

**CATHOLIC EDUCATION LONG SERVICE  
LEAVE SCHEME  
(VICTORIA)**

**Financial statements for the financial  
year ended 31 December 2020**

CATHOLIC EDUCATION LONG SERVICE LEAVE SCHEME (VICTORIA)  
ANNUAL FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

**Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2020**

	Note	Financial year ended 31 December 2020 \$	Financial year ended 31 December 2019 \$
<b>Continuing operations</b>			
Levy contributions			
Catholic Education, Archdiocese of Melbourne, diocesan offices and non-school Catholic organisations		2,239,180	2,100,916
Secondary/special schools levies		29,628,006	26,578,382
Interstate transfers		508,134	359,329
Primary schools:			
General Recurrent Grants Program		24,244,242	14,011,164
<b>Total levy contributions</b>		<u>56,619,562</u>	<u>43,049,791</u>
Interest Income		5,091,758	9,608,302
<b>Total revenue from continuing operations</b>		<u>61,711,320</u>	<u>52,658,093</u>
<b>Expenses</b>			
Change in actuarially determined obligation	6	(87,977,067)	(81,698,348)
Fair value gain/ (loss) on financial assets designated at FVTPL		399,781	(123,437)
Loading paid for reimbursement costs (funded by recurrent levies)		(1,044,234)	(1,097,920)
Transfer of leave obligation for staff transferring to other Australian schemes		(272,161)	(580,044)
Amount charged by CEM under service level agreement (SLA)		(467,257)	(408,492)
Audit fee expenses		(11,200)	(10,750)
Consulting fee expenses		(105,100)	(47,930)
Legal expenses		(10,646)	(7,937)
Other		(18,198)	(5,748)
<b>Total expenses</b>		<u>(89,506,082)</u>	<u>(83,980,606)</u>
<b>Change in net assets available to participants employers</b>		<u>(27,794,762)</u>	<u>(31,322,513)</u>
<b>Other Comprehensive Income</b>		<u>-</u>	<u>-</u>
<b>Total Comprehensive Loss for the year</b>		<u>(27,794,762)</u>	<u>(31,322,513)</u>

Notes to the audited financial statements are included on pages 5 to 15.

CATHOLIC EDUCATION LONG SERVICE LEAVE SCHEME (VICTORIA)  
ANNUAL FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

**Statement of financial position as at 31 December 2020**

	Note	Financial year ended 31 December 2020 \$	Financial year ended 31 December 2019 \$
<b>Assets</b>			
Cash and cash equivalents	8(a)	4,113,214	5,122,800
Receivables	3	964	1,070
Other financial assets	4	401,696,946	367,964,565
<b>Total Assets</b>		405,811,124	373,088,435
<b>Liabilities</b>			
Trade and other payables	5	69,388	44,937
Obligation to participant employers	6	475,626,000	415,133,000
<b>Total liabilities</b>		475,695,388	415,177,937
<b>Deficit of assets over liabilities further available to participant employers</b>		(69,884,264)	(42,089,502)

Notes to the audited financial statements are included on pages 5 to 15.

CATHOLIC EDUCATION LONG SERVICE LEAVE SCHEME (VICTORIA)  
ANNUAL FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

**Statement of changes in equity for financial year ended 31 December 2020**

Note	Financial year ended 31 December 2020 \$	Financial year ended 31 December 2019 \$
<b>Shortfall of assets over liabilities further available to participant employers</b>		
Balance at the beginning of the year	(42,089,502)	(10,766,989)
<b>Net income recognised directly in equity</b>		
Change in net asset available to participant employers	(27,794,762)	(31,322,513)
Total recognised income and expense	(27,794,762)	(31,322,513)
<b>Balance at the end of the year</b>	<b>(69,884,264)</b>	<b>(42,089,502)</b>

Notes to the audited financial statements are included on pages 5 to 15.

**CATHOLIC EDUCATION LONG SERVICE LEAVE SCHEME (VICTORIA)**  
**ANNUAL FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020**

**Statement of cash flows for the financial year ended 31 December 2020**

	Note	Financial year ended 31 December 2020 \$	Financial year ended 31 December 2019 \$
<b>Cash flows from operating activities</b>			
Receipts from levy contributions		56,111,535	42,689,431
Interest received		7,551,616	9,581,622
Claims paid to participant employers (including loading)		(28,020,167)	(47,170,617)
Interstate transfers paid		(272,161)	(408,492)
Payments made related parties and other suppliers		(587,951)	(72,364)
Net cash provided by operating activities	8(b)	34,782,872	4,619,580
<b>Cash flows from investing activities</b>			
Purchase of term deposits		(152,965,810)	(157,021,894)
Maturity of term deposits		117,173,352	163,494,529
Purchase of equity investment		-	(10,000,000)
Net cash used in investing activities		(35,792,458)	(3,527,365)
Net increase/(decrease) in cash and cash equivalents		(1,009,586)	1,092,215
Cash and cash equivalents at the beginning of the financial year		5,122,800	4,030,585
<b>Cash and cash equivalents at the end of the financial year</b>	8(a)	<b>4,113,214</b>	<b>5,122,800</b>

Notes to the audited financial statements are included on pages 5 to 15.

CATHOLIC EDUCATION LONG SERVICE LEAVE SCHEME (VICTORIA)  
ANNUAL FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

**Notes to the financial statements for the financial year ended 31 December 2020**

**1. General information**

The Catholic Education Long Service Leave Scheme (Victoria) ("the Scheme") came into existence in 1978 as an agreement between employers in Catholic Education and the Archbishop of the Archdiocese of Melbourne, the Bishops of the Dioceses of Ballarat, Sandhurst and Sale and leaders of Religious Congregations, mainly to bring about an improvement in the arrangements for long service leave available under State legislation for employees in Catholic Education. The Scheme is managed and administered through the Long Service Leave Committee (LSL Committee) and by a service level agreement with Catholic Education Melbourne.

The primary purpose of the scheme is to facilitate portability of long service leave entitlements and to allow the cost of these entitlements to be equitably shared between the employers part of the scheme.

The Scheme is governed by the rules of the Catholic Education Long Service Scheme (Victoria) ("Rules") which were established in 2003 and revised in 2014 and 2019.

The Scheme's principal place of business is as follows:

James Goold House  
228 Victoria Parade  
EAST MELBOURNE VIC 3002

Postal address:  
PO Box 3  
EAST MELBOURNE VIC 8002

**2. Significant accounting policies**

**Statement of compliance**

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and complies with other requirements of the law. Accounting Standards include Australian equivalents to International Financial Reporting Standards ("A-IFRS"). For the purposes of preparing the financial statements, the Scheme is a not-for-profit entity.

The financial statements have been approved by the authorised persons of the LSL Committee on page 16.

**Basis of preparation**

The financial statements have been prepared on the basis of historical cost except for certain financial assets measured at fair value. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

Assets and liabilities are presented on the basis of liquidity as this is considered more reliable and relevant for users.

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

**a) Cash and cash equivalents**

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

**b) Investments**

Monies are invested in term deposits with major financial institutions. The term deposits are held to maturity financial assets measured at amortised cost.

CATHOLIC EDUCATION LONG SERVICE LEAVE SCHEME (VICTORIA)  
ANNUAL FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

**c) Financial assets**

Recognition and Derecognition

Financial assets are recognised when the Scheme becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred.

Classification of Financial assets

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

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

Initial measurement of financial assets

Financial assets are classified according to their business model and the characteristics of their contractual cash flows. All financial assets are initially measured at fair value adjusted for transaction costs.

Subsequent measurement of financial assets

For the purpose of subsequent measurement, financial assets are classified into the following categories:

- Financial assets at amortised cost
- Financial assets at FVTPL

Amortised cost and effective interest method

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

Financial assets at fair value through profit or loss (FVTPL)

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss.

Impairment of financial assets

The Scheme recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost, lease receivables and trade receivables and contract assets, as well as on financial guarantee contracts. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

Trade and other receivables

The Scheme makes use of a simplified approach in accounting for trade and other receivables as well as contract assets and records the loss allowance at the amount equal to the expected lifetime credit losses. In using this practical expedient, the Scheme uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix.

**d) Income taxes**

The Scheme is exempt from paying income taxes.

**e) Claims under the Scheme**

Amounts are recognised as payable to participant employers for long service leave claims on a claims-made basis.

Amounts are recognised as payable to participant employers for loading amounts claimed when a claim is lodged with the Scheme and approved by the Long Service Leave Committee.

Claims payable are recognised initially at fair value, net of transaction costs, and subsequently at amortised cost as the present value of the obligation to participant employers with changes recognised in the profit and loss.

CATHOLIC EDUCATION LONG SERVICE LEAVE SCHEME (VICTORIA)  
ANNUAL FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

**f) Obligation to participant employers**

The Scheme has an obligation to participant employers to pay benefits to them as a reimbursement for long service leave amounts paid out to employees by the participant employers. The Scheme obtains an actuarial valuation to determine the amount of the present liability to participant employers. The liability is designated as a financial liability.

In addition to reimbursing the employer for long service leave entitlements, the scheme has the option to pay a loading of 20% when long service leave entitlements are taken as leave (rather than paid on termination). The loading is a discretionary payment which the scheme is not obligated to make and accordingly, there is no provision for this liability.

**g) Income**

Income is measured at the fair value of the consideration received or receivable. The scheme is primarily funded by a levy from employers.

Income from levy contributions is recognised as the amounts become receivable.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

**h) Goods and services tax ("GST")**

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

Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are included in the statement of cashflows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the ATO is classified as operating cash flows.

**i) Critical accounting estimates and judgements**

In the current period an actuarial valuation has been obtained from Mercer (Australia) Pty Ltd to assist in the determination of the balance of the long service leave obligation and to assist in the setting of future contribution levels by participating employers. Further details about the assumptions used in this valuation are detailed in Note 6.

The actuarial valuation reflects an estimate of the total liability at the year end. Over time, the total cost that ultimately emerges will depend on a number of factors, including the amount of the benefits paid, the number of people paid benefits, the timing of those payments, rates of future salary increases and oncosts. The Long Service Leave Committee has applied judgement to make the best estimate of these factors based on a single scenario from a range of possibilities.

**j) Critical accounting judgments and key sources of estimation uncertainty**

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

*Discount rate used to determine the carrying amount of the Scheme's obligation to participant employers*

The Scheme's obligation to participant employers is discounted at a rate set by reference to market yields at the end of the reporting period on high quality corporate bonds.

**CATHOLIC EDUCATION LONG SERVICE LEAVE SCHEME (VICTORIA)  
ANNUAL FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020**

**k) Employee Benefits**

There are no employees in Long Service Leave Scheme (LSL); Catholic Education Long Service Leave Scheme has a Service Level Agreement (SLA) with the Catholic Education Melbourne for the provision of services.

**l) Funding Policy**

At reporting date, liabilities exceeded assets by \$69,884,264 (2019: \$42,089,502). A review of the cash flow forecasts prepared by the Committee indicates there are no foreseeable liquidity issues. Whilst there is a deficit in assets compared to liabilities, the Committee note that of the total long service leave liabilities approximately \$88,519,000 had not yet vested at year end. Based on those eligible employees at year end, the non-current portion of the liability is \$50,073,000, the difference being those employees who are expected to vest in the coming 12 months. The Committee also note that whilst the total obligation is approximately \$475,626,000, annual long service payments have not exceeded \$50.0m in the last 5 years and this is not expected to change significantly going forward. On this basis, the Committee is satisfied that the Scheme will continue as a going concern and will realise their assets and discharge their liabilities in the normal course of business and at the amounts stated in the financial report.

During the year ended 31 December 2019, the LSL Committee considered the net asset position of the LSL Scheme having regard to actuarial forecasts and investment market conditions. As a result a strategy was developed to maintain the funding of vested liabilities at greater than 100%. A strategy was also developed to achieve a net asset position by 2025. The strategy has been extended to 2026 due to the events of the COVID-19 pandemic from 2020.

As at 31 December 2020, the vested liability was \$387.1 million. The funding for the vested liability was 105%. There are sufficient assets in the LSL Scheme to cover the vested liability as at 31 December 2020.

The obligation to participant employers is sensitive to the assumptions used in the actuarial valuation including the discount rate and salary inflationary and promotional increases. The discount rate is required under AASB 119 Employee Benefits which requires a published corporate bond rate to determine the future discount rate of the LSL Scheme's assets. In practicality, this rate does not reflect the true performance of the LSL Scheme's investments. For a long term discount rate, the corporate bond rate has shown volatility in recent years.

When discount rates increase, this has the impact of reducing the present value of the Scheme's net liability position. The change in discount rate from 2.3% in 2019 to 1.6% in 2020 resulted in an increase to the obligation to participant employers by \$24.87 million. **It has been noted that the discount rate as at 31 May 2021 is 2.29%. Had this rate been adopted at 31 December 2020 the net liability would be reduced by approximately \$20.3 million to \$49.5 million.**

As part of the strategy to restore a net asset position, the LSL Committee has developed an Investment Policy Statement which is expected to generate higher investment returns on its asset base. The Investment Policy Statement allocates the assets into the following pools:

Investment pool	Description	Estimated amount	Targeted return
Liquidity Pool	The Liquidity Pool is to provide for two years' worth of expected entitlement outlays. This Pool will receive the ongoing levy and distribute entitlements.	\$75,000,000	Outperform the Bloomberg AusBond Bank Bill Index
Liquidity Reserve	The Liquidity Reserve will cover expected medium-term entitlements, covering years 3-5. The income from this Reserve will be distributed to the Liquidity Pool on an ongoing basis.	\$180,000,000	Wage increases + Reserve Bank of Australia cash rate – 0.75%
Endowment	Designated and invested to preserve the capital long term and to derive an income stream to be distributed to the Liquidity Pool.  The capital growth achieved through investing is to be retained in the Endowment to help preserve the real value of the assets overtime.	Remaining assets	Wage increases + 2.25% total return

**CATHOLIC EDUCATION LONG SERVICE LEAVE SCHEME (VICTORIA)**  
**ANNUAL FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020**

**l) Funding Policy (cont'd)**

The following assumptions have also been used to forecast the recovery:

	2021	2022	2023	2024	2025	2026
Inflationary wage growth	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
General CPI	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Reserve Bank of Australia cash rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%

The LSL Committee continues to closely monitor the LSL Scheme's overall funding position with the objective of ensuring vested and accrued benefit liabilities are fully funded. The LSL Committee also have the discretion under the Rules of the Catholic Education Long Service Leave Scheme (Victoria) to adjust the rate of employer contributions, currently at 2.6%.

**m) Adoption of new and revised Accounting Standards**

**Amendments to Accounting Standards that are mandatorily effective for the current reporting period**

The Catholic Education Long Service Leave Scheme (Victoria) has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for an accounting period that begins on or after 1 January 2020.

New and revised Standards and amendments thereof and Interpretations effective for the current year that are relevant to the Catholic Education Long Service Leave Scheme (Victoria) include:

- AASB 2018-7 Amendments to Australian Accounting Standards – Definition of Material
- Conceptual Framework for Financial Reporting and AASB 2019-1 Amendments to Australian Accounting Standards – References to the Conceptual Framework
- AASB 2019-5 Amendments to Australian Accounting Standards – Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia

The application of these amendments did not have any material impact on the disclosures or the amounts recognised in the financial statements.

**New standards and interpretations not yet adopted**

At the date of authorisation of the financial statements, the Catholic Education Long Service Leave Scheme (Victoria) has not applied the following new and revised Australian Accounting Standards, Interpretations and amendments that have been issued but are not yet effective:

<b>Standard/Interpretation</b>	<b>Effective for annual reporting periods beginning on or after</b>	<b>Applicable from year ended</b>
AASB 1060 'General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities'	1 January 2022	30 December 2022
AASB 2020-3 Amendments to Australian Accounting Standards – Annual Improvements 2018-2020 and Other Amendments	1 January 2022	30 December 2022
AASB 2020-1 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current and AASB 2020-6 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current – Deferral of Effective Date	1 January 2023	30 December 2023

The Catholic Education Long Service Leave Scheme (Victoria) does not expect any material impact on its financial position and performance, with the adoption of revised Standards/ Interpretations

**CATHOLIC EDUCATION LONG SERVICE LEAVE SCHEME (VICTORIA)**  
**ANNUAL FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020**

**3. Receivables**

	<b>As at 31 December 2020 \$</b>	<b>As at 31 December 2019 \$</b>
GST receivables	603	1,070
Amounts receivable from Catholic Education Commission of Victoria Limited	361	-
	964	1,070

**4. Other financial assets**

	<b>As at 31 December 2020 \$</b>	<b>As at 31 December 2019 \$</b>
Financial assets		
Investments - term deposits at amortised cost	390,620,845	354,828,387
Equity investment at FVTPL	10,276,344	9,876,563
Accrued interest at amortised cost	799,757	3,259,615
	401,696,946	367,964,565

Cash received by the Scheme is invested in term deposits with the banks. The maturity profile rate as at year end attached to term deposits is detailed below:

	<b>As at 31 December 2020 \$</b>	<b>As at 31 December 2019 \$</b>
Less than 3 months	338,436,150	38,307,707
3 months to 1 year	52,184,695	316,520,680
	390,620,845	354,828,387

**5. Trade and other payables**

	<b>As at 31 December 2020 \$</b>	<b>As at 31 December 2019 \$</b>
Amount due to related party		
Catholic Education Melbourne	69,388	43,258
Catholic Education Commission of Victoria Limited	-	308
Accounts payable	-	1,371
	69,388	44,937

All payables are non-interest bearing.

**CATHOLIC EDUCATION LONG SERVICE LEAVE SCHEME (VICTORIA)**  
**ANNUAL FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020**

**6. Obligation to participant employers**

	As at 31 December 2020 \$	As at 31 December 2019 \$
Actuarially determined obligation - vested	387,107,000	348,800,000
Actuarially determined obligation - non vested	88,519,000	66,333,000
	475,626,000	415,133,000

Changes in the actuarially determined liability during the year are detailed below:

Balance at the beginning of the financial year	415,133,000	378,906,000
Claims paid during the year	(27,484,067)	(45,471,348)
Actuarially-determined adjustment to the liability	87,977,067	81,698,348
Balance at the end of the financial year	475,626,000	415,133,000

The fair value of the Scheme's obligation at 31 December 2020 to participant employers has been determined with reference to an actuarial valuation obtained on the 20 April 2021 by Mercer (Australia) Pty Ltd. for the year ended 31 December 2020. Key assumptions used by the actuary in determining the fair value of the Scheme include:

A discount rate of 1.6% (2019: 2.3%) is used. The 31 December 2020 discount rate is based on the yield on high quality corporate bonds with a term consistent with the term of the LSL liabilities. This is in accordance with AASB 119 - "Employee Benefits" where the entity is a not for profit non-public sector entity.

Future Salary Increase (applicable to all members)

Inflationary salary increases:	Principals: 2.0% for the year ending 31 December 2021 and then 2.0% per annum thereafter. All other staff: 2.0% for the year ending 31 December 2021 and then 2.0% per annum thereafter.
Promotional salary increases:	4.2% per annum for teaching staff, 1.5% per annum for principals and deputy principals, 3.0% per annum for non-teaching and 0% per annum for unclassified staff.

Taken together, the combined impact of the changes in accrued entitlements over the year, including the offset of claims made of \$27,484,067 (2019: \$45,471,348) and the discount rate and inflationary salary increase, has been to increase the calculated liability by \$60,493,000 (2019: increase \$36,227,000).

The duration of the liability is approximately 8.1 years (2019: 7.7 years).

The termination rates were reviewed and amended to reflect actual employee movements for the year ended 31 December 2020.

The actuarial report acknowledges that the long term wage increase of 2.0% per annum is consistent with the current environment and economic outlook. Management have assessed that this rate is appropriate, given the current economic climate and current wage increases being offered to Victorian State government authorities. An increase of 1.0% to the long term wage growth results in an increase to the total liability of \$42,316,000 to \$517,942,000.

**7. Commitments and contingencies**

The Scheme has no expenditure commitments or contingent liabilities or contingent assets at reporting date.

**CATHOLIC EDUCATION LONG SERVICE LEAVE SCHEME (VICTORIA)**  
**ANNUAL FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020**

**8. Notes to the statement of cashflows**

**a) Reconciliation of cash and cash equivalents**

For the purposes of the statement of cashflows, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments. Cash and cash equivalents at the end of the financial year ended 31 December 2020 as shown in the statement of cashflows is reconciled to the related items in the statement of financial position as follows:

	As at 31 December 2020 \$	As at 31 December 2019 \$
Cash and cash equivalents	4,113,214	5,122,800

**b) Reconciliation of the increase in net surplus for the financial year to net cash flows from operating activities:**

	Financial year ended 31 December 2020 \$	Financial year ended 31 December 2019 \$
Total recognised comprehensive income and expenses for the financial year attributable to participant employers	(27,794,762)	(31,322,513)
Change in actuarially determined obligation	60,493,000	36,227,000
Fair value (gain)/ loss on financial assets designated at FVTPL	(399,781)	123,437
Changes in assets and liabilities:		
(Increase)/decrease in receivables	106	(1,030)
(Increase)/decrease in accrued interest	2,459,858	(26,680)
(Decrease)/increase in trade and other payables	24,451	(380,634)
Net cash from operations	34,782,872	4,619,580

**c) Non-cash investing and financing activities**

During the financial year, there were no non-cash investing or financing activities. (31 December 2019: nil).

**d) Financing facilities**

The Scheme has not organised for any financing facilities to be available to the Scheme.

**9. Financial instruments**

**a) Capital and financial risk management objectives, processes and policies**

The Scheme does not have any true 'capital' to manage. The Scheme does not have any borrowings. Its principal activity is the investment of levy monies to be returned to participant employers to assist them in meeting their long service leave obligations in respect of their employees. Capital growth is not presently an objective of the Scheme, however, the Long Service Leave Committee has indicated their intentions to reconsider the manner in which levies collected are invested. At present, all levy monies received are mostly invested in twelve (12) month term deposits.

As the majority of its financial instruments are in the form of term deposits, the Scheme is exposed mainly to interest rate risk. Other than its term deposits and cash and cash equivalents, no financial assets or financial liabilities are interest-bearing. During the current reporting year, the weighted average interest rate earned on cash and cash equivalents was 0.32% (2019: 1.66%) per annum. The

**CATHOLIC EDUCATION LONG SERVICE LEAVE SCHEME (VICTORIA)**  
**ANNUAL FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020**

**9. Financial instruments (continued)**

Scheme does not actively manage its interest rate risk exposure. Further details about the Scheme's sensitivity to interest rates are described below.

The Scheme currently holds the majority of its cash and investments with major financial institutions, and accordingly, its exposure to credit risk is concentrated with three entities. The carrying amount of cash and cash equivalents and investments disclosed in these financial statements represents the Scheme's maximum exposure to credit risk at the reporting date. The Committee is of the opinion that its financial assets are held with creditworthy entities.

To manage its exposure to liquidity risk, each year actuarial valuations on the long service leave obligation are obtained. The Long Service Leave Committee manages its exposure to liquidity risk by setting future contribution levels to the Scheme based on the quantum and timing of the expected future cash outflows of the Scheme.

The Scheme is only exposed to market price risk to the extent that it holds tradeable equity securities as part of its structured investment portfolio. The Scheme's investment policy describes the risk management strategies employed by the Scheme. Risk management strategies include limiting the proportion of investment assets that are volatile and greater than the risk appetite of the Scheme. This also includes maintaining an appropriate quantity of low risk assets such as cash and cash equivalents. The risk is managed in accordance of planned returns required by the Scheme to achieve its operational objective to fully fund LSL entitlements as they become due.

There has been no change to the Scheme's exposure to market risks and other risks or the manner in which it manages and measures the risk from the prior year.

**b) Significant accounting policies and categories of financial instruments**

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in Note 2 to the financial statements.

The Scheme classifies its financial assets and financial liabilities into the following categories: cash and cash equivalents, receivables and financial liabilities at amortised cost. The totals of these categories are disclosed below:

	<b>As at 31 December 2020</b>	<b>As at 31 December 2019</b>
	<b>\$</b>	<b>\$</b>
Financial assets at amortised cost	391,420,602	358,088,002
Financial assets at FVTPL	10,276,344	9,876,563
Cash and cash equivalents	4,113,214	5,122,800
Receivables at amortised cost	964	1,070
Financial liabilities at amortised cost	(69,388)	(44,937)
Financial liabilities at amortised cost - obligation to participant employers	476,626,000	415,133,000

**c) Fair values of financial assets and financial liabilities**

Other than described below, the Scheme's financial assets and financial liabilities are not categorised as at fair value through the profit and loss. The directors consider that the carrying amounts of these financial assets and financial liabilities, approximates their fair values.

The Scheme holds investments in equities, which have been classified as at fair value through profit and loss. The fair value of these equities have been determined with reference to the current market prices.

**d) Market rate sensitivity**

Interest rate risk on financial assets

The sensitivity analysis has been determined based on the exposure to interest rates for cash and cash equivalents and investments at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting year.

**CATHOLIC EDUCATION LONG SERVICE LEAVE SCHEME (VICTORIA)  
ANNUAL FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020**

Obligation to participant employers

The Scheme is exposed to the risk that the future cash flows of its obligation to fund long service leave obligations of participant employers will fluctuate because of changes in the assumptions employed in the valuation. The Scheme has obtained an actuarial valuation to determine the fair value of its obligation to participant employers at reporting date that includes consideration of reasonably possible changes.

If the valuation had incorporated a reasonably possible alternative assumption of a long term salary increase of 1.0% per annum higher, the change in net assets available to participant employers for the financial year would increase by \$42,316,000.

**9. Financial instruments (continued)**

**e) Liquidity analysis**

The split between current and non-current is as follows (per Mercer Report)

	As at 31 December 2020 \$	As at 31 December 2019 \$
<b>Obligation to participant employers</b>		
Current	425,553,000	371,808,000
Non-current	50,073,000	43,325,000
	475,626,000	415,133,000

**10. Related party disclosures**

**a) Details of LSL Scheme Committee**

Ms Audrey Brown (resigned 30 June 2020)	Chairperson	Director, Catholic Education Office Ballarat
Mr Jim Miles (appointed 1 July 2020)	Chairperson	Executive Director, Catholic Education Melbourne
Mr Daniel Nguyen	Executive Officer	Catholic Education Melbourne
Ms Nadine Burdjugow	Assistant to Executive	Catholic Education Melbourne
Ms Erica Pegorer	Religious Institutes and Ministerial Public Juridic Persons	Chief Executive Officer, CRMV
Mr Craig Holmes	Secondary Principals	Sacred Heart College, Kyneton
Mr Des Noack	Primary Principals (VACPSP)	Resurrection School, Kings Park
Mr Michael Cowan	Secondary Teachers	VIEU
Mr Philip Cachia	Primary Principals	Our Lady Help Of Christians, Brunswick East
Mrs Barbara Siddiqui	Primary Teachers	St Bernard's, Coburg East

**b) Key management personnel compensation**

During the financial year, there was no compensation paid directly to key management personnel by the Scheme as there are no employees.

**c) Related party transactions**

Transactions and balances with key management personnel of the Scheme

There are no transactions with key management personnel of the Scheme for the financial year (2019 : nil) other than for long service leave contributions paid into the scheme by participating employers on normal terms and conditions, where applicable.

Transactions and balances with the Catholic Education Commission of Victoria Limited (CECV Ltd)

CECV Ltd contributes monies to the Scheme as a participating employer. During the financial year, CECV Ltd. made contributions of \$24,244,242 (2019: \$14,011,164) into the Scheme on behalf of certain schools and its employees.

**CATHOLIC EDUCATION LONG SERVICE LEAVE SCHEME (VICTORIA)  
ANNUAL FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020**

**c) Related party transactions (continued)**

Transactions and balances with other related parties

Catholic Education Melbourne, Archdiocese of Melbourne charges the Scheme one annual management fee, to be paid in two instalments each year, for all services performed on their behalf. The annual fee is negotiated each year with Catholic Education Melbourne and approved as part of the budget process. The total amount of monies charged by Catholic Education Melbourne is \$467,257 (31 December 2019: \$408,492).

Additional, levy contributions provided by Catholic Education Melbourne were:

	<b>As at 31 December 2020 \$</b>	<b>As at 31 December 2019 \$</b>
Catholic Education Melbourne	1,212,070	1,055,970

As at reporting date, the amount owed by the Scheme to Catholic Education Melbourne is \$69,388 (31 December 2019: \$43,258) and the amount receivable from CECV is \$361 (31 December 2019: payable of \$308).

**11. Auditors remuneration**

	<b>Financial year ended 31 December 2020 \$</b>	<b>Financial year ended 31 December 2019 \$</b>
Audit of the financial report	11,200	10,750

The Auditor of the Scheme is Deloitte Touche Tohmatsu

**12. Subsequent events**

As at 31 December 2020 the Scheme reported a net deficit of assets over liabilities of \$69,884,264. This was largely driven by the discount rate of 1.6% to calculate the obligation to participant employers. AASB 119 Employee Benefits requires that a published corporate bond rate is used to determine the discount rate of the obligation to participant employers. Since 31 December 2020, the corporate bond rate has increased to 2.29% at 31 May 2021. Using the rate at 31 May 2021, the obligation to participant employers and net deficit of assets over liabilities would decrease by approximately \$20.3 million.

The LSL Committee has committed to a governance review of the Scheme in 2021 with the possibility of the Scheme being incorporated as a company limited by guarantee. Under a proposed incorporation, the assets, liabilities and operations of the Scheme would transfer to the newly incorporated entity.

The LSL Scheme is seeking to increase the volume of equity investments in 2021 which will be subject to movements and volatility in the equity market. As observed during 2020, the COVID-19 pandemic had created fluctuations in market valuations of equity investments. The investment strategy of the LSL Scheme is that assets are held over a long term horizon and it acknowledged that there will be fluctuations in investment values across the investment period.

CATHOLIC EDUCATION LONG SERVICE LEAVE SCHEME (VICTORIA)  
ANNUAL FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

**Catholic Education Long Service Leave Scheme (Victoria) declaration**

The authorised persons of the Catholic Education Long Service Leave Committee declare that:

- a) in their opinion, there are reasonable grounds to believe that the Scheme will be able to pay its debts as and when they become due and payable; and
- b) give a true and fair view of the Scheme's financial position as at 31 December 2020 and of the Scheme's performance for the financial year ended on that date in accordance with accounting policies described in Note 2 to the financial statements.



Mr Jim Miles  
Chairperson, Catholic Education Long Service Leave Scheme (Victoria) Committee  
MELBOURNE

17 / 06 / 2021



Mr Daniel Nguyen  
Executive Officer, Catholic Education Long Service Leave Scheme (Victoria) Committee  
MELBOURNE

17 / 06 / 2021

## Independent Auditor's Report to the Members of Catholic Education Long Service Leave Scheme (Victoria)

### *Opinion*

We have audited the financial report, being a special purpose financial report of Catholic Education Long Service Leave Scheme (Victoria) (the "Entity"), which comprises the statement of financial position as at 31 December 2020, the statement of profit or loss and other comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the Committee's declaration.

In our opinion the accompanying financial report presents fairly, in all material respects, the Entity's financial position as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards and Catholic Education Long Service Leave Scheme (Victoria) Guidelines.

### *Basis for Opinion*

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

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

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

We draw attention to Note 2 to the financial report, which describes the basis of accounting. The financial report has been prepared to assist the Entity to meet the financial reporting requirements of the Catholic Education Long Service Leave Scheme (Victoria) Guidelines. As a result, the financial report may not be suitable for another purpose. Our report is intended solely for the Members of Catholic Education Long Service Leave Scheme (Victoria) and should not be distributed or used by parties other than the Members of Catholic Education Long Service Leave Scheme (Victoria). Our opinion is not modified in respect of this matter.

### *Responsibilities of Management and the Committee for the Financial Report*

Management of the Entity is responsible for the preparation and fair presentation of the financial report and has determined that the basis of preparation and accounting policies described in Note 2 to the financial report is appropriate to meet the requirements of the Catholic Education Long Service Leave Scheme (Victoria) Guidelines and is appropriate to meet the needs of the Members of Catholic Education Long Service Leave Scheme (Victoria). Management's responsibility also includes such internal control as management determine is necessary to enable the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error.

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

The Committee are responsible for overseeing the Entity's financial reporting process.

## *Auditor's Responsibilities for the Audit of the Financial Report*

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

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity'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 Entity to cease to continue as a going concern.
- 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 management and the Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



DELOITTE TOUCHE TOHMATSU



Peter Glynn  
Partner  
Chartered Accountants  
Melbourne, 17 June 2021