

2018

Annual Report



FORESTERS

Friendly Society



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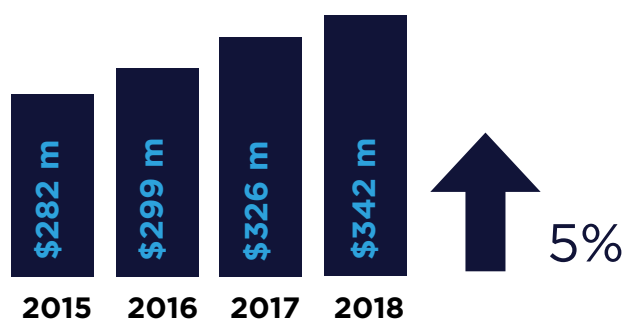
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Key highlights

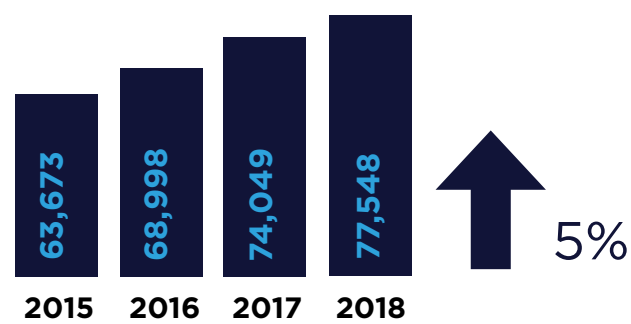
Foresters Friendly Society's financial position continues to strengthen for the future.



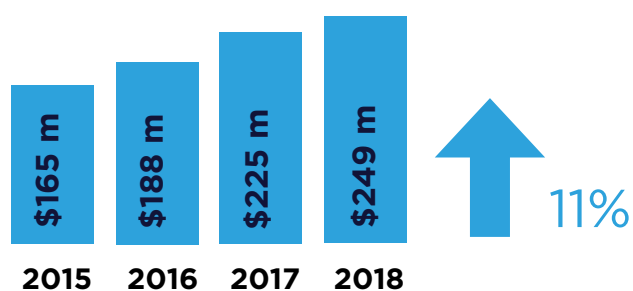
Funds Under Management



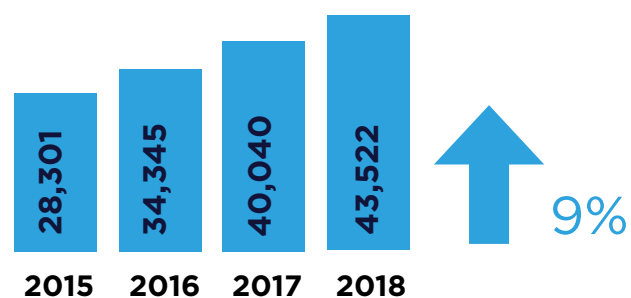
Total Members



Funeral Funds Under Management



Funeral Total Members





**Assisting
Members**

5,528
claims processed worth

\$28.8m
to benefit members



Our Staff

5.8 years
average tenure

7

different languages spoken

Women account for
50%
of Management Team



Products

Foresters has been providing members and their families peace of mind for 169 years. As a trusted industry specialist with good capital growth and exceptional customer service, Foresters offers security for the future.

Our current investment products are:

Foresters Funeral Benefit Fund

Foresters offers Funeral Bond and Prepaid Funeral Plans, allowing investors to prepare for future funeral expenses. At the same time the fund may help in maximising social security benefits dependent on personal circumstances.

Our Funeral Bond is an effective and capital guaranteed investment that assists in growing funds to contribute to future funeral expenses to financially protect loved ones.

The Prepaid Funeral Plan is a signed contract between an investor and their funeral director of choice for future funeral expenses locked in at today's prices, whilst also allowing the investor to decide on their own personal funeral service.

Security Investment and Savings Plan

This is a capital guaranteed, tax effective and flexible life insurance plan that allows for both lump sum investments and regular contributions. The plan provides a secure future and, unlike superannuation, enables access to your funds at any time. Your investment can be used for life events such as retirement, education, an overseas holiday or for any number of reasons.

Depending on the length of time funds are invested, investors may also benefit from significant taxation advantages.

Death and Distress Benefit Plan

Developed for, and open to, employees of the Ambulance Service Victoria and aligned industries, Foresters offers a Death and Distress Benefit Plan to provide a level of protection and security to members and their families in their time of need.

The Police Association (Victoria) Benefit Fund

Developed for, and open to, the Police Association (Victoria) members, the fund offers members of the Association sickness, retirement and death benefits in their time of need.

State Trustees Limited Funeral Benefit Fund

Developed and administered by Foresters, with marketing and fund management by State Trustees Limited, this funeral fund is a capital guaranteed investment. Funds invested are payable toward future funeral expenses and may help in maximising social security benefits dependent on personal circumstances.

To learn more about our range of products, please visit www.forestersfs.com.au/products.



**The Police
Association
Victoria**



Chairman's Report



I am pleased to present the 2018 annual report for Foresters Friendly Society.

Foresters has experienced another impressive year of results. Our capital strength has continued to grow with net assets of \$34.3m. Foresters' operating profit after income tax for the year was \$549k.

Strong sales were achieved for the year of \$44m with funds under management growing to \$342m as at 30 June 2018, an increase of 5%. We also reported a strong growth in our members, up 5% to 77,529.

These strong results were achieved despite operating in a highly regulated, continued low-interest rate market. We are working closely with our newly appointed investment manager, Pitcher Partners, to achieve better returns under these market conditions.

The Board continues to work closely with management on the strategy for the future direction of Foresters and good progress has been achieved. The management team have worked hard this year to implement the foundational components of that strategy to position Foresters to expand our product offering with new back-office systems to support our funeral directors and members. Part of the strategy also

involved the review of the Society's brand and I am pleased to announce that we will be launching a new brand in 2019.

I would like to thank my fellow Directors for their continued commitment. I would also like to thank the management and staff of the Society for their hard work this year in delivering a good result as well as the work done to date in building the Society for future growth.

A handwritten signature in black ink, reading 'Theodore Fleming'.

Theodore Fleming
Chairman

Ancient Order of Foresters in Victoria
Friendly Society Limited

Chief Executive Officer's Report



We are well underway in building the foundations of our strategy for future growth.

Foresters has achieved another year of strong financial performance. 2017-18 has also seen great progress made in the new strategic direction of the Society.

As a mutually owned organisation, Foresters core purpose remains the financial wellbeing of its members. In this competitive landscape, we value the importance of our members and continue to focus on providing relevant products and services with high-quality customer service.

We undertook a broad market research project during the year which has given us invaluable feedback for our future direction as well as acknowledgement of the great customer service Foresters provides to its funeral directors and members. We have begun implementing new business systems to provide efficiencies and better customer service. The appointment of Pitcher Partners as our investment manager will give us greater capability to achieve better returns in our capital guaranteed funds.

These initiatives have been essential to establishing a solid foundation for the Society's future growth.

As we focus on the future, Foresters is transforming to meet the needs of our members.

The year ahead will see us launch an exciting new brand that captures the essence of the Society for the future, and the development of new products for our members that better meet their needs for financial well-being. We will also implement our new member system that will provide greater efficiencies and better user experiences for our funeral directors and members.

I would like to thank the Board for their ongoing support, our staff for their hard work and commitment, and all of our members and stakeholders for their continued support of the Society.

A handwritten signature in black ink, consisting of a stylized 'C' and 'B' followed by a long horizontal line.

Craig Bell
Chief Executive Officer
Ancient Order of Foresters in Victoria
Friendly Society Limited

Annual Financial Report **for year ended 30 June 2018**

Ancient Order of Foresters in Victoria Friendly Society Limited
ABN 27 087 648 842
Australian Financial Services Licence No. 241421

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Directors' Report

The Directors present their report together with the financial statements of the Ancient Order of Foresters in Victoria Friendly Society Limited (the Society) for the financial year ended 30 June 2018.

Corporate information

The Directors of the Society during the whole financial year were:



Theodore Fleming

LL.B, Barrister & Solicitor
Non-Executive Chairman

Member of: Risk Committee, Investment Committee, Audit & Compliance Committee, Nominations & Remuneration Committee

Theo is a Principal Partner at Fleming and Rhoden Lawyers and has been practicing law for over 40 years. During this time, he has provided advice to, and acted for, numerous friendly societies. He has a broad knowledge of the friendly society industry.

He currently holds a Directorship at Community Pharmacy Friendly Society Limited.



Philip Fraher

LL.B, B.A.
Non-Executive Deputy Chairman

Member of: Nominations & Remuneration Committee (Chair), Investment Committee (Deputy Chair)

Philip is the proprietor of an antiquarian book business and previously occupied the position of General Manager at Adcorp Australia (Vic) Pty Ltd, a large advertising group.

Philip has also held a number of senior positions with IOOF Group.



Terence Lyon

FAICD, AGIA, FIPA
Non-Executive Director

Member of: Audit & Compliance Committee (Chair), Nominations & Remuneration Committee (Deputy Chair)

Terry has more than 30 years' experience working for building societies, credit unions and friendly societies including the position of Group Corporate Secretary of IOOF Group and Company Secretary of the IOOF Building Society.

He has also worked in the IT industry for 19 years in various senior positions at Ultradata Australia Proprietary Limited.



Richard Bouchier

*B.Bus(Acc.), Dip Civ Eng, Dip ED,
CTA-TIA, FIPA, MAICD*

Non-Executive Director

Member of: Investment Committee
(Chair), Risk Committee
(Deputy Chair)

Richard was a director of his own licensed financial planning and investment advisory company from 1988 until his retirement from that business. He is the principal of his own tax and accounting practice that began in 1985.

He is also a Fraternal Officeholder of the Ancient Order of Foresters and the fourth generation of his family to participate and contribute to Foresters Friendly Society.



Christopher Henderson

GAICD, GIA (Cert.)

Non-Executive Director

Member of: Risk Committee (Chair),
Audit & Compliance
Committee (Deputy Chair)

Chris is currently the Business Manager and Australian Financial Services Licence Responsible Manager at Austair Pilots Pty Ltd which operates a mutual benefit fund for loss of license protection for commercial airline pilots. He has more than 35 years' experience in the friendly society industry and has occupied the positions of Chief Executive Officer and Managing Director of IOR Friendly Society and IOR Group Limited. He has also held the positions of CEO of IOOF Victoria Friendly Society and MD of Grand United and Total Care Friendly Society.

He currently holds Directorships at Druids Friendly Society Limited, Community Pharmacy Friendly Society Limited (Deputy Chairman), Henderson Consulting Proprietary Limited, Australian Governance Services Proprietary Limited, Independent Mutual Group Proprietary Limited and is Company Secretary at Austair Pilots Proprietary Limited, Druids Friendly Society Limited and Community Pharmacy Friendly Society Limited.

Chief Executive Officer & Company Secretary

Craig Bell,
BCom, FCPA, GAICD

Auditors

RSM Australia Partners
Level 21, 55 Collins Street
Melbourne VIC 3000

Appointed Actuary

Bruce Watson
Brett & Watson Pty Ltd
Ground Floor, 157 Grenfell
Street Adelaide SA 5000

Investment Advisor

Pitcher Partners
Investment Services Pty Ltd
Level 13, 664 Collins Street
Docklands VIC 3008

Directors' Report (continued)

Principal Activities

The principal activities of the Society during the course of the financial year were the provision of benefits against claims made by members with respect to the following products:

- Funeral bonds
- Investment bonds
- Education bonds
- Life insurance products
- Endowment and sickness products.

Objectives

The Board of Directors (the Board) has established a clear set of objectives for the Society.

The key objective for the Society remains the growth of our core business. Part of that objective will involve the review of our brand with the launch of a new brand design and business name in 2018-19.

Information Technology (IT) also remains important to the achievement of our key objective; we will be redeveloping our website and making further improvements to our core IT systems to better serve our members and clients.

The appointment of a new investment adviser will also assist the Society to increase the investment returns of our existing products and in the development of new products.

Strategy for achieving objectives

At the start of each reporting period, the Board and senior management develop and review the long-term strategic plan and annual business plan.

In developing the long-term strategic plan and annual business plan, the Board ensures that the Society and its employees have sufficient resources, financial or otherwise, to achieve the Society's objectives.

The Board and management have established extensive frameworks for implementation, monitoring and reporting of the Society's objectives, set by the Board.

Performance measures

Throughout the year, the Board assesses the performance of the Society against the objectives identified in the long-term strategic plan and annual business plan.

Initiatives in these plans form the basis for the key performance indicators of all staff and align business activity with the achievement of the Society's objectives.

The Board pro-actively monitors the implementation of the Society's objectives.

Meetings of Directors

The number of meetings held and attended of the Board of Directors and committees by each Director during the year ended 30 June 2018, can be seen in the table on the opposite page.

Directors' Report (continued)

DIRECTOR	Number of meetings of Directors held	Number of meetings of Directors attended	Number of relevant committee meetings held	Number of relevant committee meetings attended
Theodore Fleming	12	12	29	29
Philip Fraher	12	11	14	11
Terence Lyon	12	12	17	16
Richard Bouchier	12	11	17	17
Christopher Henderson	12	10	16	12

Review of operations

The Society's profit after income tax (prior to final bonuses) for the year ended 30 June 2018 was \$3,520,776 (2017: \$9,778,795).

The profit after income tax (inclusive of final bonuses) for the year ended 30 June 2018 was \$549,371 (2017: \$5,722,964).

The total assets of the Society increased by \$20,524,127 (2017: \$28,070,556) in the year ended 30 June 2018 to \$368,011,104 (2017: \$347,486,977).

The Society's Funds under Management as at 30 June 2018 was \$342,136,796 (2017: \$325,878,830).

The net assets of the Management Fund as at 30 June 2018 was \$24,521,958 (2017: \$21,357,417).

The Management Fund's profit after income for the year ended 30 June 2018 was \$1,346,650 (2017: \$1,162,942).

Bonus declaration

The Directors have resolved that the following bonus rates be paid:

	2018	2017
Flexible Insurance Fund	0.60%	1.40%
Funeral Benefit Fund-Exempt	0.90%	2.25%
Funeral Benefit Fund-Taxable	0.80%	0.50%
Funeral Benefit Fund-Taxable (Members post 1 February 2011)	0.80%	1.35%
State Trustees Funeral Benefit Fund-Exempt	1.75%	1.50%
State Trustees Funeral Benefit Fund-Taxable	1.00%	0.55%
Bonus Bond Fund No.1	0.15%	0.50%
Education & Savings Fund	0.15%	0.40%
MU Blue Chip Endowment Fund	0.40%	0.80%

Directors' Report (continued)

Significant changes in the state of affairs

There were no changes in the state of affairs of the Society during the financial year ended that are not reported elsewhere in this report.

Events subsequent to the end of the financial year

There are no other matters or circumstances that have arisen since 30 June 2018 that have significantly affected, or may significantly affect the Society's operations, the results of those operations, or the Society's state of affairs in future financial years.

Environmental regulations

The Society is not subject to any specific environmental regulation under Australian Commonwealth or State Law.

Likely developments

In the opinion of the Directors any comment as to likely developments would prejudice the interests of the Society and has therefore not been included in this report except for the matter of the appeal as detailed in the Annual Report.

Indemnity and insurance of the Directors and Officers

The company has indemnified the Directors and Officers of the Society for costs incurred in their capacity as a Director or Officer for which they may be held personally liable where they have acted in good faith.

During the reporting period, the Society paid a premium in respect of a contract to insure the Directors and Officers of the Society against a liability to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Indemnity and insurance of the auditor

The company has not, during the reporting period or otherwise, indemnified or agreed to indemnify the auditor of the Society or any related entity against a liability incurred by the auditor

Dividend

No dividends have been paid or declared during the reporting period.

Any surplus derived is treated as an amount due to members and retained.

Limited by guarantee

Ancient Order of Foresters in Victoria Friendly Society Limited is a company limited by guarantee.

The amount of capital which can be called upon in the event of, and for the purposes of, winding up the Society is \$1 per member. Members have no other liability in the event the Society is wound up. At 30 June 2018, the Society had 77,529 (2017: 74,049) members with a total guarantee of \$77,529 (2017: \$74,049).

Directors' Report (continued)

Auditor's independence declaration

The Auditor's independence declaration required under Section 307C of the *Corporations Act 2001* is attached at Page 16 and forms part of the Directors' report.

Auditor

RSM Australia Partners continues in office in accordance with Section 327 of the *Corporations Act 2001*.

Resolution

This report is signed in accordance with a resolution of the Directors pursuant to section 298(2)(a) of the *Corporations Act 2001*.

On behalf of the Directors:



Theodore Fleming
Chairman



Terence Lyon
Director

Melbourne
24 September 2018

Auditor's Independence Declaration



RSM Australia Partners

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F +61 (0) 3 9286 8199

www.rsm.com.au

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of Ancient Order of Foresters in Victoria Friendly Society Limited for the year ended 30 June 2018, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

A stylized, handwritten signature that reads 'Rsm' in a cursive script.

RSM AUSTRALIA PARTNERS

A handwritten signature in cursive script that reads 'K J Dundon'.

K J DUNDON

Partner

Dated: 24 September 2018

Melbourne, Victoria

THE POWER OF BEING UNDERSTOOD AUDIT | TAX | CONSULTING

RSM Australia Partners is a member of the RSM network and trades as RSM. RSM is the trading name used by the members of the RSM network. Each member of the RSM network is an independent accounting and consulting firm which practices in its own right. The RSM network is not itself a separate legal entity in any jurisdiction.

RSM Australia Partners ABN 36 965 185 036

Liability limited by a scheme approved under Professional Standards Legislation



Statement of Profit or Loss and Other Comprehensive Income

For the Year Ended 30 June 2018

	Note	2018 \$	2017 \$
Revenue			
Net investment income	4A	11,638,349	7,129,756
Insurance premiums received	4B	1,443,028	1,069,209
Fees and commissions	4C	32,149	37,497
Other		1,254	336
Total Revenue		13,114,780	8,236,798
Expenses			
Ordinary expenses	5A	9,954,880	(3,104,028)
Distributions to policyholders	5B	2,971,405	4,055,831
Total Expenses		12,926,285	951,803
Profit before Income Tax		188,495	7,284,995
Income tax (benefit) / expense	6	(360,876)	1,562,031
Profit after Income Tax		549,371	5,722,964
Other comprehensive income		-	-
Total Comprehensive Income for the Year		549,371	5,722,964

The Statement of Profit or Loss and Other Comprehensive Income is to be read in conjunction with the notes to the financial statements.

Statement of Financial Position

As at 30 June 2018

	Note	2018 \$	2017 \$
Assets			
Cash and cash equivalents	7	19,267,045	23,533,624
Trade and other receivables	8	393,659	370,438
Investments	9	346,027,306	321,998,217
Current tax asset		758,992	-
Deferred tax asset	10	584,628	684,501
Plant and equipment		127,706	87,697
Intangibles	11	851,768	812,500
Total Assets		368,011,104	347,486,977
Liabilities			
Trade and other payables	12	1,798,770	2,332,157
Provision for current tax		139,655	552,077
Deferred tax liabilities	13	285,456	655,322
Other provisions	14	1,551,125	1,459,249
Members' policy liabilities	15	329,931,482	308,732,927
Total Liabilities		333,706,488	313,731,732
Net Assets		34,304,616	33,755,245
Equity			
Retained earnings		34,304,616	33,755,245
Total Equity		34,304,616	33,755,245

The Statement of Financial Position is to be read in conjunction with the notes to the financial statements.

Statement of Changes in Equity

For the Year Ended 30 June 2018

Note	2018	2017
	\$	\$
Equity at the beginning of the year		
Retained surplus	33,755,245	28,032,281
Reserves	—	—
Total equity at the beginning of the year	33,755,245	28,032,281
Total Comprehensive Income for the Year	549,371	5,722,964
Transfers from Benefit Funds	(2,227,290)	(1,700,000)
Transfers to Management Fund	2,227,290	1,700,000
Total equity at the end of the year	34,304,616	33,755,245

The Statement of Changes in Equity is to be read in conjunction with the notes to the financial statements.

Statement of Cash Flows

For the Year Ended 30 June 2018

	Note	2018 \$	2017 \$
Cash flow from operating activities			
Premiums and contributions received		44,698,030	57,341,922
Interest on investments and commissions received		10,802,644	9,474,845
Dividends and distributions received		1,144,826	1,003,526
Payments for salaries, supplies and distributions to members		(9,850,744)	(6,236,068)
Claims and benefits paid		(25,601,747)	(27,757,206)
Income tax paid		(1,080,531)	(2,175,464)
Net cash provided by operating activities		20,112,478	31,651,555
Cash flow from investing activities			
Payment for non-current assets		(390,562)	(74,560)
Net (purchases) / sales of investments		(23,988,495)	(37,775,862)
Net cash used in investing activities		(24,379,057)	(37,850,422)
Cash and cash equivalents at the beginning of the year		23,533,624	29,732,491
Net decrease in cash held		(4,266,579)	(6,198,867)
Cash and cash equivalents at the end of the year	7	19,267,045	23,533,624
Reconciliation of net cash provided by operating activities			
Operating profit / (loss) after income tax		549,371	5,722,964
Depreciation and amortisation		311,284	294,931
Unrealised loss / (gain) from fair value of assets		(40,593)	3,323,657
Changes in operating assets and liabilities			
Decrease / (increase) in receivables		(23,221)	(179,278)
(Decrease) / increase in creditors		(533,387)	942,522
(Decrease) / increase in policy liabilities		21,198,555	22,620,782
Decrease / (increase) in deferred tax assets		99,873	141,435
(Decrease) / increase in deferred tax liabilities		(369,866)	303,914
(Decrease) / increase in income tax payable		(1,171,414)	(1,058,782)
(Decrease) / increase in provisions		91,876	(460,590)
Net cash provided by operating activities		20,112,478	31,651,555

The Statement of Cash Flows is to be read in conjunction with the notes to the financial statements.

Notes to the Financial Statements

Note 1. Company information

The financial report is presented for the Ancient Order of Foresters in Victoria Friendly Society Limited (the Society) as an individual entity.

The Society is a registered unlisted public company under the *Corporations Act 2001*.

The Society is limited by both shares and guarantee, however no shares have been issued.

The registered business name of the Society is Foresters Friendly Society.

The Society is incorporated and domiciled in Australia. The registered office and principal place of business is:

11-17 Jeffcott Street
West Melbourne, VIC 3003

A description of the nature of the Society's operations and its principal activities is included in the Directors' Report. The Directors' Report does not form part of the financial report.

The financial report was authorised for issue, in accordance with a resolution of Directors, on 24th September 2018.

Note 2. Summary of significant accounting policies

A. Financial Reporting Framework

These general purpose financial statements, have been drawn up in accordance with Australian Accounting Standards (AASs), which include interpretations, issued by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*.

The financial report consists of the financial statements, notes to the financial statements and the Directors' Declaration.

The financial statements are presented in Australian dollars being the functional currency of the Society.

Amounts in the financial statements have been rounded to the nearest dollar unless otherwise stated.

The assets and liabilities of each individual benefit fund and the management fund are separately managed. The accounting policies adopted by the Society for the management fund and its benefit funds are stated in order to assist in understanding the financial statements. These policies have been consistently applied except as otherwise stated.

The Society has risk management policies in place in respect of its operations to identify and mitigate risk. An independent actuary provides an annual condition report on the Society as a whole and for each benefit fund. The results of those reports are used to update policy liabilities and to provide current information used by the Directors to actively manage any risks identified.

Notes to the Financial Statements

Note 2. Summary of significant accounting policies (continued)

B. Compliance with International Financial Reporting Standards

The financial statements of the Society comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

C. Accounting Standards and Interpretations

The Society has reviewed and applied all new accounting standards and amendments applicable for the first time in the reporting period and determined that there was no material impact on the Society's financial statements.

D. Significant judgements and key assumptions

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Society's accounting policies. Other than the actuarial assumptions used in assessing policy liability valuation as disclosed in Note 2(T), no significant judgements have been made in applying accounting policies that have a significant effect on the amounts recognised in the financial statements.

No key assumptions have been made concerning the future and there are no other sources of uncertainty at the balance date that the Directors consider pose a significant risk of causing a material misstatement of the carrying amounts of assets and liabilities within the next financial year.

E. Historical cost convention

The financial statements have been prepared on the basis of historical cost, except for assets recognised and measured at fair value. Cost is based on the fair values of the consideration given in exchange for assets.

F. Fair value hierarchy

The entity is required to classify all assets and liabilities measured at fair value using a three-level hierarchy to disclose how fair value is determined. Those levels are:

Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities that the entity can access at the measurement date;

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3: Unobservable inputs for the asset or liability. Considerable judgement is required to determine fair value and therefore the categorisation of the asset or liability can be subjective.

There have not been any transfers between the levels of the fair value hierarchies during the year.

The Society does not carry any non-financial assets or liabilities at fair value (or disclose the information) and therefore no additional disclosure is required.

G. Cash and cash equivalents

Cash and cash equivalents include cash on hand and deposits held at call with financial institutions subject to insignificant risk in changes in value, with terms to maturity of three months or less.

Notes to the Financial Statements

Note 2. Summary of significant accounting policies (continued)

H. Financial instruments (other than cash and cash equivalents)

Financial instruments are initially measured at cost at the date of trade and includes any transaction costs applicable to the creation of contractual rights or obligations. Subsequent to initial recognition these instruments are measured as set out below. The Society's management determines the classification at initial recognition of the financial assets and re-evaluates this classification at each reporting date.

I. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are recognised initially at fair value and subsequently measured at fair value through profit or loss. The collectability of the receivables is reviewed on an on-going basis. Debts which are known to be uncollectible are written back through the Statement of Profit or Loss and Other Comprehensive Income.

J. Financial assets at fair value through profit or loss

A financial asset is classified in this category if it is evaluated on a fair value basis in accordance with the Society's financial risk management policy (Refer Note 24) and in compliance with the requirements of AASB 139 *Recognition and Measurement of Financial Instruments*. Realised and unrealised gains and losses arising from changes in the fair value of these assets are recognised through profit and loss in the period in which they arise. The fair value of quoted and traded investments is based on current bid prices and yield based valuations for debt securities.

K. Income tax

Income taxes are accounted for using the comprehensive balance sheet method whereby:

- i. The tax consequences of recovering (settling) all assets (liabilities) are reflected in the financial statements.
- ii. Current and deferred tax is recognised as income or expense except to the extent that the tax relates to equity items or to a business combination.
- iii. A deferred tax asset is recognised to the extent that it is probable that the future taxable asset will arise.
- iv. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when that deferred asset or liability is settled.

The Society's current income tax expense is the tax payable on the current periods taxable income using the tax rates enacted or substantively enacted at reporting date, adjusted for movements in deferred tax assets and deferred tax liabilities. Such changes are attributable to temporary differences between the tax base of assets and liabilities and their carrying amounts in the financial statements and to unused tax losses.

Notes to the Financial Statements

Note 2. Summary of significant accounting policies (continued)

L. Taxation of Financial Arrangements

Comprehensive rules for the taxation of financial arrangements have been enacted, the aim of which is to tax gains and losses from financial arrangements in a way that minimises distortions to investment, financing, pricing, risk-taking and risk management decisions by better aligning tax and accounting gains and losses from these arrangements.

In accordance with Taxation of Financial Arrangements legislation, the Society has made an election to apply the 'Elective Fair Value' tax-timing method to all financial arrangements.

The effect of making these elections is that gains and losses from financial arrangements that are marked to market through profit and loss for the purpose of the relevant accounting standards are allocated for income tax purposes in accordance with changes in their fair value.

M. Plant and equipment

Plant and equipment are measured on the historical cost basis less depreciation and accumulated impairment losses. Historical cost includes all expenditure directly attributable to bring the asset to the location and condition necessary for it to operate in the manner intended. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future

economic benefits associated with the item will flow to the Society and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit and loss during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method, net of residual value, over the estimated useful life of an asset ranging from 3 to 10 years. Residual asset values and useful lives are reviewed, and adjusted if appropriate, at each balance date.

N. Intangible asset

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at fair value at the date of acquisition.

Intangible assets acquired separately are initially recognised at cost.

Intangible assets are subsequently measured at cost less amortisation or any impairment. The gains or losses recognised in profit or loss arising from de-recognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Amortisation of intangible assets is calculated using the straight-line method, net of residual value, over the estimated useful life of each class of intangible assets. Asset residual values and useful lives are reviewed, and adjusted if appropriate, at each balance date. Management rights are estimated to have a useful life of 10 years.

Notes to the Financial Statements

Note 2. Summary of significant accounting policies (continued)

O. Impairment of Assets

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the Statement of Profit or Loss and Other Comprehensive Income, unless an asset has been previously revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through profit and loss.

P. Leasehold improvements

The cost of leasehold improvements to leased properties is amortised over the unexpired period of the lease or the estimated useful life of the improvement to the Society, whichever is shorter.

Q. Trade and other payables

Liabilities are recognised for amounts to be paid in the future, for goods and services received up to the balance date, whether or not billed. Trade accounts payable are settled within the normal terms and conditions with terms generally ranging from 7 to 60 days.

R. Provisions

Provisions are recognised when the Society has a present obligation (legal or constructive) as a result of a past event for which it is probable that an outflow of economic benefits will be required to settle the obligation and when a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where the provision is measured using cash flows estimated to calculate the present obligation, its carrying amount is the present value of those cash flows.

S. Employee entitlements

Provision is made for the Society's liability for employee benefits arising from services rendered by employees up to balance date.

The provision is recognised for benefits accruing to employees with respect to wages and salaries, retirement allowances and annual and long service leave when it is probable that settlement will be required and the liability is capable of being measured reliably.

Provisions for employee benefits are calculated and classified as short or long-term benefits.

Short term benefits are those that are expected to be wholly settled within the 12 months. They are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Long term benefits are those that are not expected to be wholly settled within 12 months. They are measured at the present value of the estimated future cash flows. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

Notes to the Financial Statements

Note 2. Summary of significant accounting policies (continued)

S. Employee entitlements (continued)

Expected future cash flows are discounted using market yields at the reporting date to estimate the future cash flows at a pre-tax rate to reflect the current market assessments of the time value of money.

Regardless of the expected timing settlement, provisions for employee benefits are recognised as a current liability unless there is an unconditional right to defer the settlement of the liability for a minimum of 12 months after the reporting date, in which case the provision would be classified as a non-current liability. Provisions made for annual leave and unconditional long service leave are classified as current liabilities. Provisions for conditional long service leave are classified as non-current liabilities.

T. Life insurance contracts

The accounting treatment for certain transactions varies depending on the nature of the contract underlying the transaction. The major contract classifications are insurance contracts and investment contracts in accordance with AASB 1038 *Insurance Contracts*.

i. Insurance contracts (Refer Note 15)

An insurance contract is defined as a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain event (insured event) adversely affects the policyholder. The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect.

The deposit component of a life insurance contract is split from the life insurance component of a life insurance contract, such that the premiums and claims under the life insurance component are recognised in the income statement as income and expense, and the premiums and claims under the deposit component are recognised in the balance sheet as changes in the life insurance liabilities. Premiums and claims are split when this is practicable and when the components can be measured reliably. Where premiums and claims are split, they remain within the scope of the life insurance standard.

The policy liability valuation for insurance contract funds (other than the MU Accident Fund) and the Funeral Bond Funds, is equal to the present value of future benefits, expenses and profits less the present value of future contributions, determined by applying the following assumptions:

- Mortality rates (Australian Life Tables) of 80% (2017: 80%) for the IOR Sick and Funeral Fund, 120% (2017: 120%) for State Trustees Funds Taxable, 110% (2017: 110%) for the State Trustees Fund Exempt, 140% (2017: 140%) for Funeral Benefit Funds Taxable, 100% (2017: 110%) for Funeral Benefit Fund Exempt, 50% (2017: 50%) for the Victoria Police Benefit Fund and Death and Distress Fund members and 80% (2017: 80%) for Victoria Police Benefit Fund and Death and Distress Fund spouses.
- Sickness benefits of 18% (2017: 12%) of contributions for the Victoria Police Benefit Fund;
- Resignation rates based on the experience for the Death and Distress and Sickness and Accident Funds and the Victoria Police Benefit Fund;

Notes to the Financial Statements

Note 2. Summary of significant accounting policies (continued)

T. Life insurance contracts (continued)

- Distress payments of 30% (2017: 15%) of contributions for the Death and Distress Fund;
- Future profits for the Sickness and Accident Fund of 60% (2017: 60%) of sickness benefits for Group Sickness;
- Other assumptions as detailed below:

Fund	Gross In (%pa)		Expenses (%pa)		Tax (%pa)		Future Bonus Rates	
	2018	2017	2018	2017	2018	2017	2018	2017
IOR Sick and Funeral	3.24%	3.57%	1.50%	1.50%	0.00%	0.00%	2.00%	2.00%
Death and Distress	2.63%	2.70%	2.00%	2.00%	0.19%	0.21%	0.00%	0.00%
Sickness and Accident	3.55%	3.55%	0.00%	0.00%	1.06%	1.06%	0.00%	0.00%
Victoria Police Benefit	3.29%	3.90%	0.00%	0.00%	0.99%	1.17%	0.00%	0.00%
Funeral Benefit-Exempt	2.99%	3.11%	1.50%	1.50%	0.00%	0.00%	1.49%	1.61%
Funeral Benefit-Taxable	3.06%	3.23%	1.75%	1.75%	0.46%	0.44%	0.75%	0.94%
STL Trustees-Exempt	2.95%	3.06%	1.50%	1.50%	0.00%	0.00%	1.45%	1.56%
STL Trustees-Taxable	3.01%	3.16%	1.50%	1.50%	0.45%	0.50%	1.06%	1.16%

The Death and Distress, Sickness and Accident, Victoria Police Benefit and MU Accident Funds have charges levied on contributions.

The member policy liabilities of the IOR Sick and Funeral Fund have been revalued by \$1.7 million as a result of a reduction in the risk-free interest rate. The increase in members policy liabilities is recorded as an expense in the Statement of Profit or Loss and Other Comprehensive Income.

The member policy liabilities of the Victoria Police Benefit Fund are \$959 thousand at the end of the reporting period. The increase in the liability is a result of increasing the assumed cost of sickness benefits as a percentage of contributions from 12% to 18%. The increase in member policy liabilities is recorded as an expense in the Statement of Profit or Loss and Other Comprehensive Income.

Further information regarding member policy valuations can be found at Note 29.

Notes to the Financial Statements

Note 2. Summary of significant accounting policies (continued)

T. Life insurance contracts (continued)

ii. Investment contracts (Refer Note 15)

A contract governed by the *Life Insurance Act 1995*, that does not meet the definition of a life insurance contract, is a life investment contract. The accounting treatment of an investment contract depends on whether the investment had a discretionary participation feature. A discretionary participation feature represents a contractual right to receive, as a supplement to guaranteed benefits, additional benefits that are:

- Likely to be significant portion of the total benefits;
- Distributed at the discretion of the insurer, and;
- Based on performance of a specified pool of assets.

Deposits collected and benefits paid under investment contracts with a discretionary participation feature are accounted for through the profit and loss statement. The gross change in the liability of these policyholders for the period, which includes any participation benefits vested in the policyholders and any undistributed surplus attributed to policyholders, is recognised in the Statement of Profit or Loss and Other Comprehensive Income.

Deposits collected and withdrawals processed for investment contracts without a discretionary participation feature are accounted for directly through the balance sheet as movements in the investment contract liability. Distributions on these contracts are charged through profit and loss as an expense.

The policy liability valuation for investment contract funds is in accordance with the *Life Insurance Act 1995* and represents the movement in the sum of the Members' account balances and is recognised through profit and loss.

iii. Management fees

Fees for expenses earned by the management fund for all life insurance contract policies are based on a percentage of the respective fund net assets and for insurance contract type benefit funds may include any actuarially determined release of surpluses to the management fund.

iv. Solvency and capital adequacy requirements

In accordance with prudential standards the benefit funds are required to hold reserves over and above their policy liabilities to protect against adverse experience and poor investment returns. The level of reserves required has been calculated in accordance with the methodologies and requirements of the *Life Insurance Act 1995*, Actuarial Standards 2.04 and 3.04 and are monitored by the Society's Appointed Actuary.

The Society's Appointed Actuary is Brett and Watson Pty Ltd who offer a diverse range of actuarial services with expertise in general insurance, friendly societies and general consulting. Brett and Watson Pty Ltd provide valuations of member policy liabilities and related balances of the Society.

Notes to the Financial Statements

Note 2. Summary of significant accounting policies (continued)

U. Asset Backed Life Insurance Liabilities and Life Investment Contract Liabilities

Assets backing life insurance liabilities and life investment contract liabilities are measured on a basis that is consistent with the measurement of the life insurance liabilities or life investment contract liabilities.

The Society has determined that all assets held within its benefit funds represent asset backed policy liabilities.

Asset backed policy liabilities are measured at fair value through profit and loss.

V. Distribution of surpluses of the benefit funds

The distributable surpluses, being interim and final bonuses to the policyholders of the benefit funds, are treated as an expense in the profit and loss with the result that the profit before tax disclosed in the Statement of Profit or Loss and Other Comprehensive Income is reduced by that amount, whilst the tax expense is calculated on profit excluding the distributed surpluses of the benefit funds.

W. Policyholders entitlement to monies held in Statutory Benefit Funds

Monies held in the life insurance Statutory Benefit Funds are subject to the distribution and transfer restrictions and other requirements of the *Life Insurance Act 1995*. Monies held in the Statutory Benefit Funds are held for the benefit of the members of those funds, and are subject to the constitution and rules of those benefit funds.

X. Revenue

Revenue is recognised at the fair value of the consideration received or receivable. Management fees earned from the benefit funds are calculated as an agreed percentage of the respective benefit funds' net assets and are recognised on an accrual basis.

Interest income, dividend income and distribution income are brought to account on an accrual basis. Interest income is recognised using the effective interest method. Dividends are recognised when the right to receive payment is established.

Y. Changes in accounting policies

There have been no changes in accounting policies during the reporting period.

Z. 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 Taxation Office. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the related expense. The GST portion relating to financial supplies and non-deductible expenditure, for which an input tax credit cannot be claimed is expensed.

Notes to the Financial Statements

Note 3. New accounting standards and interpretations issued that are not yet effective

The following standards, amendments to standards and interpretations have been identified as those which may impact the Society upon initial application.

The standards are not mandatory for the year ended 30 June 2018 and early adoption has not been undertaken by the Society. An assessment of the impact of these standards upon application is included in the table below.

AASB Standard	Title & Summary	Standard applicable for Annual reporting beginning on	Applicable date for the Society	Impact on the Society's financial statements
AASB 9 Financial instruments	AASB 9 replaces AASB 139 Financial Instruments: Recognition and Measurement. Except for certain trade receivables, an entity initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.	1 January 2018	1 July 2018	AASB 9 will have no impact in its first year of application on the Financial Statements as Management has elected to defer the implementation of AASB 9 as permitted by AASB 4 Insurance Contracts.
AASB 2017-3 Amendments to Australian Accounting Standards – Clarifications to AASB 4	The amendments confirm that in Australia compliance with AASB 1023 General Insurance Contracts and AASB 1038 Life Insurance Contracts ensures simultaneous compliance with AASB 4. The Standard also amends AASB 4 to ensure the relief available to issuers of insurance contracts set out in AASB 2016-6 can be applied by an entity applying either AASB 1023 and AASB 1038 if the entity otherwise meets the qualifying criteria.	1 January 2018	1 July 2018	AASB 2017-3 will have no impact on the Financial Statements in that the amendment provides relief to issuers of insurance contracts by entities who apply AASB 1038 <i>Life Insurance Contracts</i> until AASB 17 <i>Insurance Contracts</i> becomes effective.
AASB 15 Revenue from Contracts with Customers, and relevant amending standards	AASB 15 replaces all existing revenue requirements in Australian Accounting Standards. The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services.	1 January 2018	1 July 2018	AASB 15 is expected to have no impact on the Financial Statements as the standard does not apply to insurance contracts with the scope of AASB 4 <i>Insurance Contracts</i> .

Notes to the Financial Statements

Note 3. New accounting standards and interpretations issued that are not yet effective (continued)

AASB Standard	Title & Summary	Standard applicable for Annual reporting beginning on	Applicable date for the Society	Impact on the Society's financial statements
AASB 16 Leases	AASB 16 requires lessees to account for all leases under a single on balance sheet model in a similar way to finance leases under AASB 117 Leases.	1 January 2019	1 July 2019	It is expected that the application of this standard will result in an asset and liability being recognised for a long-term lease entered into by the Society. At 30 June 2018, no such lease qualified for recognition in the Financial Statements.
AASB 17 Insurance Contracts	AASB 17 replaces AASB 4 Insurance Contracts and applies to all types of insurance contracts (i.e., life, non-life, direct insurance and reinsurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.	1 January 2021	1 July 2021	Impact is still being assessed.
Interpretation 23 Uncertainty over Income Tax Treatments	The Interpretation clarifies the application of the recognition and measurement criteria in IAS 12 Income Taxes when there is uncertainty over income tax treatments.	1 January 2019	1 July 2019	Impact is still being assessed.

Notes to the Financial Statements

Note 4. Revenue

A. Investment Income

Interest on investments	9,954,303	9,452,434
Dividends and distribution income	1,097,333	1,199,054
Changes in fair values of securities	855,532	(3,323,657)
Less: direct investment expense	(268,819)	(198,075)

Total investment income

11,638,349	7,129,756
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B. Insurance Premiums Received

The Police Association of Victoria	1,221,257	819,677
Sickness and Accident Fund	98,251	112,940
MUA Accident Fund	62,468	70,711
Death and Distress Fund	27,995	29,275
Sick and Funeral Fund	33,057	36,606

Total insurance premiums received

1,443,028	1,069,209
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C. Fees and Commissions

Revenue from initial fees	25,480	29,777
Commissions received	6,669	7,720

Total fees and commissions

32,149	37,497
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Note 5. Expenses

A. Ordinary Expenses

Employee benefits	2,351,554	3,039,292
Operating expenses	2,201,899	1,375,388
Sales and marketing	950,266	983,939
Occupancy	264,307	205,165
Depreciation and amortisation	311,284	294,931
VPA members counselling	361,392	273,649
Claims paid to policyholders	1,848,917	1,346,823
Changes in policy liabilities	1,665,261	(10,623,215)

Total ordinary expenses

9,954,880	(3,104,028)
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Notes to the Financial Statements

Note 5. Expenses (continued)

B. Distributions Paid to Policyholders

	2018 (\$)	2017 (\$)
Distribution paid – interim	1,159	4,377
Distribution paid – final	2,970,246	4,051,454
Total distributions paid	2,971,405	4,055,831

Note 6. Income Tax Expense

Income tax recognised in profit or loss		
Current tax provision	468,442	1,116,681
Adjustment relating to temporary differences	22,084	(595,034)
Under / (over) provision prior year	(851,402)	1,040,384
Total income tax expense	(360,876)	1,562,031

The amount provided in respect of income tax differs from the amount prima facie payable on operating profit. The difference is reconciled as follows:

Profit before income tax	188,495	7,284,995
Prima facie tax on profit for the period at 30% (2017: 30%)	56,549	2,185,528
Add (deduct) tax effect of:		
Non-deductible distributions	661,775	1,216,719
Net non-assessable income	(2,042,218)	(3,224,743)
Non-deductible expenses	338,634	(1,068,588)
Other income and allowable deductions	1,605,626	1,514,790
Under / (over) provision of tax	(851,402)	1,040,384
Franking credit rebate	(129,840)	(102,059)
Income tax expense / (benefit)	(360,876)	1,562,031

Note 7. Cash and Cash Equivalents

Cash management accounts	3,092,010	4,549,629
Deposit at call accounts	16,175,035	18,983,995
Total cash and cash equivalents	19,267,045	23,533,624

Note 8. Trade and Other Receivables

Prepaid expense	136,001	100,026
Sundry receivables	257,658	270,412
Total trade and other receivables	393,659	370,438

Notes to the Financial Statements

Note 9. Investments

	2018 (\$)	2017 (\$)
Investment in interest bearing securities	309,673,484	288,413,418
Investment in ASX listed securities	8,460,599	4,790,280
Investment in managed funds	27,893,223	28,794,519
Total investments	346,027,306	321,998,217

The fair value of the financial assets as well as the method used to estimate the fair value is summarised in the table below. An explanation of the fair value hierarchy is detailed at Note 2F.

	2018 (\$)			2017 (\$)		
	Quoted Market Price Level 1	Market Observable Level 2	Non-Market Observable Level 3	Quoted Market Price Level 1	Market Observable Level 2	Non-Market Observable Level 3
Investment in interest bearing securities	309,673,484	–	–	288,413,418	–	–
Investments in ASX listed securities	8,460,599	–	–	4,790,280	–	–
Investment in managed funds	–	27,893,223	–	–	28,794,519	–
Total investments	318,134,083	27,893,223	–	293,203,698	28,794,519	–

Note 10. Deferred Tax Asset

The balance comprises temporary differences attributable to:

	2018 (\$)	2017 (\$)
Employee entitlements	105,317	149,118
Accrued expenses	81,133	93,000
Other financial assets	-	55,244
Directors' retirement allowance	399,277	388,236
Other	(1,099)	(1,097)
Total deferred tax asset	584,628	684,501

Notes to the Financial Statements

Note 11. Intangible Assets

Work in progress	289,268	-
Management rights	2,500,000	2,500,000
Less: Amortisation	(1,937,500)	(1,687,500)

Total intangible assets	851,768	812,500
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Movements in carrying amounts

Balance at the beginning of the year	812,500	1,062,500
Additions	289,268	-
Amortisation expense	(250,000)	(250,000)

Total intangible assets	851,768	812,500
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Note 12. Trade and Other Payables

Suppliers and creditors	1,204,895	1,555,508
Accrued general expenses	593,875	776,649

Total trade and other payables	1,798,770	2,332,157
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Note 13. Deferred Tax Liability

The balance comprises temporary differences attributable to:

Accrued income	115,406	18,372
Other financial assets	1,300	394,382
Net restructure expenditure amortised	168,750	242,568

Total deferred tax liability	285,456	655,322
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Note 14. Other Provisions

Annual leave	110,721	80,513
Long service leave	109,481	84,615
Directors' retirement allowance	1,330,923	1,294,121

Total other provisions	1,551,125	1,459,249
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Notes to the Financial Statements

Note 15. Members' Policy Liabilities

Investment contracts:

Bonus Bond Fund 1	2,023,065	2,475,610
Flexible Insurance Fund	19,201,475	20,430,299
Education and Savings Fund	1,675,916	2,114,387
Funeral Benefit Fund (Exempt and Taxable)	222,089,494	196,232,575
STL Funeral Fund (Exempt and Taxable)	24,973,983	26,327,196
MU Blue Chip Endowment Fund	31,456,220	35,303,759

Total investment contracts

301,420,153	282,883,826
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Insurance contracts:

Sickness and Accident Fund	171,100	191,872
Sick and Funeral Fund	27,292,963	25,558,172
The Police Association of Victoria Benefit Fund	959,369	—
Death and Distress Fund	76,897	86,057
MU Accident Fund	11,000	13,000

Total insurance contracts

28,511,329	25,849,101
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Total members' policy liabilities

329,931,482	308,732,927
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The fair value of the financial liabilities as well as the method used to estimate the fair value is summarised in the table below. An explanation of the fair value hierarchy is detailed at Note 2F.

	Market Observable Level 2 (\$)	Market Observable Level 2 (\$)
Investment contract policy liabilities	301,420,153	282,883,826
Insurance contract policy liabilities	28,511,329	25,849,101
	329,931,482	308,732,927

Notes to the Financial Statements

Note 16. Superannuation Guarantee Contributions

During the year the Society has made contributions in respect of employees superannuation to an Accumulation Fund in accordance with the Legislative requirements. Defined contributions of 9.50% (2017: 9.50%) for the year totaled \$143,533 (2017: \$182,394).

Note 17. Auditor's Remuneration

Total of all remuneration received or due and receivable by the auditor in connection with:

Audit of the Society's financial statements

Other professional review services

Total auditor's remuneration

2018 (\$)

2017 (\$)

126,000

140,020

33,200

6,160

159,200

146,180

Note 18. Actuary's Remuneration

Total of all remuneration received or due and receivable by the actuary in connection with:

Actuary's statutory functions

Other services

Total actuary's remuneration

95,843

130,116

22,924

16,665

118,767

146,781

Note 19. Directors and Key Management Personnel

Directors during the reporting period

Theodore Fleming – Chairman

Philip Fraher – Deputy Chairman

Terence Lyon – Director

Richard Bouchier – Director

Christopher Henderson – Director

Key Management Personnel

Craig Bell – Chief Executive Officer

Compensation

Short term employee benefits

Post employment benefits

Other long term benefits

Total compensation

789,195

900,681

-

217,328

36,802

71,859

825,997

1,189,868

Notes to the Financial Statements

Note 20. Related Parties

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

The Directors hold policies in various Benefit Funds of the Society on standard member terms and conditions no more favourable than those available to members.

a. Loans to or from related parties

There are/were no loans to or from related parties at the current and previous reporting date.

b. Transactions with related parties

In the normal course of operations Fleming and Rhoden Lawyers of which Mr Theodore Fleming is a principal, received \$38,668 (2017: \$25,946) on standard commercial terms for legal services rendered to the Society.

Note 21. Contingent Liability

As disclosed in the 2016-17 Financial Report, a competitor commenced legal action against the Society six years ago. The action was taken to sue two of the competitor's former employees for copyright breaches relating to the prepaid funeral bond business. The Society was later joined in the action.

The trial commenced in June 2015 in the Federal Court and ended on 26 June 2015. In March 2016, the Judge handed down his judgement and concluded that the two employees were in breach of their duties.

However, the judgement was in favour of the Society and the applicant was not entitled to recover any damages from the Society. Costs were awarded to the Society.

In May 2016, an appeal was lodged by the competitor. In June 2017, the Full Court of the Federal Court of Australia made orders amounting to \$6,558,495 plus interest and costs against the Society.

In July 2017, upon the basis of considered legal advice, the Society made an application seeking special leave to appeal to the High Court of Australia. Special leave was granted in October 2017.

The Society is seeking orders from the High Court that the appeal be allowed, that the orders of the Full Court of the Federal Court made on 16 June 2017 be set aside and, in their place, it be ordered that the appeal to that Court be dismissed with costs.

The appeal was heard by the High Court in April 2018. The Society is not able to predict the outcome of the appeal or quantification of damages and award of costs, if any.

Note 22. Subsequent Event

There are no matters or circumstances that have arisen since 30 June 2018 that have significantly affected, or may significantly affect the Society's operations, the results of those operations, or the Society's state of affairs in future financial years.

Notes to the Financial Statements

Note 23. Commitments for Expenditure

Operating lease:

The Society's lease of office premises at 11-17 Jeffcott Street, West Melbourne expires on 15 March 2019.

Lease payment for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred:

	2018	2017
	\$	\$
Lease Payments		
No later than one year	151,973	50,913
Later than one year but not later than two years	-	-
Total - Lease Payments	151,973	50,913

Note 24. Financial Risk Management

The Society's financial instruments comprise cash and cash equivalents, receivables, payables, investments in short and long term fixed interest, government and semi-government securities, shares in listed companies and unit trusts. The Society does not invest or trade in derivatives.

The Society manages its exposure to key financial risks, particularly interest rate movements, in accordance with the Society's Risk Management Framework and more specifically, the Investment Policy. The policy is overseen by the Investment Committee.

Funds under management are invested in securities in accordance with the respective benefit fund's investment parameters. The investment parameters are approved by the Board. The parameters take into account applicable legislation and are derived in consultation with the Society's Appointed Actuary.

Most of the Society's investments are externally managed by a fund manager. However, the Society's Investment Committee retains responsibility for the investments and monitors all investment transactions in accordance with guidelines to ensure that financial risks are appropriately managed. The Investment Committee reviews the asset allocation monthly by comparing the benefit funds' actual asset allocation against the ranges determined as appropriate for each benefit fund. The Investment Committee thereby ensures compliance with the guidelines and satisfaction the benefit funds' position within the guideline range.

A. Significant Accounting Policies

Measurement, and the basis on which revenues and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in Note 2 to the financial statements.

B. Financial risks

The activities of the Society expose the entity to a number of financial risks including market risk (defined below), credit risk and liquidity risk. The Society's Risk Management Framework Strategy seeks to minimise these risks and their potential adverse effect on the financial performance of the Society.

Notes to the Financial Statements

Note 24. Financial Risk Management (continued)

B. Financial risks (continued)

i. Market Risk – Fair value interest rate risk

As the Society has significant interest-bearing investments, the Society's income and operating cash flows are materially exposed to changes in market interest rates. The Board has approved a set of investment parameters for the investment of each benefit fund's assets. These parameters take into account the requirements of the Society's regulatory legislation and the benefit fund's rules and have been certified as appropriate by the Society's Appointed Actuary.

ii. Market Risk – Price risk

The Society is exposed to equity securities price risk. The Society is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities the Society diversifies its portfolio. Diversification of the portfolio is in accordance with the parameters set by the Investment Committee.

iii. Market Risk – Foreign exchange risk

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. The Society has no foreign exchange risk exposure.

iv. Credit Risk

The Society is exposed to credit risk should a counterparty default on its contractual obligations resulting in financial loss to the Society.

The Society has adopted the policy of only investing in secure forms of investments as a means of mitigating the risk of financial losses from defaults.

As an APRA regulated institution, the Society monitors its exposure to risk, including credit risk in compliance with Prudential Standards.

Compliance with the Prudential Standards is monitored by the Board on an ongoing basis by ensuring policies and procedures are implemented in accordance with the Society's Risk Management Framework.

The carrying amount of financial assets recorded in the financial statements represents the Society's maximum exposure to credit risk.

v. Liquidity Risk

Liquidity risk is the risk that assets cannot be realised to allow the Society to meet its obligations as they fall due. The Society manages liquidity risk by maintaining adequate cash reserves, by continuously monitoring actual and forecast cash flows and by matching the maturity profiles of financial assets and liabilities. The Society aims to maintain a relatively flexible range of short and long-term investments to enable access to funding at short notice if necessary.

C. Net Fair Value

The carrying amounts of financial assets and financial liabilities recorded in the financial statements represent their respective net fair values.

Notes to the Financial Statements

Note 25. Sensitivity Analysis

A. Interest Rate Risk

The investments of the Society are subject to risks associated with financial assets (Refer Note 24). Fluctuations in interest rates will not materially affect the Society as most of the investments are on fixed rates.

For the purpose of analysing interest rate risk, the effect of a 0.50% (2017: 0.50%) interest rate increase and 0.50% (2017: 0.50%) interest rate decrease on the profit or loss before income tax and net assets is shown in the table below. As interest rates are fixed, the impact of a 0.50% movement in interest rates will affect the fair value of investments as opposed to cash flows.

	2018 (\$)		2017 (\$)	
	Net Profit/(Loss)	Net Assets	Net Profit/(Loss)	Net Assets
Adjusted by +0.5% increase	(1,359,872)	32,756,249	5,842,929	32,313,177
Net Profit/(Loss) before income tax	188,495	-	7,284,995	-
Net Assets	-	34,304,616	-	33,755,245
Adjusted by -0.5% decrease	1,736,862	35,852,983	8,727,064	35,197,311

B. Price Risk

For the purpose of analysing price risk, the effect of a 10.00% (2017: 10.00%) increase and 10.00% (2017: 10.00%) decrease in equity prices on the profit or loss and net assets is shown in the table below.

	2018 (\$)		2017 (\$)	
	Net Profit/(Loss)	Net Assets	Net Profit/(Loss)	Net Assets
Adjusted by +10% increase	3,823,877	37,939,998	10,643,576	37,113,724
Net Profit/(Loss) before income tax	188,495	-	7,284,995	-
Net Assets	-	34,304,616	-	33,755,245
Adjusted by -10% decrease	(3,446,887)	30,669,234	3,926,517	30,396,765

Notes to the Financial Statements

Note 26. Exposure to interest rate risk

The following tables detail the Society's exposure to interest rate risk for assets and liabilities as at the reporting date.

	As at 30 June 2018				As at 30 June 2017					
	1 year or less	Over 1 year to 5 years	Over 5 years	Total	Weighted average interest rates	1 year or less	Over 1 year to 5 years	Over 5 years	Total	Weighted average interest rates
Assets:										
<i>Financial assets:</i>										
Cash and cash equivalents	19,267,045	-	-	19,267,045	1.72%	23,533,624	-	-	23,533,624	1.60%
Trade and other receivable	257,658	-	-	257,658	Nil	270,412	-	-	270,412	Nil
Other financial assets	216,364,922	95,903,668	33,758,716	346,027,306	3.12%	186,152,171	105,370,668	30,475,378	321,998,217	3.70%
Other investments	-	-	-	-	Nil	-	-	-	-	Nil
<i>Non-financial assets:</i>										
Prepaid expenses	136,001	-	-	136,001	Nil	100,026	-	-	100,026	Nil
Plant and equipment	127,706	-	-	127,706	Nil	87,697	-	-	87,697	Nil
Current income tax and deferred tax	758,992	584,628	-	1,343,620	Nil	596,428	684,501	-	1,280,929	Nil
Intangible and other assets	851,768	-	-	851,768	Nil	812,500	-	-	812,500	Nil
Total assets	237,764,092	96,488,296	33,758,716	368,011,104		211,552,858	106,055,169	30,475,378	348,083,405	
Liabilities:										
<i>Financial liabilities:</i>										
Trade and other payables	1,798,770	-	-	1,798,770	Nil	2,332,157	-	-	2,332,157	Nil
<i>Non-financial liabilities:</i>										
Policy liabilities	54,356,676	-	275,574,806	329,931,482	Nil	60,324,057	-	248,408,870	308,732,927	Nil
Income tax payable and deferred tax	139,655	285,456	-	425,111	Nil	1,148,505	655,322	-	1,803,827	Nil
Other liabilities	1,551,125	-	-	1,551,125	Nil	1,459,249	-	-	1,459,249	Nil
Total liabilities	57,846,226	285,456	275,574,806	333,706,488		65,263,968	655,322	248,408,870	314,328,160	
Net assets	179,917,866	96,202,840	(241,816,090)	34,304,616		146,288,890	105,399,847	(217,933,492)	33,755,245	

Notes to the Financial Statements

Note 27. Statutory benefit fund income and expenses

For the Period Ended 30 June 2018

Benefit Fund	Net investment income	Insurance premiums and commissions	Other income	Fees to management	Claims expenses	Changes in policy liabilities	Other expenses	Distributions to policy holders	Profit (loss) before tax	Income tax expense	Profit (loss) after tax	Surplus opening balance	Transfers to (from) benefit funds	Current surplus
Investment Contracts:								Interim	Final					
Bonus Bond	51,337	15,777	-	(66,366)	-	-	-	-	(3,035)	(2,287)	(2,287)	19,703	-	17,416
Flexible Insurance	473,446	-	-	(299,441)	-	-	-	-	(114,479)	59,526	1,195	159,822	-	161,017
Education and Savings	42,259	8,130	-	(41,264)	-	-	-	-	(2,611)	6,514	(3,940)	17,658	-	13,718
Funeral Benefit (Exempt and Taxable)	5,893,921	-	-	(3,628,172)	-	231,479	(335,797)	-	(1,638,712)	522,719	305,263	81,401	-	386,664
State Trustees Ltd (Exempt and Taxable)	958,034	-	-	(394,852)	-	-	(109,839)	-	(320,584)	132,759	51,551	433,976	-	485,527
MU Blue Chip Endowment	776,085	-	-	(500,195)	(33,825)	-	-	(1,159)	(125,336)	115,570	2,296	294,648	-	296,944
Total investment contracts	8,195,082	23,907	-	(4,930,290)	(33,825)	231,479	(445,636)	(1,159)	(2,204,757)	834,801	354,078	1,007,208	-	1,361,286
Insurance Contracts:														
Sickness and Accident	25,629	98,251	-	(28,114)	(31,340)	20,772	-	-	-	85,198	81,657	166,167	(80,000)	167,824
MU Accident	11,014	62,468	-	(28,110)	(20,800)	2,000	(9,605)	-	-	16,967	5,169	591,705	-	596,874
Sickness and Funeral	2,668,658	34,629	-	(478,279)	(619,232)	(969,303)	-	-	(765,489)	(129,016)	(129,016)	7,435,369	(2,147,290)	5,159,063
Police Association	101,936	1,221,258	-	(427,440)	(660,010)	(959,369)	-	-	-	(723,625)	(721,537)	2,911,674	-	2,190,137
Death and Distress	8,929	27,995	-	(14,478)	(5,000)	9,160	-	-	-	26,606	21,770	285,704	-	307,474
Total insurance contracts	2,816,166	1,444,601	-	(976,421)	(1,336,382)	(1,896,740)	(9,605)	-	(765,489)	(723,870)	(741,957)	11,390,619	(2,227,290)	8,421,372
Total all contracts	11,011,248	1,468,508		(5,906,711)	(1,370,207)	(1,665,261)	(455,241)	(1,159)	(2,970,246)	110,931	(387,879)	12,397,827	(2,227,290)	9,782,658

Notes to the Financial Statements

Note 27. Statutory benefit fund income and expenses (continued)

For the Period Ended 30 June 2017

Benefit Fund	Net investment income	Insurance premiums and commissions	Other income	Fees to management	Claims expenses	Changes in policy liabilities	Other expenses	Interim		Profit (loss) before tax	Income tax expense	Profit (loss) after tax	Surplus opening balance	Transfers to (from) benefit funds	Current surplus
								Distributions paid to policy holders	Final						
Investment Contracts:															
Bonus Bond	64,443	17,939	-	(76,134)	-	-	-	-	(12,300)	(6,052)	-	(6,052)	25,755	-	19,703
Flexible Insurance	569,228	-	-	(322,123)	-	-	-	(4,592)	(290,666)	(48,154)	(120,500)	(168,654)	328,476	-	159,822
Education and Savings	60,407	9,900	-	(53,593)	-	-	-	-	(8,690)	8,024	(13,814)	(5,790)	23,448	-	17,658
Funeral Benefit (Exempt and Taxable)	4,872,181	-	-	(3,069,519)	-	1,738,530	(269,182)	(5)	(2,480,216)	791,788	(1,134,722)	(342,934)	424,335	-	81,401
State Trustees Ltd (Exempt and Taxable)	993,666	-	-	(410,379)	-	-	(105,239)	-	(237,505)	240,544	(108,873)	131,671	302,305	-	433,976
MU Blue Chip Endowment	952,893	-	-	(574,913)	(31,450)	-	-	220	(277,664)	69,087	(172,853)	(103,766)	398,414	-	294,648
Total investment contracts	7,512,818	27,839	-	(4,506,661)	(31,450)	1,738,530	(374,421)	(4,377)	(3,307,041)	1,055,237	(1,550,762)	(495,525)	1,502,733	-	1,007,208
Insurance Contracts:															
Sickness and Accident	(3,123)	112,940	-	(32,627)	(49,315)	74,805	-	-	-	102,680	(5,021)	97,659	268,509	(200,000)	166,167
MU Accident	11,512	70,711	-	(31,820)	(6,750)	(1,800)	(10,541)	-	-	31,312	(17,590)	13,722	577,983	-	591,705
Sickness and Funeral	(1,475,799)	38,545	-	(522,397)	(846,609)	6,146,804	-	-	(744,413)	2,596,133	-	2,596,133	4,839,236	-	7,435,369
Police Association	67,575	819,676	-	(286,887)	(353,040)	2,664,271	-	-	-	2,911,595	(250,108)	2,661,487	1,750,187	(1,500,000)	2,911,674
Death and Distress	9,701	29,275	-	(14,794)	(36,000)	605	-	-	-	(11,213)	(11,481)	(22,693)	308,397	-	285,704
Total insurance contracts	(1,390,134)	1,071,147	-	(888,525)	(1,291,714)	8,884,685	(10,541)	-	(744,413)	5,630,507	(284,200)	5,346,308	7,744,312	(1,700,000)	11,390,619
Total all contracts	6,122,684	1,098,986	-	(5,395,186)	(1,323,164)	10,623,215	(384,962)	(4,377)	(4,051,454)	6,685,744	(1,834,962)	4,850,783	9,247,045	(1,700,000)	12,397,827

Notes to the Financial Statements

Note 28. Statutory benefit fund assets, liabilities and unallocated surplus

As at 30 June 2018

Benefit Fund	Assets					Liabilities and Unallocated Surplus					
	Cash and cash equivalents	Receivables	Fixed interest and Other investments	Other investments	Current and deferred tax assets	Total assets	Provision for current and deferred tax	Creditors and other liabilities	Members policy liabilities	Total liabilities	Net assets
Investment Contracts:											
Bonus Bond	72,952	-	1,971,577	-	-	2,044,529	-	4,048	2,023,065	2,027,113	17,416
Flexible Insurance	187,351	-	19,307,727	-	-	19,495,078	105,906	26,680	19,201,475	19,334,061	161,017
Education and Savings	331,919	-	1,371,071	-	-	1,702,990	10,646	2,710	1,675,916	1,689,272	13,718
Funeral Benefit (Exempt and Taxable)	9,386,160	8,897	213,941,762	-	55,053	223,391,872	-	915,712	222,089,494	223,005,208	386,664
State Trustees Ltd (Exempt and Taxable)	52,027	-	25,585,632	-	-	25,637,659	145,029	33,120	24,973,983	25,152,132	485,527
MU Blue Chip Endowment	4,472,094	-	27,464,835	-	-	31,936,929	140,002	43,763	31,456,220	31,639,985	296,944
Total investment contracts	14,502,503	8,897	289,642,604	-	55,053	304,209,057	401,583	1,026,035	301,420,153	302,847,771	1,361,286
Insurance Contracts:											
Sickness and Accident	253,528	-	171,000	-	-	424,528	3,476	82,128	171,100	256,704	167,824
MU Accident	621,041	-	-	-	-	621,041	11,058	2,109	11,000	24,167	596,874
Sickness and Funeral	304,077	-	32,197,673	-	-	32,501,750	-	49,724	27,292,963	27,342,687	5,159,063
Police Association	119,686	46,000	3,980,643	-	15,377	4,161,706	-	1,012,200	959,369	1,971,569	2,190,137
Death and Distress	83,972	-	305,111	-	-	389,083	4,008	704	76,897	81,609	307,474
Total insurance contracts	1,382,304	46,000	36,654,427	-	15,377	38,098,108	18,542	1,146,865	28,511,329	29,676,736	8,421,372
Total all contracts	15,884,807	54,897	326,297,031	-	70,430	342,307,165	420,125	2,172,900	329,931,482	332,524,507	9,782,658

Notes to the Financial Statements

Note 28. Statutory benefit funds asset, liabilities and unallocated surplus (continued)

As at 30 June 2017

Benefit Fund	Assets					Liabilities and Unallocated Surplus					
	Cash and cash equivalents	Receivables	Fixed interest and Other investments	Other investments	Current and deferred tax assets	Total assets	Provision for current and deferred tax	Creditors and other liabilities	Members policy liabilities	Total liabilities	Net assets
Investment Contracts:											
Bonus Bond	181,308	-	2,320,439	-	-	2,501,747	-	6,435	2,475,609	2,482,044	19,703
Flexible Insurance	168,636	-	20,579,041	-	-	20,747,677	129,331	28,225	20,430,299	20,587,855	159,822
Education and Savings	424,493	-	1,729,943	-	-	2,154,436	17,747	4,643	2,114,388	2,136,778	17,658
Funeral Benefit (Exempt and Taxable)	8,574,329	-	189,871,091	-	-	198,445,420	768,508	1,362,936	196,232,575	198,364,019	81,401
State Trustees Ltd (Exempt and Taxable)	186,053	-	26,727,014	-	-	26,913,067	114,722	37,173	26,327,196	26,479,091	433,976
MU Blue Chip Endowment	8,340,508	-	27,496,965	-	-	35,837,473	187,897	51,169	35,303,759	35,542,825	294,648
Total investment contracts	17,875,327	-	268,724,493	-	-	286,599,820	1,218,205	1,490,581	282,883,826	285,592,612	1,007,208
Insurance Contracts:											
Sickness and Accident	127,731	-	428,023	-	-	555,754	4,868	192,847	191,872	389,587	166,167
MU Accident	618,737	-	-	-	-	618,737	16,827	(2,795)	13,000	27,032	591,705
Sickness and Funeral	2,265,180	-	30,775,459	-	-	33,040,639	-	47,098	25,558,172	25,605,270	7,435,369
Police Association	290,273	-	4,390,958	-	-	4,681,231	236,527	1,533,030	-	1,769,557	2,911,674
Death and Distress	73,719	-	308,930	-	-	382,649	10,419	469	86,057	96,945	285,704
Total insurance contracts	3,375,640	-	35,903,370	-	-	39,279,010	268,641	1,770,649	25,849,101	27,888,391	11,390,619
Total all contracts	21,250,967	-	304,627,863	-	-	325,878,830	1,486,846	3,261,230	308,732,927	313,481,003	12,397,827

Notes to the Financial Statements

Note 29. Statutory benefit funds policy liabilities

As at 30 June 2018

Benefit Fund	Value of policy liabilities 1 July 2017	Allocation of surplus prior year	Liability component of contributions	Withdrawals (including interim bonuses)	Allocation of surplus current year	Member liability revaluation	Restructured benefit funds	Value of policy liabilities at the end of year
Investment Contracts:								
Bonus Bond	2,353,309	122,300	109,895	(565,474)	3,035	-	-	2,023,065
Flexible Insurance	20,139,633	290,666	179,916	(1,523,219)	114,479	-	-	19,201,475
Education and Savings	2,105,698	8,690	115,965	(557,048)	2,611	-	-	1,675,916
Funeral Benefit (Exempt and Taxable)	193,752,358	2,480,217	42,903,855	(18,454,169)	1,638,712	(231,479)	-	222,089,494
State Trustees Ltd (Exempt and Taxable)	26,089,691	237,505	713,746	(2,387,543)	320,584	-	-	24,973,983
MU Blue Chip Endowment	35,026,095	277,664	37,000	(4,011,035)	126,496	-	-	31,456,220
Total investment contracts	279,466,784	3,417,042	44,060,377	(27,498,488)	2,205,917	(231,479)	-	301,420,153
Insurance Contracts:								
Sickness and Accident	191,872	-	-	-	-	(20,772)	-	171,100
MU Accident	13,000	-	-	-	-	(2,000)	-	11,000
Sickness and Funeral	24,813,759	744,412	-	-	765,489	969,303	-	27,292,963
Police Association	-	-	-	-	-	959,369	-	959,369
Death and Distress	86,057	-	-	-	-	(9,160)	-	76,897
Total insurance contracts	25,104,688	744,412	-	-	765,489	1,896,740	-	28,511,329
Total all contracts	304,571,472	4,161,454	44,060,377	(27,498,488)	2,971,406	1,665,261	-	329,931,482

Notes to the Financial Statements

Note 29. Statutory benefit funds policy liabilities (continued)

As at 30 June 2017

Benefit Fund	Value of policy liabilities 1 July 2016	Allocation of surplus prior year	Liability component of contributions	Withdrawals (including interim bonuses)	Allocation of surplus current year	Member liability revaluation	Restructured benefit funds	Value of policy liabilities at the end of year
Investment Contracts:								
Bonus Bond	2,615,472	23,506	128,332	(303,999)	122,300	-	-	2,475,609
Flexible Insurance	21,424,523	263,026	215,673	(1,763,589)	290,666	-	-	20,430,299
Education and Savings	2,773,487	11,354	146,930	(826,073)	8,690	-	-	2,114,388
Funeral Benefit (Exempt and Taxable)	155,297,368	2,175,039	53,970,931	(15,952,450)	2,480,217	(1,738,530)	-	196,232,575
State Trustees Ltd (Exempt and Taxable)	27,210,489	191,879	1,080,684	(2,393,361)	237,505	-	-	26,327,196
MU Blue Chip Endowment	39,897,181	239,449	56,000	(5,166,534)	277,664	-	-	35,303,759
Total investment contracts	249,218,520	2,904,253	55,598,550	(26,406,006)	3,417,042	(1,738,530)	-	282,883,826
Insurance Contracts:								
Sickness and Accident	266,677	-	-	-	-	(74,805)	-	191,872
MU Accident	11,200	-	-	-	-	1,800	-	13,000
Sickness and Funeral	30,195,074	765,489	-	-	744,413	(6,146,804)	-	25,558,172
Police Association	2,664,271	-	-	-	-	(2,664,271)	-	-
Death and Distress	86,662	-	-	-	-	(605)	-	86,057
Total insurance contracts	33,223,884	765,489	-	-	744,413	(8,884,685)	-	25,849,101
Total all contracts	282,442,404	3,669,742	55,598,550	(26,406,006)	4,161,455	(10,623,215)	-	308,732,927

Notes to the Financial Statements

Note 30. Statutory benefit fund capital adequacy

As at 30 June 2018

Benefit Fund	Gross assets	Policy liabilities	Other liabilities	Net assets	Regulatory adjustments	Capital base	Asset risk charge	Insurance risk charge	Aggregation benefit	Operational Risk Charge	Combined stress test	Discretionary component of liabilities	Amount to comply with \$10M	Total prescribed capital	Capital surplus (deficiency)	Capital adequacy coverage
Investment Contracts:																
Bonus Bond	2,044,529	2,023,065	4,048	17,416	-	-	-	-	-	-	-	-	-	-	-	0%
Flexible Insurance	19,495,078	19,201,475	132,586	161,017	-	-	-	-	-	-	-	-	-	-	-	0%
Education and Savings	1,702,990	1,675,916	13,356	13,718	-	-	-	-	-	-	-	-	-	-	-	0%
Funeral Benefit (Exempt and Taxable)	223,391,872	222,089,494	915,714	386,664	-	-	-	-	-	-	-	-	-	-	-	0%
State Trustees Ltd (Exempt and Taxable)	25,637,659	24,973,983	178,149	485,527	-	-	-	-	-	-	-	-	-	-	-	0%
MU Blue Chip Endowment	31,936,929	31,456,220	183,765	296,944	-	-	-	-	-	-	-	-	-	-	-	0%
Total investment contracts	304,209,057	301,420,153	1,427,618	1,361,286	-	-	-	-	-	-	-	-	-	-	-	-
Insurance Contracts:																
Sickness and Accident	424,528	171,100	85,604	167,824	-	332,886	28,632	32,087	(13,635)	-	-	-	-	47,083	285,803	707%
MU Accident	621,041	11,000	13,167	596,874	-	596,874	2,608	342,733	(2,077)	-	-	-	-	343,264	253,610	174%
Sickness and Funeral	32,501,750	27,292,963	49,724	5,159,063	-	5,159,064	1,763,337	461,560	(314,936)	-	-	(1,909,961)	-	-	5,159,064	0%
Police Association	4,161,706	959,369	1,012,200	2,190,137	-	2,190,137	200,633	1,239,091	(145,490)	-	-	-	-	1,294,233	895,904	169%
Death and Distress	389,083	76,897	4,712	307,474	-	307,474	4,254	66,810	(3,275)	-	-	-	-	67,788	239,686	454%
Total insurance contracts	38,098,108	28,511,329	1,165,407	8,421,372	-	8,586,435	1,999,464	2,142,281	(479,413)	-	-	(1,909,961)	-	1,752,368	6,834,067	-
Management Fund	27,513,473	-	2,991,515	24,521,958	1,752,369	23,255,611	2,246,808	-	-	872,611	962,158	-	4,166,054	8,247,632	15,007,979	282%
Total all contracts	369,820,638	329,931,482	5,584,540	34,304,616	1,752,369	31,842,046	4,246,272	2,142,281	(479,413)	872,611	962,158	(1,909,961)	4,166,054	10,000,000	21,842,046	318%

Notes to the Financial Statements

Note 30. Statutory benefit fund capital adequacy (continued)

As at 30 June 2017

Benefit Fund	Gross assets	Policy liabilities	Other liabilities	Net assets	Regulatory adjustments	Capital base	Asset risk charge	Insurance risk charge	Aggregation benefit	Operational Risk Charge	Combined stress test	Discretionary component of liabilities	Amount to comply with \$TOM	Total prescribed capital	Capital surplus (deficiency)	Capital adequacy coverage
Investment Contracts:																
Bonus Bond	2,501,747	2,475,609	6,435	19,703	-	-	-	-	-	-	-	-	-	-	-	-
Flexible Insurance	20,747,678	20,430,299	157,556	159,823	-	-	-	-	-	-	-	-	-	-	-	-
Education and Savings	2,154,436	2,114,388	22,390	17,658	-	-	-	-	-	-	-	-	-	-	-	-
Funeral Benefit (Exempt and Taxable)	198,445,420	196,232,575	2,131,444	81,401	-	-	-	-	-	-	-	-	-	-	-	-
State Trustees Ltd (Exempt and Taxable)	26,913,067	26,327,196	151,895	433,976	-	-	-	-	-	-	-	-	-	-	-	-
MU Blue Chip Endowment	35,837,474	35,303,759	239,066	294,648	-	-	-	-	-	-	-	-	-	-	-	-
Total investment contracts	286,599,822	282,883,826	2,708,786	1,007,209	-	-	-	-	-	-	-	-	-	-	-	-
Insurance Contracts:																
Sickness and Accident	555,755	6,520	197,715	351,520	-	351,520	29,437	31,195	(13,653)	-	3,406	-	-	50,385	301,135	697%
MU Accident	618,737	13,000	14,032	591,705	-	591,705	2,599	342,904	(2,070)	-	-	-	-	343,433	248,272	172%
Sickness and Funeral	33,040,637	25,558,170	47,098	7,435,369	-	7,435,369	1,837,893	519,307	(349,888)	-	-	(2,007,312)	-	-	7,435,369	0%
Police Association	4,681,230	-	1,769,556	2,911,674	-	2,911,674	70,384	851,786	(53,565)	-	-	-	-	868,605	2,043,069	335%
Death and Distress	382,649	86,057	10,888	285,704	-	285,704	7,171	66,045	(5,372)	-	-	-	-	67,844	217,860	421%
Total insurance contracts	39,279,008	25,663,747	2,039,289	11,575,972	-	11,575,972	1,947,484	1,811,237	(424,548)	-	3,406	(2,007,312)	-	1,330,267	10,245,705	
Management Fund	23,880,379	-	2,522,962	21,357,417	1,180,020	20,177,397	1,893,404	-	-	804,601	808,968	-	5,162,760	8,669,733	11,507,664	233%
Total all contracts	349,759,209	308,547,573	7,271,037	33,940,598	1,180,020	31,753,369	3,840,888	1,811,237	(424,548)	804,601	812,374	(2,007,312)	5,162,760	10,000,000	21,753,369	321%

Directors' Declaration

In the Directors' opinion:

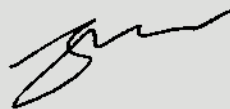
- The attached financial statements and notes thereto comply with the *Corporations Act 2001*, applicable Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- The attached financial statements and notes thereto comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in Note 1 to the financial statements;
- The attached financial statements and notes there to give a true and fair view of the Society's financial position as at 30 June 2018 and of its performance for the financial year ended on that date; and
- There are reasonable grounds to believe that the Society will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 295(5) of the *Corporations Act 2001*.

On behalf of the Directors:



Theodore Fleming
Chairman



Terence Lyon
Director

Melbourne
24 September 2018

Independent Auditor's Report



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INDEPENDENT AUDITOR'S REPORT

To the Members of Ancient Order of Foresters
in Victoria Friendly Society Limited

Opinion

We have audited the financial report of Ancient Order of Foresters in Victoria Friendly Society Limited ("the Society"), which comprises the statement of financial position as at 30 June 2018, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Ancient Order of Foresters in Victoria Friendly Society Limited is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Society's financial position as at 30 June 2018 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

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 Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Society, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Emphasis of Matter

We draw attention to Note 21 to the financial statements which describes the uncertainty related to the outcome of litigation against the Society by a competitor. Our opinion is not modified in respect of this matter.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Society's annual report for the year ended 30 June 2018; but does not include the financial report and the Independent Auditor's Report thereon.

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Other Information (continued)

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Society are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

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.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf. This description forms part of our auditor's report.

A handwritten signature in dark ink that reads 'Rsm'.**RSM AUSTRALIA PARTNERS**A handwritten signature in dark ink that reads 'K J Dundon'.**K J DUNDON**

Partner

Dated: 26 September 2018

Melbourne, Victoria

Appointed Actuary's Statement

BRETT & WATSON PTY. LTD.

A.B.N. 65 060 568 676

CONSULTING ACTUARIES

ANCIENT ORDER OF FORESTERS IN VICTORIA FRIENDLY SOCIETY LIMITED

APPOINTED ACTUARY'S STATEMENT

I have undertaken actuarial valuations in respect of each of the Benefits Funds of the Ancient Order of Foresters in Victoria Friendly Society Limited as at 30 June 2018 in accordance with the Life Insurance Act 1995 (the Act). In my opinion:-

- (a) the value of the policy liabilities of the Society and the capital adequacy of the Society have been determined using methods and assumptions consistent with the prudential standards;
- (b) the allocation and distribution of the surplus of the approved Benefit Funds have been made in accordance with Division 5 and 6 of Part 4 of the Act and the rules of each Benefit Fund, and
- (c) proper records have been kept by the Society in respect of each approved Benefit Fund from which its value of benefit entitlements and capital adequacy have been able to be properly determined.

The actuarial valuations of the Benefit Funds have been undertaken in accordance with the following methodologies and assumptions:-

1. **Defined Contribution Funds (Excluding Funeral Bond Funds)**

The liability has been taken to be the sum of the members' account balances for the non-funeral Defined Contribution Funds.

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Deborah Jones FIAA - PO Box 900, Hamilton VIC 3300 Telephone: 0400 440 130

Email: brettandwatson@internode.on.net

2. Defined Benefit Funds and Funeral Bond Funds

For the Defined Benefit Funds (other than the MU Accident Fund) and the Funeral Bond Funds, the liability is equal to the present value of future benefits, expenses and profits less the present value of future contributions, determined by applying the following assumptions:-

- (a) mortality according to 80% of Australian Life Tables 2010-12 for the IOR Sick and Funeral Fund, 120% for State Trustees Fund Taxable, 110% for the State Trustees Fund Exempt, 140% for Funeral Benefit Fund Taxable, 100% for Funeral Benefit Fund Exempt, 50% for Victoria Police Benefit Fund and Death and Distress Fund members, 80% for Victoria Police Benefit Fund and Death and Distress Fund spouses
- (b) sickness benefits of 18% of contributions for the Victoria Police Benefit Fund
- (c) resignation rates based on the experience for the Death and Distress, Sickness and Accident and Victoria Police Benefit Funds
- (d) distress payments of 10% of contributions for the Death and Distress Fund
- (e) future profits for the Sickness and Accident Fund of 60% of sickness benefits for Group Sickness.
- (f) other assumptions as detailed below:-

<u>Fund</u>	<u>Gross Interest % pa</u>	<u>Expenses %pa</u>	<u>Tax %pa</u>	<u>Future Bonus Rate %pa</u>
Death and Distress	2.63	2.00	0.19	0.00
Sickness and Accident	3.55	0.00	1.06	0.00
Victoria Police Benefit	3.29	0.00	0.99	0.00
IOR Sick and Funeral	3.24	1.50	0.00	2.00
Funeral Benefit Exempt	2.99	1.50	0.00	1.49
Funeral Benefit Taxable	3.06	1.75	0.46	0.75
State Trustees Exempt	2.95	1.50	0.00	1.45
State Trustees Taxable	3.01	1.50	0.45	1.06

The assumed future bonus rate for the Funeral Benefit Taxable Fund is 0.1% lower than the assumed future net earning rate.

The following funds have charges levied on contributions: Death and Distress, Sickness and Accident, Victoria Police Benefit and MU Accident.

For the MU Accident Fund, the liability has been taken as 20% of one year's premium (net of fees).



B A Watson
Director
Brett & Watson Pty Ltd
Consulting Actuaries

24 September 2018



FORESTERS

Friendly Society

Ancient Order of Foresters in Victoria Friendly Society Limited is a registered company under the *Corporations Act 2001*.

The Company is a public company limited by guarantee.

Registered Business Name: Foresters Friendly Society

Registered office and principal place of business is:

11-17 Jeffcott Street, West Melbourne, VIC 3003

GPO Box 4702, Melbourne, VIC 3001

Tel: (03) 8580 4000 Fax: (03) 9329 7263 Free Call: 1800 645 326

Email: admin@forestersfs.com.au Website: www.forestersfs.com.au

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