

Independent Auditor's Report

To the Senior Master of the Supreme Court of Victoria

Opinion	I have audited the special purpose financial report (financial report) of the Senior Master of the Supreme Court of Victoria with respect to Funds in Court (the fund) which comprises the: • balance sheets as at 30 June 2018 • comprehensive operating statements for the year then ended • statements of changes in equity for the year then ended • cash flow statements for the year then ended • notes to the financial statements, including significant accounting policies • joint declaration of the Senior Master and General Manager. In my opinion the financial report presents fairly, in all material respects, the financial position of Common Fund No.1, Common Fund No.2, Common Fund No.3, Common Funds Guarantee and Reserve Account and the Assets Held on Separate Account as at 30 June 2018 and their financial performance and cash flows for the year then ended in accordance with the financial reporting requirements of the <i>Supreme Court Act 1986</i> and applicable Australian Accounting Standards.
Basis for Opinion	I have conducted my audit in accordance with the <i>Audit Act 1994</i> which incorporates the Australian Auditing Standards. I further describe my responsibilities under that Act and those standards in the <i>Auditor's Responsibilities for the Audit of the Financial Report</i> section of my report. My independence is established by the <i>Constitution Act 1975</i>. My staff and I are independent of the Senior Master in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 <i>Code of Ethics for Professional Accountants</i> (the Code) that are relevant to my audit of the financial report in Victoria. My staff and I have also fulfilled our other ethical responsibilities in accordance with the Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.
Senior Master's responsibilities for the financial report	The Senior Master is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and the <i>Supreme Court Act 1986</i>, and for such internal control as the Senior Master determines is necessary to enable the preparation and fair presentation of a financial report that is free from material misstatement, whether due to fraud or error. In preparing the financial report, the Senior Master is responsible for assessing the fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is inappropriate to do so.

**Auditor's
responsibilities
for the audit
of the financial
report**

As required by the *Audit Act 1994*, my responsibility is to express an opinion on the financial report based on the audit. My objectives for the audit 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 my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

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

- identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the fund's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Senior Master
- conclude on the appropriateness of the Senior Master's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the fund's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the office to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the Senior Master regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.



MELBOURNE
28 August 2018

Travis Derricott
as delegate for the Auditor-General of Victoria



**Senior Master of the Supreme Court of Victoria
Special purpose financial report for the year ended
30 June 2018**

Comprising:

Comprehensive operating statements, balance sheets, statements of changes in equity, cash flow statements and Notes to the Financial Reports for:

- Common Fund No. 1
- Common Fund No. 2
- Common Fund No. 3
- Common Funds Guarantee and Reserve Account
- Assets Held on Separate Account

Comprehensive operating statements for the year ended 30 June 2018

		Common Fund No. 1		Common Fund No. 2		Common Fund No. 3		Common Funds Guarantee and Reserve Account		Assets Held on Separate Account	
	Note	30 June 2018 \$'000	30 June 2017 \$'000	30 June 2018 \$'000	30 June 2017 \$'000	30 June 2018 \$'000	30 June 2017 \$'000	30 June 2018 \$'000	30 June 2017 \$'000	30 June 2018 \$'000	30 June 2017 \$'000
Continuing Operations											
Income from transactions											
Interest revenue	3	693	722	28,842	30,065	187	261	2,021	2,234	-	-
Dividend revenue		-	-	-	-	27,357	26,623	-	-	-	-
Beneficiaries' annuity revenue		-	-	-	-	-	-	-	-	358	348
Administration cost recovery	4	-	-	-	-	-	-	8,717	8,205	-	-
Total income from transactions		693	722	28,842	30,065	27,544	26,884	10,738	10,439	358	348
Expenses from transactions											
Interest expense		-	-	354	274	-	-	32	144	-	-
Interest paid on closed accounts		35	49	273	183	-	-	-	-	-	-
Beneficiaries' annuity revenue transferred to Common Fund No. 2		-	-	-	-	-	-	-	-	358	348
Administration cost contribution	4	553	598	8,164	7,607	-	-	-	-	-	-
Depreciation expense		-	-	-	-	-	-	210	376	-	-
Administration expenses	6	-	-	-	-	-	-	10,320	9,939	-	-
Total expenses from transactions		588	647	8,791	8,064	-	-	10,562	10,459	358	348
Net result from transactions (net operating balance)		105	75	20,051	22,001	27,544	26,884	176	(20)	-	-
Other economic flows included in net result											
Capital gains on disposal of investments	5(a)	-	-	-	-	-	-	586	4,550	-	-
Capital gains on disposal of shares	10	-	-	-	-	5	5,977	-	-	-	-
Capital losses on disposal of investments	5(b)	-	-	-	-	-	-	(71)	(1,118)	-	-
Capital losses on disposal of shares	10	-	-	-	-	(2,376)	-	-	-	-	-
Net gain/(loss) arising on revaluation of long service liability		-	-	-	-	-	-	0	3	-	-
Total other economic flows included in net result		-	-	-	-	(2,371)	5,977	515	3,435	-	-
Net result from continuing operations		105	75	20,051	22,001	25,173	32,861	691	3,415	-	-
Net result		105	75	20,051	22,001	25,173	32,861	691	3,415	-	-
Other economic flows - other changes in equity											
Valuation gain/(losses) recognised in financial assets	15	-	-	(3,471)	(16,764)	-	-	(231)	(832)	-	-
Cumulative (gains)/losses transferred to net result on sale of financial assets	15,5(c)	-	-	(558)	(3,644)	-	-	44	212	-	-
Total other economic flows - other changes in equity		-	-	(4,029)	(20,408)	-	-	(187)	(620)	-	-
Comprehensive result		105	75	16,022	1,593	25,173	32,861	504	2,795	-	-

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

Balance sheets as at 30 June 2018

		Common Fund No. 1		Common Fund No. 2		Common Fund No. 3		Common Funds Guarantee and Reserve Account		Assets Held on Separate Account	
	Note	30 June 2018 \$'000	30 June 2017 \$'000	30 June 2018 \$'000	30 June 2017 \$'000	30 June 2018 \$'000	30 June 2017 \$'000	30 June 2018 \$'000	30 June 2017 \$'000	30 June 2018 \$'000	30 June 2017 \$'000
FINANCIAL ASSETS											
Cash and deposits		16,335	9,702	146,938	163,478	19,537	4,131	8,281	17,963	-	-
Receivables	7	62	71	6,078	6,192	4,817	4,659	429	372	15	14
Investments	8	16,000	19,000	670,244	614,193	-	-	52,553	42,087	-	-
Shares	10	-	-	-	-	598,769	583,047	-	-	-	-
Beneficiaries' annuities held on separate account	11	-	-	-	-	-	-	-	-	842	954
		<u>32,397</u>	<u>28,773</u>	<u>823,260</u>	<u>783,863</u>	<u>623,123</u>	<u>591,837</u>	<u>61,263</u>	<u>60,422</u>	<u>857</u>	<u>968</u>
NON FINANCIAL ASSETS											
Prepayments		-	-	-	-	-	-	109	64	-	-
Plant and equipment		-	-	-	-	-	-	283	274	-	-
Beneficiaries' residential properties	11,16	-	-	-	-	-	-	-	-	315,651	261,385
		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>392</u>	<u>338</u>	<u>315,651</u>	<u>261,385</u>
Total assets		<u>32,397</u>	<u>28,773</u>	<u>823,260</u>	<u>783,863</u>	<u>623,123</u>	<u>591,837</u>	<u>61,655</u>	<u>60,760</u>	<u>316,508</u>	<u>262,353</u>
LIABILITIES											
Payables		-	-	-	-	-	-	528	316	-	-
Annuity income payable to beneficiaries		-	-	-	-	-	-	-	-	15	14
Amounts owing to beneficiaries	9	32,334	28,702	797,194	753,653	623,094	591,824	-	-	316,493	262,339
Provisions		-	-	-	-	-	-	1,373	1,194	-	-
Total liabilities		<u>32,334</u>	<u>28,702</u>	<u>797,194</u>	<u>753,653</u>	<u>623,094</u>	<u>591,824</u>	<u>1,901</u>	<u>1,510</u>	<u>316,508</u>	<u>262,353</u>
Net assets		<u>63</u>	<u>71</u>	<u>26,066</u>	<u>30,210</u>	<u>29</u>	<u>13</u>	<u>59,754</u>	<u>59,250</u>	<u>-</u>	<u>-</u>
EQUITY											
Funds available for future distribution		63	71	8,004	8,119	29	13	-	-	-	-
Statutory reserve	13	-	-	-	-	-	-	8,557	8,127	-	-
General reserve	14	-	-	-	-	-	-	51,483	51,222	-	-
Investments available for sale revaluation reserve	15	-	-	18,062	22,091	-	-	(286)	(99)	-	-
Total equity		<u>63</u>	<u>71</u>	<u>26,066</u>	<u>30,210</u>	<u>29</u>	<u>13</u>	<u>59,754</u>	<u>59,250</u>	<u>-</u>	<u>-</u>

The above balance sheets should be read in conjunction with the accompanying notes.

Statements of changes in equity for the year ended 30 June 2018

	Funds available for future distribution \$'000	General reserve \$'000	Statutory reserve \$'000	Investments available for sale revaluation reserve \$'000	TOTAL \$'000
Common Fund No. 1					
Balance at 1 July 2016	91	-	-	-	91
Net result for period	75	-	-	-	75
Distribution of interest, dividends to beneficiaries	(95)	-	-	-	(95)
Balance as at 30 June 2017	71	-	-	-	71
Net result for period	105	-	-	-	105
Distribution of interest, dividends to beneficiaries	(113)	-	-	-	(113)
Balance as at 30 June 2018	63	-	-	-	63
Common Fund No. 2					
Balance at 1 July 2016	9,442	-	-	42,499	51,941
Net result for period	22,001	-	-	-	22,001
Distribution of interest, dividends to beneficiaries	(23,324)	-	-	-	(23,324)
Unrealised gains/(losses)	-	-	-	(16,764)	(16,764)
Realised (gains)/losses	-	-	-	(3,644)	(3,644)
Balance as at 30 June 2017	8,119	-	-	22,091	30,210
Net result for period	20,051	-	-	-	20,051
Distribution of interest, dividends to beneficiaries	(20,166)	-	-	-	(20,166)
Unrealised gains/(losses)	-	-	-	(3,471)	(3,471)
Realised (gains)/losses	-	-	-	(558)	(558)
Balance as at 30 June 2018	8,004	-	-	18,062	26,066
Common Fund No. 3					
Balance at 1 July 2016	31	-	-	-	31
Net result for period	32,861	-	-	-	32,861
Distribution of interest, dividends to beneficiaries	(26,902)	-	-	-	(26,902)
Distribution of realised capital gains on shares	(5,977)	-	-	-	(5,977)
Allocation of realised capital losses on shares	-	-	-	-	-
Balance as at 30 June 2017	13	-	-	-	13
Net result for period	25,173	-	-	-	25,173
Distribution of interest, dividends to beneficiaries	(27,528)	-	-	-	(27,528)
Distribution of realised capital gains on shares	(5)	-	-	-	(5)
Allocation of realised capital losses on shares	2,376	-	-	-	2,376
Balance as at 30 June 2018	29	-	-	-	29

The above statements of changes in equity should be read in conjunction with the accompanying notes.

Statements of changes in equity for the year ended 30 June 2018 (continued)

	Funds available for future distribution \$'000	General Reserve \$'000	Statutory Reserve \$'000	Investments Available for Sale Revaluation Reserve \$'000	TOTAL \$'000
Common Funds Guarantee and Reserve Account					
Balance at 1 July 2016	-	48,081	7,854	521	56,455
Net result for period	3,415	-	-	-	3,415
Transfers to/(from) reserves:					
Transfers from Funds available for future distribution	-	3,415	-	-	3,415
Transfers to general reserve	(3,415)	-	-	-	(3,415)
Transfer from general reserve	-	-	274	-	274
Transfer to statutory reserve	-	(274)	-	-	(274)
Investments available for sale revaluation reserve (Note 15)					
Unrealised gains/(losses)	-	-	-	(832)	(832)
Realised (gains)/losses	-	-	-	212	212
Balance as at 30 June 2017	-	51,222	8,127	(99)	59,250
Net result for period	691	-	-	-	691
Transfers to/(from) reserves:					
Transfers from Funds available for future distribution	-	691	-	-	691
Transfers to general reserve	(691)	-	-	-	(691)
Transfer from general reserve	-	-	430	-	430
Transfer to statutory reserve	-	(430)	-	-	(430)
Investments available for sale revaluation reserve (Note 15)					
Unrealised gains/(losses)	-	-	-	(231)	(231)
Realised (gains)/losses	-	-	-	44	44
Balance as at 30 June 2018	-	51,483	8,557	(286)	59,754

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Cash flow statements for the year ended 30 June 2018

Note	Common Fund No. 1		Common Fund No. 2		Common Fund No. 3		Common Funds Guarantee and Reserve Account		Assets Held on Separate Account	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Cash flows from/(used in) operating activities										
Interest and dividends received	702	742	28,956	30,416	27,386	26,251	1,964	2,241	-	-
Administration cost (contribution) / recovery	(553)	(598)	(8,164)	(7,607)	-	-	8,717	8,205	-	-
Interest paid on closed accounts	(35)	(49)	(273)	(183)	-	-	-	-	-	-
Administration expenses paid	-	-	-	-	-	-	(9,987)	(9,868)	-	-
Interest expense paid	-	-	(354)	(274)	-	-	(32)	(144)	-	-
Transferred capital gains realised / (capital outgoings)	-	-	-	-	-	-	515	3,432	-	-
Net cash inflow from operating activities	114	95	20,165	22,353	27,386	26,251	1,177	3,867	-	-
Cash flows from/(used in) investing activities										
Investments-Purchase	(52,100)	(37,800)	(532,553)	(440,753)	(6,374)	(39,842)	(44,834)	(43,822)	-	-
Investments-Sale	55,100	35,800	472,474	479,840	9,928	21,586	34,181	46,781	-	-
Payments for non financial assets	-	-	-	-	-	-	(206)	(106)	(11,130)	(7,660)
Net cash flow from/(used in) investing activities	3,000	(2,000)	(60,079)	39,087	3,554	(18,256)	(10,859)	2,853	(11,130)	(7,660)
Cash flows from/(used in) financing activities										
Receipts to beneficiaries' accounts	25,333	22,139	169,968	169,416	19,426	23,271	-	-	15,170	9,733
Transfers - beneficiaries properties held on separate account	-	-	3,928	1,961	-	-	-	-	(3,928)	(1,961)
Transfers - annuities held on separate account	-	-	112	112	-	-	-	-	(112)	(112)
Payments from beneficiaries' accounts	(21,814)	(29,470)	(150,634)	(138,459)	(34,959)	(38,005)	-	-	-	-
Net cash flow from/(used in) financing activities	3,519	(7,331)	23,374	33,030	(15,533)	(14,734)	-	-	11,130	7,660
Net increase/(decrease) in cash held	6,633	(9,236)	(16,540)	94,470	15,406	(6,739)	(9,682)	6,719	-	-
Cash at beginning of the financial year	9,702	18,938	163,478	69,008	4,131	10,870	17,963	11,244	-	-
Cash at the end of the financial year	16,335	9,702	146,938	163,478	19,537	4,131	8,281	17,963	-	-

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

Notes to the financial reports

Note 1. Nature and purpose of the Common Funds, Common Funds Guarantee and Reserve Account and Assets Held on Separate Account...	8
Note 2. Summary of significant accounting policies.....	10
Note 3. Interest revenue.....	18
Note 4. Administration cost recovery/(contribution).....	18
Note 5. Capital gains and losses on investments.....	19
Note 6. Administration expenses.....	20
Note 7. Receivables	20
Note 8. Investments on common account available for sale.....	21
Note 9. Amounts owing to beneficiaries	21
Note 10. Shares available for sale – Common Fund No. 3.....	22
Note 11. Assets Held on Separate Account	22
Note 12. Cash flow information.....	23
Note 13. Statutory reserve.....	23
Note 14. General reserve.....	24
Note 15. Investments available for sale revaluation reserve	24
Note 16. The application of beneficiaries' funds in the purchase of real estate.....	25
Note 17. Commitments for expenditure	26
Note 18. Contingent liabilities and contingent assets.....	26
Note 19. Related Party Transactions.....	26
Note 20. Events subsequent to reporting date.....	26
Note 21. Remuneration of external auditors.....	27
Note 22. Sufficiency of funds.....	27
Note 23. Glossary of terms.....	27

1. NATURE AND PURPOSE OF THE COMMON FUNDS, COMMON FUNDS GUARANTEE AND RESERVE ACCOUNT AND ASSETS HELD ON SEPARATE ACCOUNT

Common Fund No. 1

The prime objective of Common Fund No. 1 is to maintain liquid investments with a secure return pending the identification of a person or persons entitled to any part of the fund. The Fund consists of:

- money held in dispute matters;
- money held as security for costs; and,
- other payments made into court under the provisions of the *Trustee Act 1958* and other Acts.

Common Fund No. 2

The prime objective of Common Fund No. 2 is to provide the maximum return achievable subject to acceptable risk criteria through investment in approved securities, in the longer term, for the benefit of beneficiaries who are under legal disability but are entitled presently to their funds that are administered by the Senior Master.

The Fund consists of:

- damages awarded and payments pursuant to proceedings brought for persons deemed incapable of managing their own affairs due to disability;
- funds held for minors who were dependents of a deceased parent or other person *in loco parentis*;
- funds held for minors who have sustained personal injury with entitlement to payment out at age 18; and
- awards under the *Victims of Crime Assistance Act 1996* to minors and persons incapable of managing their own affairs.

Common Fund No. 3

The prime objective of Common Fund No. 3 is to provide the maximum return achievable subject to acceptable risk criteria through investment in approved shares and other financial instruments.

With a view to providing a measure of capital growth, a hedge against inflation, and to offset taxation liability, it is appropriate for part of the assets of certain beneficiaries to be invested outside Common Fund No. 2. During the reporting period, investments held by Common Fund No. 3 consisted of shares in leading companies listed on the Australian Securities Exchange. The shares managed in Common Fund No. 3 are recorded at market value in accordance with daily unit pricing.

Common Funds Guarantee and Reserve Account

The purposes of the Common Funds Guarantee and Reserve Account are the:

- provision of a statutory reserve of 1% of the combined value of Common Fund No. 1 and Common Fund No. 2 under the provisions of the *Supreme Court Act 1986*;
- provision for, and payment of, the administrative expenses of Funds in Court;
- smoothing of the annual crediting rate of interest paid to beneficiaries of the Common Funds; and

- provision for, and payment of, other expenses incurred by the Common Funds as considered appropriate by the Senior Master. Capital losses incurred on the realisation of any Common Fund investment may be met by the Direction of the Senior Master from this account.

Assets Held on Separate Account

Annuities

With a view to providing a hedge against inflation, a measure of capital growth, and to defer taxation liability, it is appropriate for part of the assets of certain beneficiaries to be invested outside Common Fund No. 1, Common Fund No. 2 and Common Fund No. 3. Investments Held on Separate Account are limited to Indexed Annuities at present. Investments Held on Separate Account are registered in the name of the Senior Master of the Supreme Court but in a manner which specifically identifies the individual upon whose behalf the investment is held.

Beneficiaries' Residences

The Senior Master may use a beneficiary's funds in Court to purchase real estate for the beneficiary to use as a residence. Upon application, the Court will decide whether the purchase of a property for the use of a beneficiary is in the best interests of a beneficiary and whether or not it is affordable in the context of the funds in Court and the beneficiary's future needs. Each property purchased from the funds in Court is held in trust for the beneficiary. Refer to Note 16.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance (refers to all funds)

The Senior Master has prepared these financial statements on the basis that the funds are non-reporting entities because there are no users dependent on general purpose financial statements. These financial statements are therefore special purpose financial statements prepared in order to meet the requirements of the *Supreme Court Act 1986* and *Supreme Court (General Civil Procedures) Rules 2015*.

The financial statements have been prepared in accordance with the *Supreme Court Act 1986* and the requirements of the following Australian Accounting Standards (AASs):

- AASB 101 - *Presentation of Financial statements*
- AASB 107 - *Statement of Cash Flows*
- AASB 108 - *Accounting Policies, Changes in accounting estimates*
- AASB 1048 - *Interpretation of Standards*
- AASB 1054 - *Australian Additional Disclosures*

The accounting policies disclosed below have been determined to be appropriate to provide true and fair financial statements.

(b) Basis of preparation and measurement (refers to all funds)

The financial statements have been prepared on an accrual basis, in Australian dollars and rounded to the nearest thousand (\$000) dollars unless otherwise stated. Discrepancies in tables between totals and sums of components reflect rounding. They are based on a historical cost basis, except for:

- (a) the revaluation of financial instruments that have been recorded on a marked-to-market basis (refer Note 2(i); and
- (b) the beneficiaries' residential properties which have been recorded at 'restricted' valuation (refer Note 16).

In the application of the AASs, the Senior Master is required to make judgements, estimates and assumptions about carrying values of some assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis for making the judgements. Actual results may differ from these estimates.

Judgements and assumptions made by the Senior Master in the application of AASs, that have significant effects on the financial statements and estimates relate to the fair value of residential properties, the useful lives of plant and equipment and provisions.

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

FIC determines the policies and procedures for both recurring fair value measurements such as property, plant and equipment, financial instruments in accordance with the requirements of *Supreme Court Act 1986*.

For the purpose of fair value disclosures as per AASB 13, FIC has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy. The fair values and the net fair values of financial instruments assets and liabilities are determined as follows:

- Level 1 - the fair value of financial instruments with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market prices;
- Level 2 - the fair value is determined using inputs other than quoted prices that are observable for the financial asset or liability, either directly or indirectly; and
- Level 3 - the fair value is determined using generally accepted pricing models based on discounted cash flow analysis using unobservable market inputs.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The accounting policies set out below have been applied in preparing the financial report for the year ended 30 June 2018 and the comparative information presented for the year ended 30 June 2017.

(c) Scope and presentation of financial statements (refers to all funds)

Comprehensive operating statements

Income and expenses in the comprehensive operating statements are separated into either 'transactions' or 'other economic flows'. Refer to Note 23 for the definition of these terms.

Balance sheets

Items of assets and liabilities in the balance sheets are:

- rated in liquidity order;
- aggregated into financial and non-financial assets;
- disclosed as current versus non-current assets and liabilities in the notes where relevant.

Statements of changes in equity

The statements of changes in equity present reconciliations of each equity opening balance at the beginning of the year to the closing balance at the end of the year, showing separately movements due to amounts recognised in the comprehensive result and amounts recognised in equity related to transactions.

Cash flow statements

The statements of cash flows classify flows by operating, investing and financing activities in accordance with AASB 107 *Statement of Cash Flows*.

(d) Comprehensive operating statements – revenue and expenditure

(i) Revenue

For **Common Fund No. 1** and **Common Fund No. 2**, revenue is income earned from investment activities of the funds accounted for on an accruals basis, plus interest from fixed interest securities and any transfers of interest from the Common Funds Guarantee and Reserve Account to the Common Funds. Distributions are made on 1 June each year.

For **Common Fund No. 3**, revenue is income earned from shares and, to a minor extent, short term investments. In compliance with the Asset Management Policy, interest income from short term investment activities is accounted for on an accruals basis. Dividend income from shares is accounted for on an accruals basis. Dividends from shares are recognised on the effective date, as announced (ie “ex-dividend”) in both the daily “unit price” and the balance sheet. Income distributions are made each month to “unit holders” in accordance with the Asset Management Policy.

For the **Common Funds Guarantee and Reserve Account**, revenue is income earned from investment activities of the fund and accounted for on an accruals basis. Revenue includes gains on sale or maturity of investments made by Common Funds No. 1 and No. 2 which are required by the *Supreme Court Act 1986* to be transferred to the Common Funds Guarantee and Reserve Account. Revenue may also include contributions from Common Funds No. 1 and No. 2 for administration cost recoveries.

For **Assets Held on Separate Account**, revenue is income earned from the indexed annuities accounted for on an accrual basis. The revenue is credited directly on cash receipt to the individual beneficiary’s account in Common Fund No. 2.

(ii) Expenses

Employee costs at Note 6 are recognised as they are incurred and reported in the financial year to which they relate. Staff engaged in Funds in Court are employed either as Victorian Public Service (VPS) officers, supplied via Court Services Victoria (CSV), or via a contract of employment with an agency. VPS officers are Court employees under Part 3 of the *Public Administration Act 2004* as provided for by section 106 of the *Supreme Court Act 1986*. Employment costs and associated leave entitlements for VPS officers are paid by the Senior Master to CSV according to an internal agreement with CSV responsible for all leave entitlements attributable to these staff. The Senior Master carries the values of all leave entitlements for the staff that the Senior Master employs through an employment agency.

(e) Comprehensive result for the period

Common Fund No. 1 and Common Fund No. 2

The comprehensive results reflect the results for the period from investment activities including:

- the distributions made at 1 June to beneficiaries’ accounts are recognised in equity;
- allocations of all unrealised gains and losses are recognised in equity; and
- revaluation reserves are recognised in equity.

The comprehensive results include administration cost contributions transferred to the Common Funds Guarantee and Reserve Account.

At 1 June each year, distributions are made from Common Funds No. 1 and No. 2 to the accounts of the respective beneficiaries. This is initiated by the declaration of respective interest rates by the Senior Master with the approval of the Chief Justice.

At 30 June each year there are unallocated funds that consist of net investment income (i.e. interest) earned and either received or receivable during June. This amount is included as accumulated surplus in the equity section of the balance sheet until a distribution is made during the following twelve months. These funds will not be allocated to the accounts of beneficiaries until the following 1 June save that interest paid on closed accounts will be distributed during the year as a result of beneficiaries leaving a Fund. Where interest is paid on closed accounts, the interest is paid on either the last interest rate declared for Common Fund No. 1 or the declared interim rate for Common Fund No. 2.

The Funds available for future distribution in the statement of changes in equity represents the unallocated funds at 30 June.

Common Fund No. 3

The comprehensive result for the period reflects the net result attributable to interest from investments, dividends from shares; and, realised capital gains on shares. Interest, dividends and realised capital gains are distributed to beneficiaries during the reporting period.

The Funds available for future distribution in the statement of changes in equity represents the unallocated funds at 30 June.

Common Funds Guarantee and Reserve Account

The comprehensive result for the period reflects all investment and operating revenues and expenses and administration cost recoveries transferred from Common Fund No. 1 and Common Fund No. 2.

Assets Held on Separate Account

All revenue received from annuities and beneficiaries' properties is credited directly to beneficiaries' Common Fund No. 2 accounts.

Distributions (refers to Common Funds 1, 2, 3)

Distributions to beneficiaries are recognised in equity apart from Common Fund No. 3. Refer to Note 2(d)

(f) Cash and deposits (refers to all funds)

Cash and deposits, including cash equivalents comprise cash on hand and cash in bank, deposits at call and those highly liquid investments with the balances maturing within three months of purchase date. They also include 'at call accounts' that are provided for by the asset management policy.

There were no bank overdrafts at 30 June 2018 (2017: nil).

(g) Receivables

Receivables include accrued investment income (interest) which is accounted for on an accruals basis.

(h) Impairment

At the end of each reporting period, the Senior Master assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. All financial instrument assets, except those measured at fair value through profit or loss, are subject to annual review for impairment.

In assessing impairment of statutory (non-contractual) financial assets, which are not financial instruments, professional judgement is applied in assessing materiality using estimates, averages and other computational methods.

(i) Investments

Investments in **Common Fund No. 1** comprise Australian Fixed Income securities.

Investments in **Common Fund No. 2** and **Common Funds Guarantee and Reserve Account** comprise State Government securities and bonds; and, Australian Fixed Income securities.

Investments in **Common Fund No. 3** comprise shares in companies listed on the Australian Securities Exchange.

Investments in **Assets Held on Separate Account** comprise indexed annuities. The indexed annuities are amortised in equal instalments over the period of the annuity contract.

The Senior Master has classified investments in Common Fund No 1, Common Fund No. 2 and Common Funds Guarantee and Reserve Account as either "available for sale", "held to maturity" or "cash equivalent" financial assets and they are stated at fair value. Gains and losses arising from changes in fair value are recognised directly in equity on the balance sheets until the investment is disposed of, or detected to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the comprehensive result for the period.

Held to maturity investments include interest or yield bearing bank deposits, corporate and government securities or bonds.

Investments in Common Fund No. 3 are "available for sale". Investments in Common Fund No. 3 are recognised and measured at their fair value. Realised gains and losses resulting from the disposal of an investment are recognised in the comprehensive operating statement. Unrealised gains and losses due to the net movement in the fair value of the investment are recognised as an adjustment to the investment and the liability "Amounts owing to beneficiaries". Section 113A(8) of the *Supreme Court Act 1986* requires "Amounts owing to beneficiaries" to be fair valued on a daily basis, effectively establishing the fund's unit price. Therefore, unrealised gains and losses of the liability are not recognised in the comprehensive operating statement.

Capital gains and losses are defined as proceeds from sale or realisation of investments, less purchase cost. Gains from Common Fund No. 1 and Common Fund No. 2 are transferred to the Common Funds Guarantee and Reserve Account pursuant to S113(17) of

the *Supreme Court Act 1986*. Losses are met by the Direction of the Senior Master from the Common Funds Guarantee and Reserve Account pursuant to S113(18)(a) of the Act.

Investments are categorised at Level 1 of the fair value hierarchy.

Interest expenses are the premiums paid on negotiable securities at time of purchase.

(j) Leased assets (refers to Common Funds Guarantee and Reserve Account)

There were no finance lease assets as at 30 June 2018 (2017: nil). Operating lease payments are recognised as an expense when incurred over the lease term.

(k) Plant and equipment and Intangible assets (refers to Common Funds Guarantee and Reserve Account)

Computer and office equipment and Leasehold improvements are measured initially at cost and subsequently re-valued at fair value, less accumulated depreciation and any accumulated impairment. Intangible assets (some computer software) are measured at cost. Cost includes expenditure that is attributable directly to the acquisition of the items.

The cost of leasehold improvements is capitalised as an asset and depreciated over the remaining term of the lease.

The Senior Master has considered the specific requirements relating to highest and best use, valuation premise, and principle (or most advantageous) market. The Senior Master has reviewed the fair value principles as well as its current valuation methodologies in assessing the fair value, and the assessment has not materially changed the fair values recognised. For all assets measured at fair value, current use is considered the highest and best use.

The capitalisation threshold for plant and equipment and intangible assets to be recognised as an asset is \$1,000 (2017: \$1,000).

(l) Depreciation (refers to Common Funds Guarantee and Reserve Account)

Depreciation is calculated on a straight line basis to write off the net cost of each item of computer equipment, office equipment, leasehold improvements and intangible assets over expected useful life. All plant and equipment and intangible assets that has a finite useful life is depreciated. Estimates of remaining useful lives are made on an annual basis. The expected useful lives are as follows:

	2017/18	2016/17
• Office equipment	4 years	4 years
• Computer equipment	2-3 years	2-3 years
• Leasehold improvements	2-7 years	2-7 years
• Intangible assets	2-3 years	2-3 years

(m) Payables (refers to Common Funds Guarantee and Reserve Account)

Payables are recognised when the Senior Master becomes obliged to make future payments resulting from the purchase of goods and services.

(n) Goods and services tax (refers to Common Funds Guarantee and Reserve Account)

Income, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of an asset or as part of the expense item as applicable. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet. Cash flows are included in the cash flow statement on a gross basis.

Cash flows are presented on a gross basis. The GST components of cash flows arising from activities which are recoverable from, or payable to, the taxation authority are presented as operating cash flows.

(o) Taxation treatment

Where the beneficiary is “presently entitled”, income is taxed at ordinary marginal rates in the hands of the Senior Master, pursuant to section 98 of the *Income Tax Assessment Act 1936* (ITAA) . Where no person is “presently entitled” (CF-1 only), income is taxed pursuant to section 99A of the ITAA 1936.

(p) Amounts owing to beneficiaries

The Senior Master records Funds that are paid into Court as a liability either in Common Fund No.1 (when no person has been identified as entitled presently to any part of the funds) or Common Fund No. 2 (when a beneficiary is under legal disability but entitled presently to their funds).

Amounts owing to beneficiaries of Common Fund No. 3 are recognised and measured at their fair value (refer note 2(i)). A liability is de-recognised when it is settled, including when the Senior Master makes a payment to a beneficiary. Assets held on Separate Account are recognised and measured at their fair value

(q) Provisions

All non-VPS officers are employed pursuant to a contract between the Senior Master and Morgan Consulting Pty Ltd (Morgan Consulting) whereby Morgan Consulting employs the staff at the request of the Senior Master and in each case on the terms and conditions in a further contract executed by the Senior Master, Morgan Consulting and the staff member.

Due to the contractual arrangements of staff employed pursuant to a contract between the Senior Master and Morgan Consulting, all annual and long service leave are recognised in the financial accounts of the Common Funds Guarantee and Reserve Account.

Provisions for annual leave and long service leave (LSL) are recognised when there is a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

(i) Annual leave

Liabilities for annual leave are expected to be wholly settled within twelve months of the reporting date. The liabilities are recognised in the provision in respect of service up to the reporting date, classified as current liabilities, and measured at their nominal values.

(ii) LSL

Liability for LSL is recognised in the provision as either:

- Current liability – unconditional LSL (representing 7 or more years of continuous service for staff) is disclosed as a current liability even where the liability is not expected to be settled within 12 months because there is not an unconditional right to defer the settlement of the entitlement should LSL be taken within 12 months. The components of the current LSL liability are measured at:
 - Present value – component that is not expected to be wholly settled within 12 months; and
 - Nominal value – component that is expected to be wholly settled within 12 months.
- Non-current liability – conditional LSL (representing less than 7 years of continuous service) is disclosed as a non-current liability. There is an unconditional right to defer the settlement of the entitlement until staff have completed the requisite years of service. This non-current LSL liability is measured at present value.

(iii) Employee benefits on-costs

Employee benefits on-costs (payroll tax, workers compensation, superannuation) are recognised and included together with Annual Leave and LSL benefits.

Notes to the financial statements for the year ended 30 June 2018

Common Fund No. 1		Common Fund No. 2		Common Fund No. 3		Common Funds Guarantee and Reserve Account		Assets Held on Separate Account	
30 June 2018 \$'000	30 June 2017 \$'000	30 June 2018 \$'000	30 June 2017 \$'000	30 June 2018 \$'000	30 June 2017 \$'000	30 June 2018 \$'000	30 June 2017 \$'000	30 June 2018 \$'000	30 June 2017 \$'000

3. INTEREST REVENUE

Bank account	190	179	2,026	2,076	187	261	178	155	-	-
Fixed interest securities	503	543	26,816	27,989	-	-	1,843	2,079	-	-
Total interest revenue	693	722	28,842	30,065	187	261	2,021	2,234	-	-

4. ADMINISTRATION COST RECOVERY/(CONTRIBUTION)

Interest transfer (to)/from pursuant to S113(16) of the Supreme Court Act. Interest was paid from the Common Funds No. 1 and No. 2 to the Common Funds Guarantee and Reserve Account.

Total administration cost recovery/(contribution)	(553)	(598)	(8,164)	(7,607)	-	-	8,717	8,205	-	-
--	--------------	--------------	----------------	----------------	----------	----------	--------------	--------------	----------	----------

Notes to the financial statements for the year ended 30 June 2018

Common Fund No. 1		Common Fund No. 2		Common Fund No. 3 *		Common Funds Guarantee and Reserve Account		Assets Held on Separate Account	
30 June 2018 \$'000	30 June 2017 \$'000	30 June 2018 \$'000	30 June 2017 \$'000	30 June 2018 \$'000	30 June 2017 \$'000	30 June 2018 \$'000	30 June 2017 \$'000	30 June 2018 \$'000	30 June 2017 \$'000

5. CAPITAL GAINS AND LOSSES ON INVESTMENTS

5(a) CAPITAL GAINS ON DISPOSAL OF INVESTMENTS

All capital profits made on the realisation of a Common Fund investment are credited to the Common Funds Guarantee and Reserve Account pursuant to S113(17) of the Supreme Court Act.

Capital gains realised	-	-	558	4,432	-	-	28	118	-	-
Capital gains transferred (to)/from	-	-	(558)	(4,432)	-	-	558	4,432	-	-
Total Capital Gains on Disposal of Investments	-	-	-	-	-	-	586	4,550	-	-

5(b) CAPITAL LOSSES ON DISPOSAL OF INVESTMENTS

Capital losses incurred on realisation of any Common Fund investment may be met by the Direction of the Senior Master from the Common Funds Guarantee and Reserve Account pursuant to S113(18)(a) of the Supreme Court Act.

Capital losses incurred	-	-	-	(788)	-	-	(71)	(330)	-	-
Capital losses transferred (to)/from	-	-	-	788	-	-	-	(788)	-	-
Total capital losses on disposal of investments	-	-	-	-	-	-	(71)	(1,118)	-	-

5(c) CUMULATIVE (GAINS)/LOSSES ON INVESTMENTS

Cumulative (gains)/losses transferred to net result on sale of financial assets	-	-	(558)	(3,644)	-	-	44	212	-	-
---	---	---	-------	---------	---	---	----	-----	---	---

* Gains/losses in relation to shares held in Common Fund No.3 are disclosed at Note 10.

Notes to the financial statements for the year ended 30 June 2018

Common Fund No. 1		Common Fund No. 2		Common Fund No. 3		Common Funds Guarantee and Reserve Account		Assets Held on Separate Account	
30 June 2018 \$'000	30 June 2017 \$'000	30 June 2018 \$'000	30 June 2017 \$'000	30 June 2018 \$'000	30 June 2017 \$'000	30 June 2018 \$'000	30 June 2017 \$'000	30 June 2018 \$'000	30 June 2017 \$'000

6. ADMINISTRATION EXPENSES

The following expenses incurred in administering the Common Funds are paid from the Common Funds Guarantee and Reserve Account at the Senior Master's discretion and pursuant to S113(18)(c) of the Supreme Court Act 1986.

Bank charges	-	-	-	-	-	12	14	-	-
Computer and office equipment	-	-	-	-	-	78	92	-	-
Consultants fees	-	-	-	-	-	881	818	-	-
Employee expenses	-	-	-	-	-	8,198	8,282	-	-
External audit fees [Note 21]	-	-	-	-	-	80	78	-	-
Motor vehicles	-	-	-	-	-	101	101	-	-
Stationery and office supplies	-	-	-	-	-	44	57	-	-
General office expenditure including legal and investment costs	-	-	-	-	-	879	465	-	-
Training	-	-	-	-	-	47	32	-	-
Total administration expenses	-	-	-	-	-	10,320	9,939	-	-

7. RECEIVABLES

Current :

Fixed interest securities	62	71	6,078	6,192	27	12	343	281	-	-
Annuities	-	-	-	-	-	-	-	-	15	14
Dividends (ex dividend)	-	-	-	-	4,790	4,647	-	-	-	-
GST refunds	-	-	-	-	-	-	86	91	-	-
Total receivables	62	71	6,078	6,192	4,817	4,659	429	372	15	14

Notes to the financial statements for the year ended 30 June 2018

Common Fund No. 1		Common Fund No. 2		Common Fund No. 3		Common Funds Guarantee and Reserve Account		Assets Held on Separate Account	
30 June 2018 \$'000	30 June 2017 \$'000	30 June 2018 \$'000	30 June 2017 \$'000	30 June 2018 \$'000	30 June 2017 \$'000	30 June 2018 \$'000	30 June 2017 \$'000	30 June 2018 \$'000	30 June 2017 \$'000

8. INVESTMENTS ON COMMON ACCOUNT AVAILABLE FOR SALE

Investments	16,000	19,000	670,244	614,193	-	-	52,553	42,087	-	-
Total investments on common account	16,000	19,000	670,244	614,193	-	-	52,553	42,087	-	-
Comprised of										
Current (matures < 1 year)	16,000	19,000	140,394	110,090	-	-	18,500	10,699	-	-
Non current (matures > 1 year)	-	-	529,850	504,103	-	-	34,053	31,388	-	-
	16,000	19,000	670,244	614,193	-	-	52,553	42,087	-	-

9. AMOUNTS OWING TO BENEFICIARIES

Current :										
Beneficiary accounts	32,334	28,702	24,366	21,289	1,167	528	-	-	-	-
Non Current:										
Beneficiary accounts	-	-	772,828	732,364	621,927	591,296	-	-	-	-
Residences held in trust	-	-	-	-	-	-	-	-	316,493	262,339
Total amounts owing to beneficiaries	32,334	28,702	797,194	753,653	623,094	591,824	-	-	316,493	262,339

Notes to the financial statements for the year ended 30 June 2018

10. SHARES AVAILABLE FOR SALE - COMMON FUND NO. 3

	2018 \$'000	2017 \$'000
Opening balance at 1 July	583,047	505,119
Shares purchased during the year	3,567	37,313
Dividends reinvested during the year	2,808	-
Shares (including rights issues) disposed of during the year	(9,929)	(19,057)
Capital gains from shares disposed of during the year	5	5,977
Capital losses from shares disposed of during the year	(2,376)	-
Capital loss carried forward	2,371	-
Realised gains offset against carry forward losses		(5,977)
Unrealised gains/(losses) in the market value of shares throughout the year	19,276	59,672
Closing balance at 30 June	598,769	583,047

Shares are held for the long-term rather than trading purposes. The portfolio is maintained in accordance with the model set by the Senior Master based on the recommendation of the Investment Review Panel.

A corresponding liability is booked to reflect the Senior Master's responsibility for management of beneficiaries' funds. Consequently any movements during the year are adjusted against the value of the shares and the liabilities owed to beneficiaries.

11. ASSETS HELD ON SEPARATE ACCOUNT

Non Current :

Annuities

	2018 \$'000	2017 \$'000
Opening balance 1 July	954	1,134
Annuities disposed of during the year	-	(68)
Amortisation of annuities in current year	(112)	(112)
Closing balance at 30 June (historical cost)	842	954

Beneficiaries' Residential Properties

Opening balance (at 'restricted' valuation) 1 July	261,385	265,401
Properties purchased during the year	11,130	7,660
Properties disposed during the year	(15,058)	(9,621)
Valuation movements (Note 16)	58,194	(2,055)
Closing balance at 30 June (at 'restricted' valuation)	315,651	261,385
Total closing balance	316,493	262,339

These investments do not form part of a Common Fund. (Refer Note 1.)

For the total closing balances for the Annuities and Residential Properties, refer to "Amounts owing to Beneficiaries" in Note 9.

Notes to the financial statements for the year ended 30 June 2018

12. CASH FLOW INFORMATION

For the purposes of the cash flow statements, cash includes cash on hand and in banks, net of outstanding overdrafts (nil). Cash at the end of the financial year, as shown in the cash flow statements, is consistent with Cash and Deposits as disclosed in the balance sheets.

Reconciliation of net result for period to cash flows from operating activities

	Common Fund No. 1		Common Fund No. 2		Common Fund No. 3		Common Funds Guarantee and Reserve Account		Assets Held on Separate Account	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Net result for the period	105	75	20,051	22,001	25,173	32,861	691	3,415	-	-
<i>Plus/(minus) non-cash items:</i>										
Depreciation and amortisation	-	-	-	-	-	-	197	376	-	-
Unrealised capital (gains)/losses on shares available for sale [Note 10]	-	-	-	-	2,371	(5,977)	-	-	-	-
<i>(Increase)/decrease in assets</i>										
Prepayments	-	-	-	-	-	-	(45)	0	-	-
Beneficiaries' annuity income receivable	-	-	-	-	-	-	-	-	-	0
Receivables	9	20	114	351	(158)	(633)	(57)	25	-	-
<i>Increase/(decrease) in liabilities</i>										
Beneficiaries annuity income payable	-	-	-	-	-	-	-	-	0	(0)
Payables	-	-	-	-	-	-	212	23	-	-
Provisions	-	-	-	-	-	-	179	28	-	-
Net cash inflow from operating activities	114	95	20,165	22,353	27,386	26,251	1,177	3,867	0	-

13. STATUTORY RESERVE

The Common Funds Guarantee and Reserve Account maintains a Statutory Reserve at 1% of the Common Funds No.1 & No. 2 pursuant to S113(20) of the Supreme Court Act 1986.

Opening balance at 1 July	-	-	-	-	-	-	8,127	7,853	-	-
Add: transferred from general reserve (Note 14)	-	-	-	-	-	-	430	274	-	-
Closing Balance at 30 June	-	-	-	-	-	-	8,557	8,127	-	-

Notes to the financial statements for the year ended 30 June 2018

Common Fund No. 1		Common Fund No. 2		Common Fund No. 3		Common Funds Guarantee and Reserve Account		Assets Held on Separate Account	
30 June 2018 \$'000	30 June 2017 \$'000	30 June 2018 \$'000	30 June 2017 \$'000	30 June 2018 \$'000	30 June 2017 \$'000	30 June 2018 \$'000	30 June 2017 \$'000	30 June 2018 \$'000	30 June 2017 \$'000

14. GENERAL RESERVE

*Equity in the assets of the Common Funds
Guarantee and Reserve Account is shown as a
General Reserve against potential capital losses
on realisation of Common Fund investments and
to supplement interest distributions to Common
Fund beneficiaries pursuant to S113(20) of the
Supreme Court Act 1986.*

Opening balance at 1 July	-	-	-	-	-	51,222	48,081	-	-
Less: transferred (to) statutory reserve [Note 13]	-	-	-	-	-	(430)	(274)	-	-
	-	-	-	-	-	50,792	47,807	-	-
Add: net result	-	-	-	-	-	691	3,415	-	-
Closing balance at 30 June	-	-	-	-	-	51,483	51,222	-	-

15. INVESTMENTS AVAILABLE FOR SALE REVALUATION RESERVE

Opening balance at 1 July	-	-	22,091	42,499	-	-	(99)	521	-	-
Unrealised gain/(loss) of financial assets	-	-	(3,471)	(16,764)	-	-	(231)	(832)	-	-
Cumulative (gain)/loss transferred to the net result on sale of financial assets: [Note 5(c)]	-	-	(558)	(3,644)	-	-	44	212	-	-
Cumulative (gain)/loss transferred to the net result on impairment of financial assets:	-	-	-	-	-	-	-	-	-	-
Closing balance at 30 June	-	-	18,062	22,091	-	-	(286)	(99)	-	-

Notes to the financial statements for the year ended 30 June 2018

16. THE APPLICATION OF BENEFICIARIES' FUNDS IN THE PURCHASE OF REAL ESTATE

As part of the administration of funds held in Court for persons under disability, a request may be made to the Court for the release of funds to contribute either fully or partially towards the purchase of real estate. Upon being satisfied that the purchase is in the best interests of the person for whom the funds are held, the Court may order that a property be purchased for a particular beneficiary. Beneficiaries' properties are predominantly residential land and dwellings, which are held on trust for beneficiaries.

The properties are either held in the name of the Senior Master or trustees (usually two), who are the registered legal owners. While the owners in law, they hold the property on trust for the beneficiary. The trust is created or evidenced by a declaration of trust approved by the Court. The trustees act in accordance with the Senior Master's instructions. External solicitors are requested to perform the legal work involved in and following purchases. The Certificate of Title is retained by Funds in Court for safe keeping.

The properties are purchased, pursuant to the Supreme Court Act 1986 and the Supreme Court Rules, as residences which are used, or are to be used, by persons under disability for whose benefit the purchase is made. The initial cost of properties is deemed as fair value measurement. Properties are categorised at Level 2 of the fair value hierarchy. Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Property purchased from funds held in Court must be insured, and kept insured at a value representing full market cost of replacement. To that end, house insurance valuations for each house are carried out by qualified valuers at least once in every three year period unless impracticable.

The qualified valuers concurrently perform a 'restricted' valuation of the entire property (i.e. land and buildings), which is a valuation made on location without access to the house itself. The Senior Master believes the use of 'restricted' valuations for financial reporting purposes is sufficient for the preparation of these special purpose financial statements. 'Restricted' valuations are made, instead of full valuations, to avoid unnecessary cost to beneficiaries and to allow them 'quiet enjoyment' of their property. These 'restricted' valuations take into account local government valuations and recent sales data. Full sworn valuations for all properties are obtained prior to their purchase or sale. As fair values reflect the capital appreciation of the beneficiary homes, all adjustments are recognised directly as "amounts owing to beneficiaries".

As at 30 June 2018 there were 525 (2017: 538) trust properties of which the beneficiaries' component was valued at \$315,650,915 (2017: \$261,385,366). Total value of trust properties has increased in the financial year 2017-18 as part of carrying out the scheduled restricted property valuations.

(Number of properties for 2016-17 has been restated from 595 to 538. There has been no impact on the value of the properties.)

Notes to the financial statements for the year ended 30 June 2018

17. COMMITMENTS FOR EXPENDITURE

The capital expenditure commitments reflect our obligations for Trust Management System conversion project. (2017: nil).

There are no finance leases (2017: nil).

The operating lease commitments reflect our lease obligations for leasehold premises and motor vehicles. Lease for the leasehold premises (Level 5, 469 Latrobe Street) commenced from 05 November 2017 for a five year term with two further options for renewal. Lease incentive is received as equal monthly instalments over the period of the first term. Net rental is increased annually on the anniversary of the lease commencement date. Motor vehicles are leased for minimum of two year terms with further options for renewal. Details of these non-cancellable operating leases (inclusive of GST) are as follows:

	2018	2017
	\$	\$
Capital expenditure - No longer than 1 year	123,292	-
Operating lease - No longer than 1 year	618,621	403,056
Operating lease - Longer than 1 year and not longer than 5 years	2,187,700	2,447,074
Operating lease - Longer than 5 years	-	229,816
	<u>2,929,613</u>	<u>3,079,946</u>

18. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

No contingent liabilities or assets have been identified for 2018 financial year (2017: nil).

19. RELATED PARTY TRANSACTIONS

The Senior Master is a Judicial Member of the Supreme Court of Victoria and does not receive fees or any other remuneration from Funds in Court (2017: nil).

20. EVENTS SUBSEQUENT TO REPORTING DATE

Subsequent to 30 June 2018 no matters or circumstances have arisen that have significantly affected, or may affect significantly, the operations of the Senior Master, the results of the operations or the state of affairs in financial years subsequent to this financial year.

21. REMUNERATION OF EXTERNAL AUDITORS

	2018	2017
	\$	\$
Victorian Auditor-General's Office	<u>80,400</u>	<u>78,400</u>
	<u>80,400</u>	<u>78,400</u>

22. SUFFICIENCY OF FUNDS

Section 113(23) of the *Supreme Court Act 1986* provides that if at any time a Common Fund (except Common Fund No. 3) is insufficient to meet a proper claim on it, the amount of that claim, as far as it cannot be met from the Common Fund, must be paid out of the Consolidated Fund of the State of Victoria. However, the investments undertaken by the Senior Master are made with such prudential reserve that it is improbable that recourse would eventuate.

23. GLOSSARY OF TERMS

Commitments

Commitments include those operating, capital and other outsourcing commitments arising from non-cancellable contractual or statutory sources.

Comprehensive result

Total comprehensive result is the net result from operations for the period and all gains and losses recognised directly in equity.

Financial asset

A financial asset is any asset that is:

- (a) cash;
- (b) an equity instrument of another entity;
- (c) a contractual right:
 - i. to receive cash or another financial asset from another entity; or
 - ii. to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or
- (d) a contract that will or may be settled in the entity's own equity instruments and is:
 - i. a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or
 - ii. a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

Financial instrument

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial liability

A financial liability is:

- a contractual obligation:
 - to deliver cash or another financial asset to another entity; or
 - to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or
- a contract that will or may be settled in the entity's own equity instruments and is
 - a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments or
 - a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include: instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments; puttable instruments classified as equity or certain liabilities arising on liquidation classified by IAS 32 as equity instruments.

Financial report

The financial report consists of the four primary statements, notes to the financial statements and the joint declaration by the Senior Master and General Manager. The four primary statements are comprehensive operating statements, balance sheets, statements of changes in equity, and cash flow statements.

Loans and receivables

Loans and receivables are financial instrument assets with fixed and determinable payments that are not quoted on an active market. These assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial measurement, loans and receivables are measured at amortised cost using the effective interest method, less any impairment.

Loans and receivables category includes cash and deposits term deposits with maturity greater than three months, trade receivables, loans and other receivables, but not statutory receivables.

Net result from transactions/net operating balance

Net result from transactions or net operating balance is a key fiscal aggregate and is income from transactions minus expenses from transactions. It is a summary measure of the ongoing sustainability of operations. It excludes gains and losses resulting from changes in price levels and other changes in the volume of assets. It is the component of the change in net worth that is due to transactions and can be attributed directly to government policies.

Net result

Net result is a measure of financial performance of the operations for the period. It is the net result of items of revenue, gains and expenses (including losses) recognised for the period, excluding those that are classified as 'other changes in equity'.

Non-financial assets

Non-financial assets are all assets that are not 'financial assets'.

Other economic flows included in net result

Other economic flows are changes in the volume or value of an asset or liability that do not result from transactions. It includes gains and losses from disposals, revaluations and impairments of non-current physical assets; fair value changes of financial instruments. In simple terms other economic flows are changes arising from market re-measurements.

Payables

Includes short and long term trade debt and accounts payable and interest payable.

Receivables

Includes short and long term trade credit and accounts receivable, taxes and interest receivable.

Supplies and services

Supplies and services generally represent day-to-day running costs in the normal operations of the entity.

Transactions

Transactions are those economic flows that are considered to arise as a result of policy decisions, usually an interaction between two entities by mutual agreement. They also include flows within an entity such as depreciation where the owner is simultaneously acting as the owner of the depreciating asset and as the consumer of the service provided by the asset. Taxation is regarded as mutually agreed interactions between the government and taxpayers. Transactions can be in kind (e.g. assets provided/given free of charge or for nominal consideration) or where the final consideration is cash. In simple terms, transactions arise from the *Supreme Court Act 1986*.

Joint Declaration of the Senior Master and General Manager

We certify that the attached special purpose financial statements for Common Fund No.1, Common Fund No. 2, Common Fund No.3, Common Funds Guarantee and Reserve Account and the Assets Held on Separate Account have been prepared in accordance with the accounting policies outlined in Note 2 to the financial statements.

We further state that, in our opinion, the information set out in the comprehensive operating statements, balance sheets, statements of changes in equity, cash flow statements and notes to and forming part of the financial statements for the Common Fund No.1, Common Fund No. 2, Common Fund No.3, Common Funds Guarantee and Reserve Account and the Assets Held on Separate Account presents fairly the financial transactions during the year ended 30 June 2018 and the financial position at 30 June 2018. We are not aware of any circumstance which would render any particulars included in the financial report to be misleading or inaccurate.

We authorise the attached financial report for issue on 23 August 2018.



ASSOCIATE JUSTICE JOHN EFTHIM
Senior Master

Melbourne
23 August 2018



GARY GEORGIOS
General Manager - Funds in Court

Melbourne
23 August 2018