	-	-	-	-	-	703	-	-	-	-	-
Total Equity	78,760	68,003	4,203	3,348	4,364	4,471	2,316	2,540	1,479	1,517	2,110	-	-	-	93,232	79,879

Catholic Church Endowment Society Inc.
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6 Profit for the Year

	2017	2016
	\$	\$
Includes the following items of income and expense:		
Profit/(Loss) on disposal of property, plant and equipment	<u>341,402</u>	<u>274,810</u>

7 Remuneration of Auditors

	2017	2016
	\$	\$
Audit Services performed by KPMG	117,330	115,145
Other Non-Audit Services performed by KPMG	25,000	37,450
Audit Services for Controlled entities performed by Other Auditors	2,000	-
	<u>144,330</u>	<u>152,595</u>

8 Net Interest Income and Analysis

The following is the average rate for each major category of interest earning assets and interest bearing liabilities

	2017	2016
	\$	\$
<i>Interest Earning Assets</i>		
Interest Income from cash and cash equivalents, cash management funds and term investments	5,161,786	5,589,598
<i>Average Earning rate from cash and cash equivalents, cash management funds and term investments</i>	2.57%	2.83%
Interest Income from loans and advances	3,029,308	4,290,904
<i>Average Earning rate from loans and advances</i>	3.95%	4.63%
<i>Interest Bearing Liabilities</i>		
Interest Paid on deposits	(6,794,045)	(7,705,571)
<i>Average Interest rate paid on deposits</i>	2.18%	2.15%
Net Income	<u>1,397,049</u>	<u>2,174,931</u>
Net Interest Margin Rate	0.77%	1.25%

9 Due from Other Financial Institutions

	2017	2016
	\$	\$
Term Investment with Other Financial Institutions	123,447,558	135,596,538
Total Term Investment with Other Financial Institutions	<u>123,447,558</u>	<u>135,596,538</u>

Catholic Church Endowment Society Inc.
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10 Available for Sale Investments

	2017	2016
	\$	\$
Income Securities at fair value	2,811,409	2,532,835
Overseas Equities at fair value	8,084,096	-
Listed Shares at fair value	14,903,070	2,234,468
Unlisted Shares at fair value	6,694,425	5,695,219
Units in Trusts at fair value	12,520,540	-
Total Available for Sale Investments	45,013,540	10,462,522

11 Investment in Associates

	2017	2016
	\$	\$
Investment in Associates	-	695,868
Total Investment in Associates	-	695,868

The Association's relationship with Ecumenical Endeavours Pty Ltd has changed during the year ended 31 December 2017 to one where the Association exercises control over Ecumenical Endeavours Pty Ltd due to an additional share acquisition by the Association and accordingly, Ecumenical Endeavours Pty Ltd is now consolidated into the financial statements of the Association and no longer classified as an Investment in Associates.

12 Investment Properties

	2017	2016
	\$	\$
Balance at beginning of Year	122,000,000	134,000,000
Additions for the year	3,080,000	-
Sale of investment property	-	(12,000,000)
Net gain/(loss) from fair value adjustment	11,840,000	-
Balance at the end of the year	136,920,000	122,000,000

Investment properties are recorded at fair value based upon an independent valuation performed by Knight Frank in January 2018. The valuation, which conforms to Australian Valuation Standards, was determined by reference to discounted cash flows. The model includes assumptions about the future prices of properties and expectations about future interest rates.

The additions represent the investment property held by the controlled entity Ecumenical Endeavours Pty Ltd which is recorded at fair value based upon an independent valuation by McGees Property in February 2017. Management have performed an assessment and believe the valuation as at 31 December 2017 does not differ materially to this valuation.

Catholic Church Endowment Society Inc.
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13 Property, Plant and Equipment

	2017	2016
	\$	\$
Land and Buildings		
Land at Cost	7,187,343	7,187,343
Building at Cost	11,561,303	11,561,303
Religious Sites at Cost	9,382,972	9,382,972
Accumulated Depreciation	(3,644,060)	(3,411,078)
	<u>24,487,558</u>	<u>24,720,540</u>
Leasehold Improvements		
At cost	1,873,172	1,679,889
Less Depreciation	(1,158,894)	(1,017,496)
	<u>714,278</u>	<u>662,393</u>
Plant and equipment		
At cost	7,569,311	7,022,465
Accumulated Depreciation	(5,042,977)	(4,546,822)
	<u>2,526,334</u>	<u>2,475,643</u>
Motor Vehicles		
At cost	5,206,965	5,193,050
Accumulated Depreciation	(1,431,442)	(1,518,761)
	<u>3,775,523</u>	<u>3,674,289</u>
Work in Progress	<u>2,100,717</u>	<u>489,924</u>
Total Property, Plant and Equipment	<u><u>33,604,410</u></u>	<u><u>32,022,789</u></u>

14 Trade and Other Receivables

	2017	2016
	\$	\$
Trade and Other Receivables		
Trade Receivables	989,776	713,552
Allowance for Doubtful Debts	(5,541)	-
	<u>984,235</u>	<u>713,552</u>
Other Receivables	5,385,021	2,803,614
Operating Lease Receivable	1,579,191	3,141,084
Long Service Leave Receivable	1,786,817	2,017,658
Accrued Interest Receivable	922,409	1,366,510
Total Trade and Other Receivables	<u><u>10,657,673</u></u>	<u><u>10,042,418</u></u>

Catholic Church Endowment Society Inc.
Notes to and forming part of the Financial Statements
For the year ended 31 December 2017

15 Loans and Advances

	2017	2016
	\$	\$
Loans and Advances	<u>75,179,245</u>	<u>90,734,007</u>
<i>By concentration of risk</i>		
Parishes & Trusts	2,632,766	1,858,436
Diocesan Schools	57,167,962	61,963,926
Religious Order Schools	4,054,968	14,739,999
Catholic Organisations	11,323,549	12,171,646
Total Loans and Advances	<u><u>75,179,245</u></u>	<u><u>90,734,007</u></u>
<i>By maturity</i>		
Within 12 months	597,444	1,957,220
1-5 years	19,013,855	18,767,513
Over 5 years	55,567,946	70,009,274
Total Loans and Advances	<u><u>75,179,245</u></u>	<u><u>90,734,007</u></u>

The Provision for Impairment of Loans is Nil (2016: Nil)

16 Other Intangible Assets

	2017	2016
	\$	\$
Software at cost	465,355	465,355
Accumulated Depreciation	(464,313)	(381,009)
Total Intangible Assets	<u><u>1,042</u></u>	<u><u>84,346</u></u>

17 Deposits

	2017	2016
	\$	\$
Deposits at amortised cost	<u>312,542,440</u>	<u>311,571,318</u>
<i>Concentration of Deposits</i>		
Parishes	52,110,243	52,292,624
Diocesan Schools	107,693,382	102,016,509
Religious Order Schools	17,683,764	27,569,642
Catholic Organisations	115,575,369	109,352,735
Parishioners	19,479,682	20,339,808
Total Deposits	<u><u>312,542,440</u></u>	<u><u>311,571,318</u></u>
<i>By maturity</i>		
On call	304,571,440	305,034,318
Up to 3 months	1,685,000	477,000
3-6 months	415,000	281,000
Over 6 months	5,871,000	5,779,000
Total Deposits	<u><u>312,542,440</u></u>	<u><u>311,571,318</u></u>

Catholic Church Endowment Society Inc.
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For the year ended 31 December 2017

18 Trade and Other Payables

	2017	2016
	\$	\$
Trade and Other Payables		
Trade Payables	3,131,492	1,530,033
Other Payables	1,249,578	1,330,965
GST Payable	-	-
Amounts Payable to SA Commission for Catholic Schools Inc.	1,955,265	2,315,624
Accrued Interest Payable	130,824	146,132
Total Trade and Other Payables	6,467,159	5,322,754

19 Borrowings

	2017	2016
	\$	\$
Unsecured		
Other Loan (Interstate CDF's) at amortised cost	10,000,000	10,000,000
Secured		
Bank Loan (ANZ) at amortised cost (i)	20,000,000	-
Bank Loan (NAB) at amortised cost (ii)	7,000,000	-
	37,000,000	10,000,000

Summary of borrowing arrangements

- i) Secured by a mortgage over the Association's investment property located at 250 Victoria Square with a carrying value of \$131,000,000 with the bank facility maturing in 2025. This facility can be drawn/repaid at any time up to a limit of \$50m.
- ii) Secured by mortgage over the Association's deposits. This facility can be drawn/repaid at any time up to a limit of \$25m.

20 Derivative Liability

	2017	2016
	\$	\$
Derivatives that are carried at fair value:		
Interest rate Swap	2,263,683	2,087,848

21 Provisions

	2017	2016
	\$	\$
Employee Benefits		
Current	4,604,420	5,076,200
Non-Current	376,345	392,232
Total Provisions	4,980,765	5,468,432

Catholic Church Endowment Society Inc.
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22 Retained Earnings

	2017	2016
	\$	\$
Balance at the beginning of the financial year	59,801,733	58,662,372
Profit/(loss) for the year	11,538,619	691,829
Profit attributable to Non-controlling Interests	(7,231)	-
Other comprehensive income	-	(127,987)
Transfer (to) / from reserves	389,410	575,519
Balance at end of financial year	<u>71,722,531</u>	<u>59,801,733</u>

23 Reserves

	2017	2016
	\$	\$
Share Investments	8,619,248	7,501,034
Government Funding	1,492,312	1,492,312
General	2,910,903	3,149,309
Catholic Charities	2,273,847	2,424,851
Catholic Education capital	5,509,553	5,509,553
Total Reserves	<u>20,805,863</u>	<u>20,077,059</u>

Share Investments reserve

The share investment reserve records the revaluation of unlisted shares, listed shares and income securities, and the value of shares bequeathed to the Association.

Government Funding reserve

The government funding reserve is equivalent to the value of capital grants contributed by the government for building projects on land owned by the Association and for equipment used, which has been transferred from retained earnings

General Reserve

The general reserve is equivalent to the value of gifted and trust reserves for special allocations at the discretion of the Archbishop, towards assisting the pastoral objectives of the organisation, which has been transferred from retained earnings.

Catholic Charities Reserve

The catholic charities reserve is equivalent to the value of bequest amounts left to the Archdiocese of Adelaide for charity purposes, which has been transferred from retained earnings.

Catholic Education Capital Reserve

The catholic education capital reserve is funds required in the Archdiocese of Adelaide for building projects in education.

Catholic Church Endowment Society Inc.
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For the year ended 31 December 2017

24 Non-controlling Interest

	2017	2016
	\$	\$
Non-controlling Interest	703,170	-
Total Non-controlling interest	703,170	-

The Association's equity interest in Ecumenical Endeavours Pty Ltd increased during the year from 33% to 67%. The Association has determined it exercises control over Ecumenical Endeavours Pty Ltd and accordingly, has included this entity in the Consolidated Group. The following table summarises the information relating to the Non-controlling interest in this subsidiary.

31 December 2017

NCI percentage	33%	0%
Current Assets	122,382	-
Non-current Assets	3,080,000	-
Current Liabilities	(20,309)	-
Non-current Liabilities	(1,072,568)	-
Net Assets	2,109,505	-
Net Assets attributable to NCI	703,170	-
Revenue	107,101	-
Profit	21,692	-
Profit allocated to NCI	7,231	-

25 Restricted use of cash balances

	2017	2016
	\$	\$
Included in cash and cash equivalents are the following amounts that are restricted:		
Catholic charities legacy funds donated by bequests	2,273,847	2,448,052
Deductible gift recipient funds for Catholic Diocesan Charities Appeal	41,330	91,004
Seminary Legacy Funds donated by bequests	1,386,135	1,471,806

26 Commitments for expenditure

As at 31 December 2017 the Association has no commitments for expenditure to disclose.

27 Contingencies

(a) Royal Commission into Institutional Responses to Child Sexual Abuse

The Royal Commission into Institutional Responses to Child Sexual Abuse issued its final report into the Catholic Church in December 2017. At the date of these financial reports the redress impact of this report on the Association is unknown.

(b) State Government Housing Agreement

The Association has the following housing agreements with the State Government in relation to grants that specifically funded building projects on land owned by the Association.

- (1) The Association has an agreement with the Minister of Housing in relation to the capital grants contribution to the building renovations of the Hutt Street Care Centre managed by the Daughters of Charity on land registered to the Association. Under the terms of the agreement, the grant has been made on the basis that the Association continues to run the facility in accordance with its permitted use and for the term of 20 years (to the year 2024). The grant (\$907,394) will be repayable to the Minister during this time if the above condition is not met by the Association during the term.
- (2) The Association has an agreement with South Australian Community Housing Authority in relation to the capital grants contribution to the construction of Residential Units for the Ain Karim housing project on land at Fitzgerald Avenue, Enfield registered to the Association. Under the terms of the agreement the funding is amortised over a 30-year period after which the Association has complete ownership of the property. If the Association ceases using the property for the purpose of community housing it will have a liability to repay the grant (\$584,917) on a proportionate basis.

(c) School Leasing Facilities

The Association has guaranteed leasing facilities for equipment in education of the Archdiocese of Adelaide to the value of \$208,080 (2016: \$701,405). The Association has also been named as the legal entity, but not supplied a guarantee, on leasing facilities for equipment in education to the value of \$378,240.

(d) Legal Expenditure

The Association incurs legal fees concerning Archdiocesan operations. An asset may arise being a possible recovery from Catholic Church Insurances upon determination of these matters. A liability may arise from legal matters for which there is no insurance and outcomes are yet to be determined.

(e) Employee Benefit Contingency

The Association engages a number of employees under contracts which include a Right of School Return Clause which requires the Association to provide a position in a school on completion of the contract with the Association. Should no such position be available a liability may arise to the Association. This contingency is estimated at \$16m based on existing contracts at the end of the period. This is not included as a liability to the Association as at balance date as it is expected school positions would exist for these employees.

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28 Cash flow reconciliation

	2017	2016
	\$	\$
Profit/(loss) for the year	11,538,619	691,829
Add/Less Non Cash Items and Cash from Investing or Financing Activities:		
(Gain)/loss on derivatives	175,834	262,383
Depreciation and amortisation expense of non-current assets	2,134,467	1,963,897
(Profit)/loss on sale of fixed assets	(341,402)	(274,810)
Investment income	(11,785,295)	(11,970,310)
Interest paid on borrowings related investments	1,323,243	1,714,886
Borrowing costs	776,374	1,298,708
Investment property revaluation	(11,840,000)	-
Other non-cash expenses/(income)	-	26,023
	<u>(19,556,779)</u>	<u>(6,979,223)</u>
Movements in Assets and Liabilities:		
(Increase)/decrease in receivables	(615,255)	572,162
Decrease in Available for Sale Investments	-	621,573
Decrease/(increase) in Associates	695,868	(695,868)
Decrease in loans and advances	15,554,762	10,987,119
Decrease in amounts due from other financial institutions	12,148,980	9,312,426
Increase/(decrease) in payables	1,144,354	(906,922)
Non-cash Increase in payables due to consolidation of newly controlled entity	(1,092,262)	-
Non-cash reduction in receivable due to consolidation of newly controlled entity	(596,877)	-
(Decrease)/increase in provisions	(487,667)	351,719
Increase in deposits	971,122	26,342,142
Increase in income in advance	184,402	8,003
	<u>27,907,427</u>	<u>46,592,354</u>
Net Cash Flows from Operating Activities	<u><u>19,889,267</u></u>	<u><u>40,304,960</u></u>

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29 Fair value of financial instruments

(a) Fair values

The aggregate fair value of financial assets and financial liabilities, both recognised and unrecognised at the reporting date of the Association, are as follows:

	Total carrying amount as per Statements of Financial Position		Aggregate net fair value		Fair value hierarchy
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000	
Financial assets					
Due from Other Financial Institutions	123,448	135,597	123,497	135,713	Level 1
Available for Sale Investments	45,014	10,463	45,014	10,463	Level 1
Loans and Advances	75,179	90,734	75,179	90,734	Level 3
Total	243,641	236,794	243,690	236,910	
Financial liabilities					
Deposits	312,542	311,571	312,542	311,571	Level 3
Derivative Liabilities	2,264	2,088	2,264	2,088	Level 2
Borrowings	37,000	10,000	37,000	10,000	Level 3
Total	351,806	323,659	351,806	323,659	

The following methods and assumptions were used to determine the fair values of financial assets and liabilities:

Due from Other Financial Institutions:

These financial assets represent the Association's liquidity portfolio and are comprised of FRN investments and term deposits held with Australian Domiciled ADIs. Where the FRN investments have a residual maturity of greater than twelve months, the fair value of those investments have been reported at their current market values. The fair values of all other investments are reported at their carrying values, as these investments mature in less than 12 months and the rate of returns is the same as the current market rates for term deposits having substantially the same terms and conditions. Therefore, the carrying amount of these investments is a reasonable estimate of fair value.

Available for Sale Investments:

The fair value of income securities and listed shares are determined with reference to the quoted market prices. The fair value of unlisted shares is determined with reference to the respective entity's net assets.

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Loans and Advances:

The Association is the main provider of loans and advances to non-laiety entities of the Catholic Archdiocese of Adelaide. The lending terms are set by the Association with regard to other Diocese rates, commercial market rates and the cost of funds to the Association. There is no external market for loans to Diocesan entities with the Association able to set the price on both Loans and Deposits. No impairment provision is required as the Association controls the collection of loan repayments and has the ability to implement action for financially challenged borrowers. The carrying value is therefore assessed as the net realisable value of Loans and Advances and represents their fair value.

Deposits:

The Association is the only holder of Deposits for non-laiety entities of the Catholic Archdiocese of Adelaide. There is no external market for Deposits with the Association able to set the interest rate at its discretion. The fair value is therefore set at the carrying value of all Deposits.

Derivative Liabilities:

The fair value of interest rate swaps are determined with reference to the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

Borrowings:

The fair value of borrowings is equal to the carrying value due to the short term nature of each drawdown on the facility being 30 days at variable interest rates.

(b) Fair value hierarchy

The table below analyses the Associations financial instruments carried at fair value.

Different levels have been identified as follows:

- Level 1: Quoted Prices in active markets for identical assets and liabilities
- Level 2: Inputs other than quoted prices included within level 1 that are observable for the assets and liabilities either directly (i.e.: as prices) or indirectly (i.e.: derived from prices)
- Level 3: Inputs for assets and liabilities that are not based on observable market data.

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
2017				
Available for Sale Investments				
Income Securities	2,811	-	-	2,811
Listed	14,903	-	-	14,903
Unlisted	-	-	6,694	6,694
Overseas Equities	8,084	-	-	8,084
Units in Unit Trusts	12,521	-	-	12,521
Derivative Liabilities		2,264	-	2,264
2016				
Available for Sale Investments				
Income Securities	2,533	-	-	2,533
Listed	2,234	-	-	2,234
Unlisted	-	-	5,695	5,695
Derivative Liabilities	-	2,088	-	2,088

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30 Leasing arrangements

Operating leases relate to the investment properties owned by the Association with lease terms of between 5 to 15 years, with an option to extend for a further 5 to 10 years. All operating lease agreements contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease period.

The income earned by the Association from its investment properties is shown as investment income and the direct operating expenses arising on the investment properties are included as occupancy expenses in the Statement of Profit or Loss and Other Comprehensive Income.

31 Related Party Disclosures

The Association is a religious structure which is governed by Canon Law and Civil Law as Catholic Church Endowment Society Inc. The Archbishop is the sole member of the Association. Control of government funded agencies of the Archdiocese, for example Centacare and Catholic Schools, is as directed by relevant government bodies, including the Education and Welfare departments of both State and Federal Government. These agencies are therefore not included in the Consolidated Financial Statements of the Association as control over their activities is governed by the funding source.

Canonically, Catholic Parishes of the Diocese are autonomous from the Archdiocese, whilst civilly all assets are owned by the Association as the legal entity. These assets are not recorded within the Consolidated Financial Statements of the Association it has no control over these assets under Canon Law.

Whilst there is no control evident over Catholic Parishes or Schools operating in the Archdiocese, or over the agency Centacare, these are related due to the nature of the religious group. Transactions between these related parties include the following:

- Treasury Functions
- Motor Vehicle Supply
- ICT Services
- Payroll Services
- Property Services
- Parish collections for support of Priests and Archdiocesan operations

32 Consolidated Entities

The entities currently controlled by the Association and included in the consolidated financial statements are:

- The Catholic Education Office
- The Diocesan Presbytery Fund
- The Catholic Diocesan Charities Appeal
- The Seminary Fund
- Ecumenical Endeavours Pty Ltd

33 Subsequent Events

Subsequent to balance date, there have been no events which would have a material effect on the Consolidated Entity and the Association's financial statements as at 31 December 2017.