

# **UC INVEST**

## **Financial Report**

**12 Months to 31 December 2011**

## Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2011	Note	2011 \$	2010 \$
Revenue	2.	10,222,570	8,600,630
Expenses	3.	(594,815)	(608,625)
Finance Costs	4.	<u>(7,172,318)</u>	<u>(5,747,789)</u>
<b>OPERATING PROFIT / (LOSS) FOR THE YEAR</b>		<b><u>2,455,437</u></b>	<b><u>2,244,216</u></b>
Foreign Exchange Currency Gains / (Losses)	6.	(175,948)	0
Forward Exchange Contract Fair Value Movements	6.	29,327	0
Impairment of Financial Assets	7.	(59,991)	(42,638)
Realised Profit / (Loss) on Sale of Assets	7.	465,343	617,589
<b>PROFIT / (LOSS) FOR THE YEAR</b>		<b><u>2,714,168</u></b>	<b><u>2,819,167</u></b>
<b>Other Comprehensive Income</b>			
Gains / (Losses) on Revaluing Available-for-Sale Financial Assets	7.	(1,032,999)	1,100,138
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b><u>1,681,169</u></b>	<b><u>3,919,305</u></b>

The accompanying notes form part of these financial statements.

## Statement of Financial Position

AS AT 31 DECEMBER 2011	Note	2011 \$	2010 \$
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and Cash Equivalents	9.	5,556,978	5,856,334
Trade and Other Receivables	10.	1,587,642	802,529
Financial Assets	11.	<u>20,767,474</u>	<u>10,703,928</u>
<b>Total Current Assets</b>		<b><u>27,912,094</u></b>	<b><u>17,362,791</u></b>
<b>Non-Current Assets</b>			
Financial Assets	11.	109,244,555	104,561,933
Other Assets	12.	46,957	0
Property, Plant & Equipment		<u>106,533</u>	<u>40,044</u>
<b>Total Non-Current Assets</b>		<b><u>109,398,045</u></b>	<b><u>104,601,977</u></b>
<b>TOTAL ASSETS</b>		<b><u>137,310,139</u></b>	<b><u>121,964,768</u></b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Borrowings		0	330,000
Financial Liabilities	13.	98,264,725	99,503,310
Trade and Other Payables	14.	1,859,341	1,539,756
Provisions	15.	<u>82,082</u>	<u>66,712</u>
<b>Total Current Liabilities</b>		<b><u>100,206,148</u></b>	<b><u>101,439,778</u></b>
<b>Non-Current Liabilities</b>			
Financial Liabilities	13.	<u>29,778,506</u>	<u>13,655,675</u>
<b>Total Non-Current Liabilities</b>		<b><u>29,778,506</u></b>	<b><u>13,655,675</u></b>
<b>TOTAL LIABILITIES</b>		<b><u>129,984,654</u></b>	<b><u>115,095,453</u></b>
<b>NET ASSETS</b>		<b><u>7,325,485</u></b>	<b><u>6,869,315</u></b>
<b>EQUITY</b>			
Asset Revaluation Reserve	8.	(36,914)	1,518,904
Accumulated Funds		<u>7,362,399</u>	<u>5,350,411</u>
<b>TOTAL EQUITY</b>		<b><u>7,325,485</u></b>	<b><u>6,869,315</u></b>

The accompanying notes form part of these financial statements.

## Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2011

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	Accumulated Funds	Asset Revaluation Reserve	Total
	\$	\$	\$
Balance at 1 January 2010	3,334,006	626,004	3,960,010
Total Comprehensive Income for the year	2,819,167	1,100,138	3,919,305
Transfer of Revaluation Reserve on Sale	207,238	(207,238)	0
Transfer to Gift Funding	<u>(1,010,000)</u>	<u>0</u>	<u>(1,010,000)</u>
<b>Balance at 31 December 2010</b>	<b><u>5,350,411</u></b>	<b><u>1,518,904</u></b>	<b><u>6,869,315</u></b>
Balance at 1 January 2011	5,350,411	1,518,904	6,869,315
Total Comprehensive Income for the year	2,714,168	(1,032,999)	1,681,169
Transfer of Revaluation Reserve on Sale	522,819	(522,819)	0
Transfer to Gift Funding	<u>(1,224,999)</u>	<u>0</u>	<u>(1,224,999)</u>
<b>Balance at 31 December 2011</b>	<b><u>7,362,399</u></b>	<b><u>(36,914)</u></b>	<b><u>7,325,485</u></b>

The accompanying notes form part of these financial statements.

## Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2011	Note	2011 \$	2010 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts		93,843	237,454
Interest Received		8,135,097	7,097,991
Distributions Received		1,572,468	1,468,655
Payments		(577,110)	(776,947)
Finance Costs		<u>(6,837,079)</u>	<u>(5,387,608)</u>
<b>Net Cash Flows Provided By / (Used In)</b>			
<b>Operating Activities</b>	16.	<b><u>2,387,219</u></b>	<b><u>2,639,545</u></b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Sales of Investments		51,783,474	39,905,563
Purchase of Investments		<u>(67,332,494)</u>	<u>(46,720,655)</u>
<b>Net Cash Flows Provided By / (Used In)</b>			
<b>Investing Activities</b>		<b><u>(15,549,020)</u></b>	<b><u>(6,815,092)</u></b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Loan Proceeds		0	330,000
Grants to Uniting Church		(1,224,999)	(1,010,000)
Investments by Investors		166,094,011	128,132,432
Withdrawals by Investors		<u>(152,006,567)</u>	<u>(123,068,922)</u>
<b>Net Cash Flows Provided By / (Used In)</b>			
<b>Financing Activities</b>		<b><u>12,862,445</u></b>	<b><u>4,383,510</u></b>
Net Increase / (Decrease) in Cash Held		(299,356)	207,963
Cash at Beginning of Year		<u>5,856,334</u>	<u>5,648,371</u>
<b>CASH AT END OF YEAR</b>	9.	<b><u>5,556,978</u></b>	<b><u>5,856,334</u></b>

The accompanying notes form part of these financial statements.

## **Notes to the Financial Statements**

### **FOR THE YEAR ENDED 31 DECEMBER 2011**

#### **1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

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The financial report of UC Invest for the year ended 31 December 2011 was adopted by the UC Invest Board on 27<sup>th</sup> April 2012.

##### **Operations and Principal Activities**

This financial report covers UC Invest as an individual entity. UC Invest is an activity of The Uniting Church in Australia Property Trust (S.A.), the trustee of the Uniting Church in South Australia which was established by an Act of the South Australian Parliament in 1977. All assets of UC Invest are held in the name of The Uniting Church in Australia Property Trust (S.A.).

UC Invest provides investment services for the Uniting Church community. These services include at call and fixed term investments and a suite of managed funds for Uniting Church and Churches of Christ SA entities.

##### UC Invest Board Members

David Ferrier (Non-Executive Chairperson)

Denis Giles (Non-Executive)

Kevin Bengler (Non-Executive)

Michael McClaren (Non-Executive)

Lee Sauerwald (Non-Executive)

Barry Atwell (Executive) – Remunerated by Uniting Church SA.

Peter Battersby (Executive – Alternate for Barry Atwell) – Remunerated by Uniting Church SA.

##### **New Accounting Standards and Interpretations**

UC Invest has adopted all of the new and revised standards and interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant to its operations and effective for the current reporting period.

Apart from the changes in accounting policy noted below, the accounting policies and methods of computation remain unchanged from the previous financial year.

New and revised standards and interpretations effective for the current reporting period that are relevant to UC Invest include:

- Amendments to AASB 2009-12, 2010-3, 2010-4 and 2010-5.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

## **Notes to the Financial Statements**

**FOR THE YEAR ENDED 31 DECEMBER 2011**

### **1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

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#### **Basis of Preparation**

The financial report is a general purpose financial report that has been prepared on a going concern basis in accordance with Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board to enable compliance of the UC Invest Board and its by-laws.

#### **Compliance with IFRS**

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

#### **Reporting Basis and Conventions**

The financial report has been prepared on a historical cost basis, except for available-for-sale investments which have been measured at fair value.

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

##### **(a) Cash and Cash Equivalents**

Cash and cash equivalents in the balance sheet comprise cash at bank, cash in hand and short term deposits with an original maturity of three months or less. These deposits are convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above and are net of outstanding bank overdrafts. Bank overdrafts are included within interest-bearing loans and borrowings in current liabilities on the balance sheet.

##### **(b) Revenue**

Revenue is recognised and measured at fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the entity and the revenue can be measured reliably. The following specific recognition criteria must also be met before revenue is recognised:

## **Notes to the Financial Statements**

**FOR THE YEAR ENDED 31 DECEMBER 2011**

### **1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

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#### **i. Interest**

Interest income is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate. This is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

#### **ii. Dividends and Distributions from Equities**

Dividend and distribution income is received in the form of dividends, distributions and imputation credits from equities invested in by UC Invest. Revenue is recognised when the entity's right to receive the payment is established.

#### **(c) Financial instruments**

##### **i. Recognition and Initial Measurement**

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instruments. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

Financial instruments are initially measured at fair value plus transaction costs, where the instrument is not classified at fair value through profit and loss.

Transaction costs related to instruments classified at fair value through profit and loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below.

##### **ii. Derecognition**

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed is recognised in profit or loss.



## Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2011

### 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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#### iii. Classification and Subsequent Measurement

##### a) Financial assets at fair value through profit or loss

Financial assets are classified at fair value through profit or loss when they are held for trading purposes or short term profit taking, where they are derivatives not held for hedging purposes, or designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Realised and unrealised gains and losses arising from changes in fair value are included in profit or loss in the period in which they arise.

##### b) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the entity's intention to hold these investments to maturity. They are subsequently measured at amortised cost using the effective interest rate method.

##### c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated as such or are not classified in any of the other categories. They comprise of investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments. After initial recognition available for sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until it is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss.

##### d) Trade and other payables

Trade and other payables are recognised when the entity becomes obliged to make future payments.

## **Notes to the Financial Statements**

**FOR THE YEAR ENDED 31 DECEMBER 2011**

### **1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

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#### **e) Goods and services tax**

Revenues, expenses and assets are recognised net of the amount of GST except:

- When the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable.
- Receivables and payables, which are stated with the amount of GST included.

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

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as part of operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

#### **f) Impairment**

At each reporting date UC Invest assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the statement of comprehensive income.

#### **g) Comparative Figures**

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

#### **h) Income Tax**

The entity is exempt from income tax due to its status as a religious organisation.

## Notes to the Financial Statements

<b>FOR THE YEAR ENDED 31 DECEMBER 2011</b>	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
<b>2. REVENUE</b>		
Dividends and Distributions	1,907,279	1,320,848
Interest Received	8,042,681	7,074,332
Foreign Currency Note Income	18,370	0
Reimbursement of GST previously written off	50,000	0
Grants Returned	0	14,612
Management Fee Income	204,240	190,838
	<b>10,222,570</b>	<b>8,600,630</b>
<b>3. EXPENSES</b>		
Administration	559,815	552,625
Investment Committee Retainers	35,000	56,000
	<b>594,815</b>	<b>608,625</b>
<b>4. FINANCE COSTS</b>		
Interest paid to Investors	7,141,219	5,722,314
Interest paid on Bank facilities	31,099	25,475
	<b>7,172,318</b>	<b>5,747,789</b>
<b>5. AUDITORS' REMUNERATION</b>		
Audit fee paid for UC Invest	10,246	10,000
Audit fees paid for other UC Invest Funds	5,031	5,250
Business advisory services for UC Invest Online	25,371	0
	<b>40,648</b>	<b>15,250</b>

## 6. FOREIGN EXCHANGE TRANSACTIONS

During 2011 UC Invest purchased corporate notes drawn on ANZ Capital Trust 3 (a wholly owned entity of the Australian and New Zealand Banking Group). The notes are designated in the currency of the European Union called EUROS. UC Invest purchased notes with a face value of 2,000,000 EUROS which it paid 1,570,000 EUROS for (Purchase price was AUD \$2,172,409 on the 25<sup>th</sup> November 2011).

On the 8<sup>th</sup> December 2011 Westpac Banking Corporation (Westpac) at the request of UC Invest arranged a Forward Exchange Contract (FEC), for UC Invest to sell Westpac 2,000,000 EUROS on the 16<sup>th</sup> December 2014 (being one calendar day after the ANZ Capital Trust 3 call date) in exchange UC Invest will receive AUD \$2,830,055.

Foreign Exchange Currency Gains / (Losses) of (\$175,948) represents the difference of the purchase price of 1.57 million EUROS in Australian dollars from the purchase date (25<sup>th</sup> November 2011) to the 31<sup>st</sup> December 2011 balance date. The note was purchased at an EURO/AUD exchange rate of 0.7227, as at balance date the EURO/AUD exchange rate was 0.7864, meaning the note could have been purchased for \$175,948 less on 31<sup>st</sup> December 2011 than the original purchase date.

## Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2011

2011

2010

\$

\$

Forward Exchange Contract Currency Movements of \$29,327 represents movements in the price of the FEC. The FEC was contracted at a EURO/AUD exchange rate of 0.7067 on the 8<sup>th</sup> December 2011. The EURO/AUD exchange rate for a FEC drawn on 30<sup>th</sup> December 2011 to expire 16<sup>th</sup> December 2014 was 0.7141. The difference in the exchange rate represents a gain to UC Invest of \$29,327 for the period.

### 7. CHANGES IN THE VALUE OF FINANCIAL ASSETS

The following have been recognised in the 2011 income statement:

Investments	Total Changes in Available-for-Sale Financial Assets for year \$	Gains / (Losses) on Revaluing Available-for-Sale Financial Assets \$	Impaired Losses \$	Realised Profits / (Losses) On Sale \$
UC Invest Share Fund	(1,419,274)	(1,419,274)	0	0
UC Invest Direct Property Fund	244,724	244,724	0	0
Fixed & Floating Interest	546,903	141,551	(59,991)	465,343
<b>Total</b>	<b>(627,647)</b>	<b>(1,032,999)</b>	<b>(59,991)</b>	<b>465,343</b>

The following were recognised in the 2010 income statement:

Investments	Total Changes in Available-for-Sale Financial Assets for year \$	Gains / (Losses) on Revaluing Available-for-Sale Financial Assets \$	Impaired Losses \$	Realised Profits / (Losses) On Sale \$
UC Invest Share Fund	(113,945)	(113,945)	0	0
UC Invest Direct Property Fund	(16,612)	(16,612)	0	0
Fixed & Floating Interest	1,805,646	1,230,695	(42,638)	617,589
<b>Total</b>	<b>1,675,089</b>	<b>1,100,138</b>	<b>(42,638)</b>	<b>617,589</b>

The Board determined that all other assets considered impaired at 31 December 2010 are still considered impaired.

## Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2011

2011

2010

\$

\$

### 8. ASSET REVALUATION RESERVE

Investments	Asset Revaluation Reserve as at 31/12/10 \$	Inc / (Dec) in market value during year \$	Transfer to Accumulated Funds on sale \$	Realised (Profits) / Losses on sale \$	Asset Revaluation Reserve as at 31/12/11 \$
UC Invest Share Fund	22,028	(1,419,274)	0	0	(1,397,246)
UC Invest Direct Property Fund	(16,612)	244,724	0	0	228,112
Fixed & Floating Interest	1,513,488	1,129,713	(522,819)	(988,162)	1,132,220
<b>Total</b>	<b>1,518,904</b>	<b>(44,837)</b>	<b>(522,819)</b>	<b>(988,162)</b>	<b>(36,914)</b>

### 9. CASH AND CASH EQUIVALENTS

Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the balance sheet as follows:

Cash at Bank	110,286	66,842
Cash Management Account	5,446,692	5,789,492
	<b>5,556,978</b>	<b>5,856,334</b>

### 10. TRADE AND OTHER RECEIVABLES

Sundry Debtors	617,142	74,425
Accrued Interest and Distributions	970,500	728,104
	<b>1,587,642</b>	<b>802,529</b>

### 11. FINANCIAL ASSETS

#### Current Assets

Held to Maturity	5,421,122	10,703,928
Loans and Receivables	15,346,352	0
	<b>20,767,474</b>	<b>10,703,928</b>

#### Non-Current Assets

Held to Maturity	1,997,201	1,000,000
Loans and Receivables	18,437,901	30,752,255
Available for Sale	88,809,453	72,809,678
	<b>109,244,555</b>	<b>104,561,933</b>

Held to maturity financial assets comprise of investments in various fixed term deposits held with Approved Deposit-Taking Institutions (ADIs) and a Corporate Note from an Australian Bank designated in EUROS.

## Notes to the Financial Statements

**FOR THE YEAR ENDED 31 DECEMBER 2011** **2011**  
\$ **2010**  
\$

Loans and receivables include secured loans made to separately incorporated Uniting Church agencies of \$29,488,262, unsecured loans to Ministers of \$25,788, a loan to the Mission & Service Fund of \$2,402,413 and another loan of \$1,867,684 to a UC Invest managed fund.

Available for sale financial assets include investments in various unlisted securities and other UC Invest funds. The value of investments have been determined following the funds revaluing their assets to fair value at year end.

### 12. OTHER ASSETS

Forward Exchange Contract accrued gains	29,327	0
Accrued Income on Foreign Currency Capital Note	17,630	0
	<b>46,957</b>	<b>0</b>

Forward Exchange Contract accrued gains represent the differences in the EURO/AUD currency exchange rate which would have applied to a Foreign Exchange Contract (FEC) contracted on the balance date to 16<sup>th</sup> December 2014, in comparison to the actual FEC contracted on the 8<sup>th</sup> December 2011.

The FEC contract is an agreement to exchange 2,000,000 EUROS for AUD \$2,830,055 on 16/12/2014. If the FEC had have been contracted on 30/12/2011, UC Invest would have received only AUD\$2,800,728.

UC Invest purchased notes with a face value of 2 million EUROS for 1.57 million EUROS. These notes have been classified by UC Invest as assets which are '*Held until Maturity*'. Maturity being the call date of the notes being the 15<sup>th</sup> December 2014. The difference between the face value and purchase price in EUROS is evenly accrued between the purchase date and the call date of the notes.

The difference between the purchase price and face value will be evenly amortised over the time period from the purchase date until the call date, being 15/12/2014.

The EURO accrual is converted at the applicable EURO/AUD currency exchange rate as at the balance date. \$17,630 represents this accrual as at balance date.

## Notes to the Financial Statements

**FOR THE YEAR ENDED 31 DECEMBER 2011** **2011**  
\$ **2010**  
\$

### 13. FINANCIAL LIABILITIES

#### Current Liabilities

Investors funds	98,264,725	99,503,310
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#### Non-Current Liabilities

Investors funds	29,778,506	13,655,675
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Investor's funds are invested with UC Invest either at call or in fixed term investments.

### 14. TRADE AND OTHER PAYABLES

Sundry Creditors	19,697	35,352
Accrued Interest	1,839,644	1,504,404
	<b>1,859,341</b>	<b>1,539,756</b>

### 15. PROVISIONS

Annual Leave	20,720	18,783
Long Service Leave	61,362	47,929
<b>Total</b>	<b>82,082</b>	<b>66,712</b>

### 16. CASH FLOW INFORMATION

Reconciliation of Cash Flow from Operations with Profit

<b>Profit / (Loss) for the Year</b>	<b>2,714,168</b>	<b>2,819,167</b>
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#### Non-Cash Flows in Profit

Depreciation	17,960	2,248
Impairment	59,991	42,638
Realised Profit on Sale of Assets	(465,343)	(617,589)
Forward Exchange Contract Fair Value Movements	(29,327)	0
Foreign Exchange Gains	175,948	0

#### Changes in Assets and Liabilities

Decrease/(Increase) in Receivables	(405,763)	203,470
(Decrease)/Increase in Payables	319,585	189,611

<b>Cash Flow from Operating Activities</b>	<b>2,387,219</b>	<b>2,639,545</b>
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## **Notes to the Financial Statements**

**FOR THE YEAR ENDED 31 DECEMBER 2011**

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### **17. CONTINGENT LIABILITIES AND CONTINGENT ASSETS**

The UC Invest Board Members are not aware of any contingencies requiring disclosure in the financial statements.

### **18. EVENTS SUBSEQUENT TO REPORTING DATE**

Since the end of the financial year there have been no reportable events of a material nature.

### **19. RELATED PARTY TRANSACTIONS**

UC Invest Property Fund, UC Invest Share Fund and UC Invest Direct Property Fund are administered by the UC Invest Board on behalf of The Uniting Church in Australia Property Trust (S.A.), the trustee of the Church in South Australia. UC Invest receives management fees for managing these investment vehicles.

### **20. FINANCIAL RISK MANAGEMENT**

#### **(a) Financial Risk Management Policies**

The entity manages its exposure to key financial risks by the application of policies approved by the UC Invest Board. All UC Invest policies are reviewed regularly.

The Board has an approved asset allocation policy which sets out investment parameters. This includes guidelines to assist with the allocation of the investment assets into separate asset class investments. Policies also govern how the assets in each investment class are to be managed.

The Board's policies set out to diversify investment risks by utilising multiple asset classes, managers, models and investments to diversify the risks inherent in investment markets.

The Board has an approved lending policy which sets out lending guidelines. The application of this policy is intended to manage the risks associated with lending money to organisations and individuals.

The interest rates offered to investors are set and reviewed regularly by management. The Board reviews management reports on a monthly basis.

The Board's policies are also endorsed by the Uniting Church SA Resources Board. The Resources Board is the entity responsible for oversight of the Church's property and financial resources in South Australia.

Internal procedures and controls are adopted by the management of UC Invest to further minimise the risks in the accounting and operations function of the UC Invest office.



## Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2011

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### **(b) Financial Risk Exposures and Management**

The main risks the group is exposed to through its financial instruments are liquidity risk, market risk, revenue risk, credit risk and interest rate risk.

#### **i. Liquidity Risk**

Liquidity risk is the risk that UC Invest encounters difficulty meeting the obligations of its liabilities. UC Invest's liabilities are at call and fixed term investments issued to individuals, congregations and organisations of the Uniting Church, plus any outstanding interest owing on these investments.

Investor account data is reviewed regularly to predict cash flow movements of obligations to investors.

UC Invest invests moneys received in a pool of diversified investments with a variety of maturity dates. Liquidity risk is managed by UC Invest to ensure that when investors request to withdraw funds there are adequate liquid resources to repay the requested debts in a timely manner.

UC Invest uses a range of products to ensure it has adequate liquid resources to repay these debts. These include the use of a bank bill facility, at call investments and term deposits held with Authorised Deposit-Taking Institutions (ADIs) with regular maturity dates. These products combined with regular reporting and matching of asset and liability maturities manages the risks involved.

#### **ii. Market Risk**

The diversified investment mix of UC Invest includes some investments that regularly fluctuate in value. The exposure to this type of investment at 31 December 2011 was minimal with only 7.25% of assets exposed to the Australian share market.

The mark-to-market approach of current accounting standards has resulted in some traditionally viewed stable investments now marked at lower market values relative to long term cash flow expectations.

UC Invest holds fixed and floating rate corporate notes, structured investments and real and unlisted property fund investments. These investments continue to be subject to the risk of market value swings which may not be consistent with realistic long term values.

The UC Invest Board is confident that an adequate level of reserves exists to cover reasonably expected future price fluctuations on its investments.

## Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2011

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### iii. Revenue Risk

The revenue UC Invest receives may fluctuate due to changes in market conditions. Revenue is received from a diversified pool of investments in order to minimise the risk of extreme income fluctuations.

The Board monitors revenue received and makes asset allocation decisions after reviewing both capital growth and future revenue expectations of individual asset classes.

### iv. Credit Risk

UC Invest lends money to organisations within the Uniting Church community and Ministers of the Word. Loans to Uniting Church ministers are mainly for the purchase of motor vehicles and are immaterial to the asset base of UC Invest.

Loans to Uniting Church agencies make up a significant proportion of investment assets (22.7% at 31 December 2011). These loans are approved on a case by case basis, subject to a credit assessment of the particular organisation which includes analysis of operating cash flows and the ability to repay intended debts. Due to the size and nature of the loans requested, appropriate security is taken over tangible assets. Loans are monitored on a regular basis.

UC Invest also invests in a range of unlisted securities issued by a wide variety of organisations. The UC Invest investment policy approves the investment of funds in entities that are either Authorised Deposit-Taking Institutions (ADIs) as regulated by the Australian Prudential Regulation Authority (APRA), or independently rated by Standard & Poors (or equivalent) rating agency with an initial rating of BBB+ or higher.

UC Invest may hold unlisted securities which had independent ratings exceeding BBB+ upon purchase, but which have since been rerated below the BBB+ rating. These securities may still be held as the Board believes that retaining them will produce the best total financial outcome in lieu of selling them.

## Notes to the Financial Statements

### FOR THE YEAR ENDED 31 DECEMBER 2011

The table below highlights the ratings movement evident from the initial investment (*structured credits*) to the current value and rating reported in the UC Invest financial statements.

Credit Rating	Initial Investment		31 December 2011	
	Face Value	Cost	Face Value	Fair Value
ADI	\$ 42,157,400	\$ 39,850,347	\$ 42,157,400	\$ 40,196,136
AAA				
AA+	\$ 7,531	\$ 7,531		
AA	\$ 2,500,000	\$ 2,500,000		
AA-	\$ 3,600,000	\$ 3,275,692		
A+	\$ 1,500,000	\$ 1,449,135	\$ 2,500,000	\$ 2,396,000
A	\$ 6,500,000	\$ 6,155,110	\$ 15,100,000	\$ 13,509,140
A-	\$ 6,200,000	\$ 4,765,775	\$ 700,000	\$ 631,751
BBB+	\$ 5,700,000	\$ 4,331,005		
BBB			\$ 5,700,000	\$ 4,319,310
CCC				
CCC-			\$ 1,000,000	\$ 340,995
D			\$ 1,007,531	\$ 8,116
NR				
	<b>\$ 68,164,064</b>	<b>\$ 62,334,595</b>	<b>\$ 68,164,931</b>	<b>\$ 61,401,448</b>

#### v. Interest Rate Risk

UC Invest borrows money from investors and promises to repay the principal amount plus interest on agreed terms. UC Invest uses these funds to invest in a diversified portfolio of investment assets. Due to the nature of the portfolio not all income received can be attributed to market interest rates or directly linked with interest rates offered to investors. This may potentially create a material difference between interest payable and income receivable.

Due to this risk revenue and interest expense forecasting is used and analysed regularly to ensure the Fund has the ongoing capacity to pay all interest promised for future periods.

**Fixed Interest Rate Maturing**

	Weighted	Average			Within 1 year		Within 2 years		Within 3 years		Over 3 years		Non-interest bearing	Non-interest bearing	Total	Total
	Effective Rate	Interest	Floating	Interest	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
	%	%	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Financial Assets</b>																
Cash and Cash Equivalents	5.10	5.75	5,557	5,774											5,557	5,774
Trade and Other Receivables	n/a	n/a											1,590	803	1,590	803
Held to Maturity																
Term Deposits	5.71	6.16			5,500	10,799	0	1,079	0	0					5,500	11,878
Unlisted Securities	2.00	0.00			58	0	58	0	2,823	0					2,939	0
Loans & Receivables	6.74	7.13			21,199	15,888	1,249	1,798	7,282	1,780	10,496	12,353			40,225	31,819
Available for Sale																
Unlisted Securities	7.66	8.67			9,342	4,445	9,774	4,979	12,000	4,286	52,508	80,392			83,624	94,102
Share Investments	n/a	n/a											9,940	7,328	9,940	7,328
Unlisted Property	n/a	n/a											19,466	17,358	19,466	17,358
<b>Total Financial Assets</b>			5,557	5,774	36,099	31,132	11,081	7,856	22,105	6,066	63,004	92,745	30,996	25,489	168,842	169,062
<b>Financial Liabilities</b>																
Investors Funds	5.79	5.69	27,865	37,105	85,260	67,328	14,693	10,919	3,736	5,403	2,065	0			133,619	120,755
Borrowings	0.00	5.57	0	348											0	348
Trade and Other Payables	n/a	n/a											1,859	1,540	1,859	1,540
<b>Total Financial Liabilities</b>			27,865	37,453	85,260	67,328	14,693	10,919	3,736	5,403	2,065	0	1,859	1,540	135,478	122,643

## Notes to the Financial Statements

### FOR THE YEAR ENDED 31 DECEMBER 2011

#### vi. Fair Value

UC Invest uses various methods in estimating the fair value of a financial instrument. The methods can be categorised into three types:

**Level 1:** The fair value is calculated using quoted prices in active markets.

**Level 2:** The fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

**Level 3:** The fair value is estimated using inputs for the asset or liability that are not based on observable market data.

The fair value of the financial instruments as well as the methods used to estimate the fair value are summarised in the table below.

	Year Ended 31 December 2011				Year Ended 31 December 2010			
	Quoted Market Price	Valuation Technique: Market Observable Inputs	Valuation Technique: Non Market Observable Inputs	Total	Quoted Market Price	Valuation Technique: Market Observable Inputs	Valuation Technique: Non Market Observable Inputs	Total
Financial Assets	LEVEL 1 \$ 000's	LEVEL 2 \$ 000's	LEVEL 3 \$ 000's		LEVEL 1 \$ 000's	LEVEL 2 \$ 000's	LEVEL 3 \$ 000's	
<b>Bank Accounts</b>	5,557			5,557	5,856			5,856
<b>Held to Maturity</b>								
Term Deposits	5,421			5,421	11,704			11,704
Structured Credit			1,997	1,997				
<b>Available for Sale</b>								
Australian Share		9,940		9,940		7,328		7,328
Property		19,466		19,466		17,358		17,358
Structured Credit		59,407		59,407		48,123		48,123
Loans	33,784			33,784	30,752			30,752
<b>TOTAL:</b>	<b>44,762</b>	<b>88,813</b>	<b>1,997</b>	<b>135,572</b>	<b>48,312</b>	<b>72,809</b>	<b>0</b>	<b>121,121</b>
<b>Financial Liabilities</b>	<b>LEVEL 1</b>	<b>LEVEL 2</b>	<b>LEVEL 3</b>		<b>LEVEL 1</b>	<b>LEVEL 2</b>	<b>LEVEL 3</b>	
<b>Investor's Funds</b>	128,043			128,043	113,159			113,159
<b>TOTAL:</b>	<b>128,043</b>	<b>0</b>	<b>0</b>	<b>128,043</b>	<b>113,159</b>			<b>113,159</b>

## Notes to the Financial Statements

### FOR THE YEAR ENDED 31 DECEMBER 2011

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Quoted market price represents the fair value as quoted on active markets at 31 December 2011 without any deduction for transaction costs.

For financial instruments not quoted in active markets, UC Invest uses valuation techniques such as comparison to similar instruments for which market observable prices exist and other relevant models used by market participants. These valuation techniques use both observable and unobservable market inputs.

The fair value of property and structured credit instruments have been determined using a range of valuation techniques.

Loans made to individuals and organisations have been valued on the amount outstanding as at balance date.

Term deposits are valued on the face value of the investment.

Investor's funds are valued on the amount of the investment with UC Invest. Any interest accrued but not paid to the investor is included in Trade and other Payables.

#### (c) Sensitivity Analysis

##### i. Other Price Risk

UC Invest has performed a sensitivity analysis relating to its exposure to market risk as at 31 December 2011. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in these risks.

	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
<b>Change in Profit</b>		
- Decrease in market value of unlisted and direct property investments by 10%	0	0
- Increase in market value of unlisted and direct property investments by 10%	0	0
<b>Change in Equity</b>		
- Decrease in market value of unlisted and direct property investments by 10%	(1,946,550)	(1,735,846)
- Increase in market value of unlisted and direct property investments by 10%	1,946,550	1,735,846

## Notes to the Financial Statements

### FOR THE YEAR ENDED 31 DECEMBER 2011

	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
<b>Change in Profit</b>		
- Decrease in market value of interest rate instruments by 10%	0	0
- Increase in market value of interest rate instruments by 10%	0	0
<b>Change in Equity</b>		
- Decrease in market value of interest rate instruments by 10%	(10,060,682)	(9,057,908)
- Increase in market value of interest rate instruments by 10%	10,060,682	9,057,908
<b>Change in Profit</b>		
- Decrease in market value of Australian share investments by 25%	0	0
- Increase in market value of Australian share investments by 25%	0	0
<b>Change in Equity</b>		
- Decrease in market value of Australian share investments by 25%	(2,484,926)	(1,832,082)
- Increase in market value of Australian share investments by 25%	2,484,926	1,832,082

## Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2011

### ii. Revenue Risk

UC Invest has performed a sensitivity analysis relating to its exposure to revenue risk as at 31 December 2011. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in these risks.

	<b>2011</b>	<b>2010</b>
	\$	\$
<b>Change in Profit</b>		
- Decrease in income from interest related investments by 20%	(1,608,536)	(1,414,866)
- Increase in income from interest related investments by 20%	1,608,536	1,414,866
<b>Change in Equity</b>		
- Decrease in income from interest related investments by 20%	(1,608,536)	(1,414,866)
- Increase in income from interest related investments by 20%	1,608,536	1,414,866
<b>Change in Profit</b>		
- Decrease in income from property related investments by 20%	(275,326)	(208,172)
- Increase in income from property related investments by 20%	275,326	208,172
<b>Change in Equity</b>		
- Decrease in income from property related investments by 20%	(275,326)	(208,172)
- Increase in income from property related investments by 20%	275,326	208,172
<b>Change in Profit</b>		
- Decrease in income from Australian share investments by 20%	(106,130)	(55,998)
- Increase in income from Australian share investments by 20%	106,130	55,998



## Notes to the Financial Statements

### FOR THE YEAR ENDED 31 DECEMBER 2011

	2011 \$	2010 \$
<b>Change in Equity</b>		
- Decrease in income from Australian share investments by 20%	(106,130)	(55,998)
- Increase in income from Australian share investments by 20%	106,130	55,998
<b>iii. Interest rate risk</b>		
<p>UC Invest has performed a sensitivity analysis relating to its exposure to interest rate risk as at 31 December 2011. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in these risks.</p>		
<b>Change in Profit</b>		
- Decrease in average interest rate payable to investors by 1% basis point	1,280,432	1,131,590
- Increase in average interest rate payable to investors by 1% basis point	(1,280,432)	(1,131,590)
<b>Change in Equity</b>		
- Decrease in average interest rate payable to investors by 1% basis point	1,280,432	1,131,590
- Increase in average interest rate payable to investors by 1% basis point	(1,280,432)	(1,131,590)
<b>Change in Profit</b>		
- Decrease in average interest rate receivable from interest related investments by 1% basis point	(1,061,638)	(905,791)
- Increase in average interest rate receivable from interest related investments by 1% basis point	1,061,638	905,791
<b>Change in Equity</b>		
- Decrease in average interest rate receivable from interest related investments by 1% basis point	(1,061,638)	(905,791)
- Increase in average interest rate receivable from interest related investments by 1% basis point	1,061,638	905,791

## **Notes to the Financial Statements**

**FOR THE YEAR ENDED 31 DECEMBER 2011**

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### **(d) Derivative Financial Instruments**

The entity does not use derivative financial instruments with the exception of a forward exchange contract taken out during the year as described in Note 6.

### **21. ECONOMIC DEPENDENCY**

UC Invest is part of The Uniting Church in Australia Property Trust (S.A.), which is the legal entity of the Uniting Church in South Australia.

### **22. ENTITY DETAILS**

The registered office and principal place of business of the entity is:  
Level 2, 212 Pirie Street,  
Adelaide SA 5000

## DECLARATION OF THE BOARD

In the opinion of the Board Members of the UC Invest Board:

- (a) the financial statements and notes set out on pages 1 to 26 of UC Invest – Financial Report:
  - (i) complies with accounting standards and other mandatory professional reporting requirements to the extent described in Note 1; and
  - (ii) gives a true and fair view of the Fund's financial position as at 31<sup>st</sup> December 2011 and of its performance, as represented by the results of its operations, changes in equity and cash flows, for the financial year ended on that date; and
- (b) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable: and

This declaration is made in accordance with a resolution of the UC Invest Board.



David Ferrier  
Chair  
UC Invest Board



Michael McClaren  
Chair  
Audit Committee – UC Invest Board

Adelaide  
27<sup>th</sup> April 2012



Chartered Accountants  
& Business Advisers

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UC INVEST**

### **Report on the Financial Report**

We have audited the accompanying financial report of UC Invest, which comprises the statement of financial position as at 31 December 2011, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the declaration of the board.

#### *Board Members' Responsibility for the Financial Report*

The members of the board are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and for such internal controls as the board members determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report 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 controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the board members, as well as evaluating the overall presentation of the financial report.

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

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Chartered Accountants  
& Business Advisers

*Independence*

In conducting our audit, we have complied with the independence requirements of the Australian professional accounting bodies.

*Opinion*

In our opinion:

The financial report of UC Invest is in accordance with the UC Invest by-laws, including:

- (i) presenting fairly, in all material respects, the entity's financial position as at 31 December 2011 and of its performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards.

PKF

PKF  
Chartered Accountants

**I J Painter**  
Partner

Signed in Adelaide on this 30<sup>th</sup> day of April 2012