

Annual Report 2017/2018

1 October 2018

The Hon Elise Archer MP
Attorney- General
Level 11, 15 Murray Street
HOBART TAS 7000

The Hon Peter Gutwein MP
Treasurer
Level 9, 15 Murray Street
HOBART TAS 7000

Dear Ministers,

In accordance with Section 55 of the *Government Business Enterprises Act 1995*, we submit for your information and presentation to Parliament the Report of the Public Trustee for the year ended 30 June 2018.

The Report has been prepared in accordance with the provisions of the *Government Business Enterprises Act 1995*.

Yours sincerely,



Mark Scanlon
Chairperson
The Board of the Public Trustee



David Benbow
Chief Executive Officer
Public Trustee

Cc: The Auditor- General

Contents

| | |
|--|----|
| 1. Responsible Minister | 3 |
| 2. Principal Legislation..... | 3 |
| 3. Main Undertakings | 3 |
| 4. Our Mission, Vision and Values..... | 4 |
| 5. Joint Chairperson's & Chief Executive Officer's Report | 5 |
| 6. Structure of the Public Trustee..... | 10 |
| 7. Corporate Governance..... | 11 |
| 8. Statement of Corporate Intent | 15 |
| 9. Key Performance Indicators..... | 16 |
| 10. Financial Commentary..... | 19 |
| 11. Financial Statements | 25 |
| 12. Public Interest Disclosures Act 2002..... | 63 |
| 13. Payment of Accounts and Buy Local Disclosures..... | 64 |
| 14. Managing Performance in the Public Trustee..... | 65 |
| 15. Investment Fund Special Purpose Annual Reports for the | 66 |
| Year Ended 30 June 2018 | |

1. Responsible Minister

The Public Trustee is directly responsible to the Attorney General and Treasurer for the administration of its principal legislation and for ensuring the Public Trustee is managed in accordance with sound commercial practices.

2. Principal Legislation

Two Acts of Parliament comprise the principal legislation affecting the Public Trustee:

- The *Public Trustee Act 1930* is the Portfolio Act and sets out the organisation's basic powers and duties; and
- The *Government Business Enterprises Act 1995* creates the organisation and determines how the Public Trustee is operated and controlled.

3. Main Undertakings

The main undertaking of the Public Trustee is to offer trustee services to the Tasmanian community by:

- preparing Wills, enduring powers of attorney and enduring guardianship;
- acting as an executor of estates, or estate administrator if there is no Will;
- assuming the role of executor when a person named in a Will is unable or unwilling to act;
- acting as attorney for people requiring assistance to manage their financial affairs;
- acting as trustee for various types of trusts including accident compensation awards;
- assisting people to manage their financial affairs when the Public Trustee is appointed as a financial administrator by the Guardianship and Administration Board; and
- managing funds under the control of the Public Trustee in order to provide a commercial rate of return to contributors.

4. Our Mission, Vision and Values

Throughout the Public Trustee, we seek to apply our mission, vision and values to decision making, programs and policies at every level, every day.

The Mission states the purpose of the Public Trustee – the reason for our existence.

The Vision is the goal for the future; it states where the Public Trustee, as an organisation, is heading.

The Values guide our behaviour and are based on the shared beliefs of the employees, management and Board of Directors of the Public Trustee.

Mission Statement

To offer specialist and independent trustee services to all Tasmanians.

Vision Statement

To be recognised for our professionalism, respected for our integrity and valued by our clients.

Values Statement

In seeking to achieve the mission and vision of the Public Trustee, the primary values of the staff, management and Board of Directors of the Public Trustee are:

- Respect – personal and professional respect for each other and our clients.
- Service – a client service focus achieved by teamwork across the whole organisation.
- Integrity – open, honest and ethical service delivery.

5. Joint Chairperson's and CEO's Report

It is our pleasure to present the Annual Report for the year ended 30 June 2018.

Financial Year Result

The organisation achieved a profit after tax for the financial year of \$772,002 compared with a profit last year of \$748,778. Total comprehensive income for the year ended 30 June 2018 amounted to \$820,597 compared to \$2,515,718 for the financial year ended 30 June 2017.

Factors contributing to the total comprehensive profit were:

- total revenue from activities was 7% higher than last year;
- of total revenue, fees and commission decreased by 3.1% on last year and Community Service Obligation funding increased by 2.3%;
- total expenses from ordinary activities increased by 3.7% during the year. Salaries and associated expenses increased by 2.6% on the prior year due to award increases. Other operating expenditure was kept within budget;
- dividend distributions on the Public Trustee's investment of its corporate funds was \$1,406,407, up from \$574,806 in 2017;
- corporate investments decreased by \$95,858 in value (before tax) compared with an increase of \$439,601 last year; and
- the annual re-measurement of the organisation's defined benefit liability resulted in a gain of \$162,858 (before tax) compared to a re-measurement gain of \$2,085,000 in 2017.

Community Service Obligation Agreement with Government

An important service provided by the Public Trustee of Tasmania is the financial management of affairs for clients appointed to the Public Trustee by order of the Guardianship and Administration Board (GAB).

As at 30 June 2018, the Public Trustee managed the affairs of 784 Community Service Obligation (CSO) Represented Person (RP) clients, an increase of 102 clients in comparison with the same period last year.

A CSO Agreement has been negotiated with the Treasurer for a three-year term, effective from 1 July 2017.

The Government has determined not to seek payment of a dividend while the amount of any dividend is less than the CSO funding gap. A review of this arrangement is to be conducted annually.

Dividend to Government

Government Business Enterprises are required to pay 90% of net profits after tax as a dividend each year, unless a business can justify a lower pay-out policy.

The dividend recommended by the Board to be paid to Government for the financial year ended June 2018 is \$20k, which represents 90% of the Public Trustee's operating profit after tax for the year ended June 2018 less the Community Service Obligation funding gap.

Governance matters

As in previous years, the Directors and Senior Managers undertook a facilitated review of the organisation's Corporate Plan. The strategies identified have formed, and will continue to form, the basis of action items for the Board and the organisation over the next four years.

A number of strategic initiatives are under development, central to the three key strategic themes:

- Grow the business;
- Continuous improvement and innovation; and
- Be a sustainable business.

Corporate governance continues to be a matter of focus for the Board. All Directors are graduates of the Australian Institute of Company Directors (AICD) through which they maintain their professional development and corporate governance knowledge. A review of Board performance is undertaken annually.

Beneficiary Survey

Public Trustee surveys estate beneficiaries as normal business practice to continually develop service improvement.

Overall, the 2017/18 client satisfaction survey found that satisfaction with our service remained high. During this year, 574 surveys were sent to deceased estate beneficiaries, our largest client group, to measure our success in delivering excellent client service and managing client expectations. An excellent response rate of 23% was again achieved.

Of those beneficiaries that responded, 81% stated that Public Trustee provided an efficient and accurate administration service.

Client feedback continues to underpin the strategies for ongoing service improvement.

Business Development Activities

A number of key activities have been implemented to increase the number of Estate Planning appointments undertaken by the Public Trustee.

These activities include offering State Service employees, real estate partners and seminar attendees a 20% discount on estate planning services. Public Trustee also works with various stakeholders to distribute planning ahead information across the state, by displaying posters and information guides.

These marketing activities will also assist in increasing brand awareness.

Comparative figures for Wills written by the Public Trustee and seminars held across the State are shown below.

| | 2017/18 | 2016/17 |
|---------------------------------------|---------|---------|
| New Wills | 382 | 422 |
| Revision Wills | 557 | 676 |
| Non-executor Wills | 108 | 60 |
| Non-executor revised Wills | 15 | - |
| Seminars and presentations held | 30 | 42 |
| Seminar and presentation attendees | 530 | 922 |
| Information video views (via YouTube) | 1,105 | - |

Information Updates

Public Trustee maintains a blog to provide valuable expert information on various estate planning and estate administration topics. Periodic marketing emails are also sent to remind clients to keep their estate planning documents up-to-date and about upcoming events.

Funds Management

The Public Trustee is responsible for the management of client funds arising from a number of differing circumstances. This diversity of circumstances requires the Public Trustee to implement investment strategies for clients for varying periods.

This requirement to consider investment risk is managed by the Public Trustee collectively, investing client and trust funds into one of three available investment funds. The Common Fund is cash based and is utilised for circumstances where there is no appetite for investment risk due to a limited investment timeframe. The other two investment funds invest in a varying mix of asset classes increasing the level of investment risk but also having an expectation of higher investment returns over longer periods.

The Public Trustee directly manages investments in the Common Fund and outsources investment management of the Group Investment Funds number 1 and 2.

Work Health and Safety (WHS)

The Public Trustee is committed to ensuring that no person will suffer a preventable injury and/or illness in the workplace. At all times we will manage the risk of injury and/or illness ensuring those risks are understood and integrated into our work health and safety plans.

During 2017-2018 our commitment to the protection of our staff continued with the review and updating of our WHS Risk Register and Annual Action Plan. The WHS Group (Consultative) Committee continued to meet on a quarterly basis, providing the opportunity for all staff to consult with members on WHS issues and WHS remained a regular agenda item for all Team Meetings, the Executive Management Team, Board and Audit Committee.

Ergonomic workstation assessments continued to be included as part of the employee induction process and on demand by existing employees. Hazard inspections and workstation safety reviews were conducted in accordance with requirements.

The reporting of all incidents/accidents and any hazards was embedded into the Public Trustee's Client Management System which provides improved monitoring, analysis and reporting.

Employee Wellbeing

We continue to apply a proactive approach to employee wellbeing. The following programs and initiatives were provided during 2017-2018 to support positive health outcomes for employees:

- flexible working practices;
- Employee Assistance Program offering confidential counselling support;
- provision of a sit/stand desk at each workstation 'pod';
- annual influenza vaccinations;
- workplace massage;
- access to Ritualize the Healthy Tasmanian Workplaces app; and
- locker and shower facilities available.

Workplace Diversity

Our Workplace Diversity Policy and Management Plan outlines our commitment to the recognition and utilisation of diversity in the workplace and the community we serve. Employees are reminded of our commitment at induction, biennial training and through annual reminders at team meetings. Our human resource management policies and practices provide for fair and equitable access to employment, promotion and personal development.

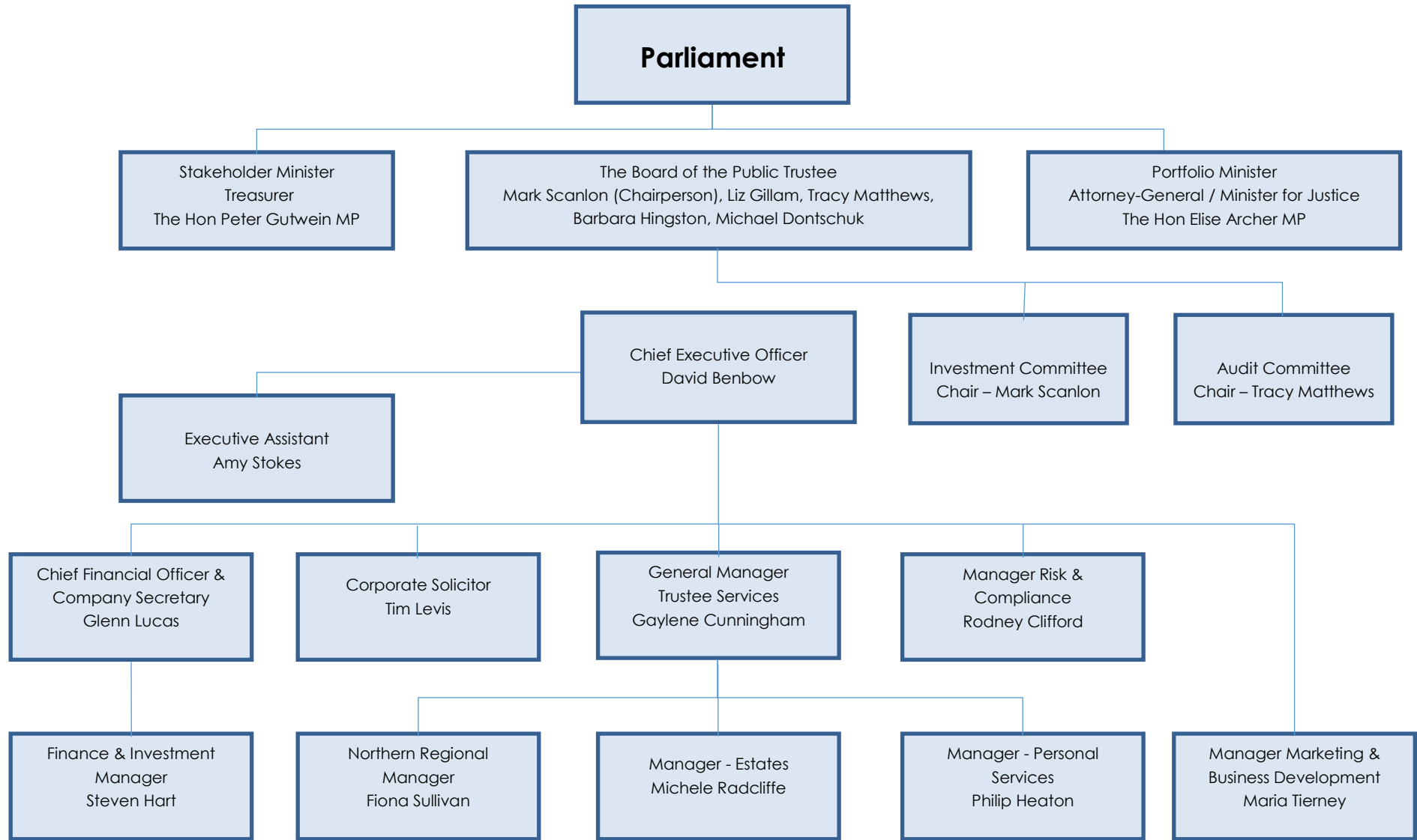


Mark Scanlon
Chairperson



David Benbow
Chief Executive Officer

6. Structure of the Public Trustee



7. Corporate Governance

The Board of the Public Trustee

The Public Trustee is a Government Business Enterprise owned by the Government on behalf of the Tasmanian Community. It is established under the *Government Business Enterprises Act 1995*.

The Board of the Public Trustee is responsible to the Treasurer and the Attorney General / Minister for Justice for managing and conducting the business and affairs of the Public Trustee in accordance with sound commercial practice. It ensures that the Public Trustee performs its statutory obligations.

In carrying out its responsibilities, the Board:

- sets the strategic direction of the organisation;
- secures and monitors organisational performance;
- ensures compliance with statutory requirements; and
- manages risk.

The Board currently comprises five independent Directors. All Directors are appointed by the Treasurer and the Attorney General on the recommendation of the Board. Directors are selected on the basis of their complementary skills and ability to add value to the Board. Directors are appointed after consideration by the Government Director Selection Advisory Panel.

A number of committees have been established to assist the Board in carrying out its functions and responsibilities.

One of the major responsibilities of the Board is to manage risk, not only in the interest of the Public Trustee, but also to protect the interest of its clients. The Audit Committee is responsible for monitoring corporate risk assessment processes and controls the establishment of, and ongoing compliance with, an internal risk control framework.

The Public Trustee manages large sums of money on behalf of its clients. It has established an Investment Committee which also has responsibility for the oversight of the organisation's investment review processes to ensure that appropriate client investment decisions are made.

The Board delegates responsibility for the day to day management of the business and oversight of the implementation of strategies approved by the Board in the strategic plan to the Chief Executive Officer.

Board members:

Mark Scanlon MBA BBus FCPA FAICD

Chairperson as from October 2016 to present

Chairperson of Investment Committee

Member of Audit Committee

Mark is Chairman of the Credit and Investments Ombudsman Service Limited and Independent Chairman of the Launceston City Council and Flinders Council Audit Panels.

Other positions held previously include Governing Council member – Tasmanian Health Service (THS) and Chairman of the THS Audit and Risk Committee, Director of the Motor Accidents Insurance Board (MAIB) and Chairman of the MAIB Audit Committee, Director of the Tasmanian Chamber of Commerce and Industry, President of the Launceston Chamber of Commerce, Managing Director of Tasmanian Perpetual Trustees Limited, Managing Director of Tasmanian Banking Services Limited and Joint Chief Executive Officer of MyState Limited.

Mark has over 30 years senior executive experience in a variety of industry sectors including funds management, trustee services, banking, health insurance and general insurance. He has a broad set of skills including strategic planning, leadership, business management, marketing and corporate governance.

Mark graduated with a Bachelor of Business (with distinction) from Victoria University. He has a Master of Business Administration from RMIT University and completed a Harvard Club of Australia Leadership Program.

Mark is a Fellow of CPA Australia and the Australian Institute of Company Directors.

Liz Gillam LLB

Board Member December 2013

Member of the Audit Committee

Graduate and Fellow of the Australian Institute of Company Directors.

Liz has significant experience at an executive level in both State and Local Government, primarily in the area of policy and legislation development. She has recently completed an 8 year term on the Tasmanian Integrity Commission and is currently a member of the Hobart Women's Shelter Board and Narryna Council.

Tracy Matthews BCom FCA FAICD

Board Member since January 2016

Chair of the Audit Committee

Fellow of the Australian Institute of Company Directors

Fellow of the Institute of Chartered Accountants Australia and New Zealand

Tracy is a chartered accountant and non-executive director with experience across a broad range of sectors and industries. Tracy's core skills are in the areas of accounting, governance, audit and risk, funds management, business and strategic planning. She also facilitates governance training courses for the Australian Institute of Company Directors.

Tracy is currently a Non-Executive Director of TasPorts, Chair of the Tasmanian Building and Construction Industry Training Board, Commodore of the Royal Yacht Club of Tasmania and Independent Chair of the Audit Committees for the Tasmanian Office of the Auditor General and NRM South Inc.

Barbara Hingston BA, BSW, MAASW GAICD

Board Member since May 2016

Member Investment Committee

Barbara brings substantial executive and governance experience in the not-for-profit sector to the Board. She is a professional Non- Executive Director also consulting to government and non-government organisations in governance and strategy, financial management, service performance, quality and safety and stakeholder engagement.

Barbara has worked with national, state wide and local organisations in the health, mental health and community service sector in the ACT, Queensland, Victoria, and Tasmania. She was a Director of the inaugural Tasmanian Health Service Governing Council, is a member of the Minister's Disability Advisory Council and is a Director of Dental Health Services, Victoria.

Michael Dontschuk BSc (Hons), FFTP, GAICD

Board Member since July 2017

Member Investment Committee

Michael Dontschuk is a finance professional with over 35 years' experience in investment, finance, treasury and financial risk management.

He currently is a professional NED and sits on a number of company boards including Grange Resources Limited, Motor Accidents Insurance Board (Tasmania), Australia Ratings, Eticore and Public Trustee.

Previously he has been an executive with Grange Resources Limited, Group Treasurer of ANZ Bank, Managing Director of Treasury Corporation Victoria, President and Director of the Finance and Treasury Association of Australia and Manager at Bankers Trust and has worked extensively in corporate financial advisory and investment banking.

CEO Performance Review

The performance of the CEO is reviewed annually against a performance management plan. The review is conducted by the Chairperson in consultation with the full Board.

Code of Conduct

The Board has adopted a Code of Conduct for Directors.

Board Attendance

The number of Board and Committee meetings held in the period each Director held office during the financial year ended 30 June 2018 and the number of meetings attended by each Director is as follows:

| | Board Meetings (1) | | Audit Committee (1) | | Investment (1) Committee | |
|-------------------|--------------------|-----------------|---------------------|-----------------|--------------------------|-----------------|
| | Number Held | Number attended | Number held | Number attended | Number held | Number attended |
| Mark Scanlon | 10 | 10 | 4 | 4 | 5 | 5 |
| Liz Gillam | 10 | 10 | 4 | 4 | N/A | 1 by invitation |
| Barbara Hingston | 9 | 9 | N/A | N/A | 5 | 5 |
| Tracy Matthews | 10 | 10 | 4 | 4 | N/A | 1 by invitation |
| Michael Dontschuk | 10 | 10 | N/A | N/A | 5 | 5 |

(1) Number eligible to attend

Disclosure requirements

Directors have the right to seek independent professional advice in relation to matters pertaining to the Public Trustee and their role as a Director. The cost of that advice will be paid by the Public Trustee. When seeking such advice, Directors are required to inform the Chairperson in advance.

8. Statement of Corporate Intent

The Statement of Corporate Intent (SCI) is a high level summary of the Corporate Plan and includes a performance agreement between the Board of the Public Trustee and the Shareholding Ministers.

The Performance Agreement details the key financial and non-financial targets for the Public Trustee, as agreed between the Board and the Shareholding Ministers through an annual Corporate Planning process. It also details estimates for the following three years.

The SCI has been prepared in accordance with the Ministerial Charter for the Public Trustee.

Strategic Direction

The Public Trustee is a Government Business Enterprise (GBE) established by the *Public Trustee Act 1930*. Principal commercial activities undertaken include the provision to the general community of access to professional advice and service in relation to trustee services including:

- preparation of Wills;
- estate administration;
- trust management and powers of attorney; and
- protection of the financial interests of individuals under a legal, physical or intellectual disability where the Public Trustee is appointed to act on their behalf.

The strategic direction of the Public Trustee for the period of the Corporate Plan focuses on the implementation of strategies designed to increase market share in the commercial deceased estate administration business and the efficiency and profitability of the Public Trustee, consistent with its Community Service Obligations.

Over the Corporate Plan period the Public Trustee will be focussed on:

- Growing the business by attracting new clients via development of new products, identifying appropriate segments of the market, developing partnerships with businesses and organisations suitable to an identified market;
- Continuous improvement and innovation by transforming the efficiency of the business by implementing contemporary business systems and practices; and
- Being a sustainable business by managing for improved profit over time through continual improvement in;
 - Resources;
 - Systems; and
 - Client service delivery.

On 29 August 2014, the Treasurer made public that Government Business Enterprises are required to pay 90% of net profits after tax as a dividend each year, unless a business can justify a lower pay-out policy. The Public Trustee has an agreement with Government that a dividend will only become payable should the amount of that dividend exceed the Community Service Obligation funding gap for that year.

9. Key Performance Indicators

The Performance Agreement regarding the key financial and non-financial targets for the year ended 30 June 2019, and estimates for the following three years is detailed in the tables below.

Financial Returns to Government

| | Target 2018-19 | 2019-20 | Estimates 2020-21 | 2021-22 |
|--|-------------------|---------|----------------------|---------|
| Dividends Paid (\$ '000) | - | - | - | - |
| Tax Equivalentents Paid/(Refund) (\$ '000) | 50 | 24 | 44 | 27 |
| Total | 50 | 24 | 44 | 27 |

Financial Targets

| | Target 2018-19 | 2019-20 | Estimates 2020-21 | 2021-22 |
|--|-------------------|---------|----------------------|---------|
| Operating Expenditure (\$'000) | 8,486 | 8,632 | 8,927 | 9,232 |
| Operating Profit/(Loss) After Tax (\$'000) | 62 | 116 | 70 | 23 |
| Total Comprehensive Income (\$'000) | 237 | 297 | 251 | 204 |
| Capital Expenditure (\$ '000) | 100 | 100 | 100 | 100 |
| Operating Margin | 1.01 | 1.02 | 1.01 | 1.00 |
| Return on Assets (%) | 0.4% | 0.7% | 0.4% | 0.1% |
| Return on Equity (%) | 3.1% | 3.8% | 3.1% | 2.5% |
| Capital Adequacy (%) | 28.3% | 29.6% | 30.7% | 31.6% |

Definitions

Operating Profit Before Tax means Operating revenue less Operating expenditure.

Comprehensive income includes re-measurement of defined benefit obligation and fair value movements in investments in managed funds (net of related tax)

Total comprehensive income means Operating profit for the year after tax + Comprehensive income.

Operating Margin means Operating revenue / Operating expenditure.

Return on Assets means Operating Profit before Tax / [(Opening Assets + Closing Assets)/2].

Return on Equity means Total comprehensive income/[(Opening Equity + Closing Equity)/2].

Capital Adequacy means Tangible Reserves / Tangible Assets.

Key Non-Financial Performance Indicators

| | Target 2018-19 | 2019-20 | Estimates ¹ 2020-21 | 2021-22 |
|---|-------------------|---------|-----------------------------------|---------|
| Number of total new Wills written | 1,200 | 1,300 | 1,500 | 1,700 |
| Beneficiary survey results (overall satisfaction rating) | 80% | 85% | 90% | 95% |
| Will client survey results (overall satisfaction rating) | 100% | 100% | 100% | 100% |

Community Service Obligations

In line with the terms of the Public Trustee's Ministerial Charter, the Government will provide funding to assist in meeting the cost of non-commercial activities (Community Service Obligations) required to be undertaken by the Public Trustee.

The Public Trustee performs the following Community Service Obligations on behalf of the Government:

- Administration of Absolute Estates with a gross asset value of less than \$60,000;
- Administration of Continuing Trust and Life Tenancy Estates with a gross asset value of less than \$100,000;
- Administration and management of Minor Trusts with a gross asset value of less than \$20,000; and
- Management of assets for Represented Persons with a gross asset value of less than \$100,000.

¹ Targeted to be equal to or greater than estimates

The Public Trustee has entered into a new Community Service Obligation Agreement for three years effective from 1 July 2017 to 30 June 2020. A summary of the maximum funding amounts set out in the new agreement is set out as follows:

| CSO Funding | Target 2018-19 | Estimates¹ | | |
|--|---------------------------|------------------------------|----------------|----------------|
| | | 2019-20 | 2020-21 | 2021-22 |
| Community Service Obligations (\$ '000) | 2,068 | 2,115 | 2,162 | 2,209 |

10. Financial Commentary

The Statement of Corporate Intent sets out the key financial and non-financial targets for 2017-18. The actual performance against these targets is shown below.

Financial Returns to Government

| | Target 2017-18 | Actual 2017-18 |
|---|---------------------------|---------------------------|
| Dividends Paid (\$ '000) | - | 96 |
| Tax Equivalents Paid / (Refund) (\$ '000) | 77 | 256 |
| Total | 77 | 352 |

Financial Targets

| | Target 2017-18 | Actual 2017-18 |
|-------------------------------------|---------------------------|---------------------------|
| Operating Expenditure (\$ '000) | 8,481 | 7,953 |
| Operating Profit After Tax (\$'000) | 94 | 772 |
| Total Comprehensive Income (\$000) | 275 | 821 |
| Capital Expenditure (\$ '000) | 120 | 39 |
| Operating Margin | 1.02 | 1.17 |
| Return on Assets (%) | 0.6% | 6.0% |
| Return on Equity (%) | 4.9% | 9.4% |
| Capital Adequacy (%) | 13.2% | 28.1% |

The key financial target results have been impacted by the favourable re-measurement of defined benefit liabilities.

Non-Financial Targets

| | Target 2017-18 | Actual 2017-18 |
|---|-------------------|-------------------|
| Number of new Wills written | 460 | 382 |
| Number of revised Wills written | 400 | 557 |
| Number of non-executor Wills written / re-written | 90 | 123 |
| Total wills written | 950 | 1,062 |
| Beneficiary survey results (%) | 80% | 81% |
| Will client survey results (%) | 100% | 98% |

Capital Structure

The Public Trustee has no corporate borrowings. The equity of the Public Trustee is wholly represented by retained earnings.

Support for Tasmanian Business

The Public Trustee supports Tasmanian business by sourcing all services and supplies within Tasmania where those services and supplies are competitively available at the standard required by the Public Trustee.

Staffing

As at 30 June 2018 the Public Trustee employed 52.02 staff on a full time equivalent basis.

Community Service Obligation Payments

In accordance with the provisions contained in Part 9 of the *Government Business Enterprises Act 1995*, Community Service Obligations have been declared to encompass the responsibility of the Public Trustee to administer estates, trusts and the financial affairs of Represented Persons, notwithstanding that the financial value of these matters prohibits full cost recovery. As at 30 June 2018, matters classified as Community Service Obligations accounted for 55% (2017: 53%) of the matters administered by the Public Trustee. The net avoidable cost to meet these obligations for the 2018 financial year was \$2,697,931 (2017: \$2,556,308).

The Treasurer, as purchasing Minister, enters into an agreement with the Public Trustee to fund the provision of Community Service Obligations. The funding received by the Public Trustee for the 2018 financial year was \$2,023,000 (2017: \$1,978,000).

Community Service Obligation Performance

The Community Service Obligation (CSO) agreement with the Crown no longer requires the Public Trustee to report on specified performance indicators. Despite this the Public Trustee continues to monitor a set of key performance indicators related to the delivery of CSO, as set out below.

1 Policy and procedures

Performance indicator: The Public Trustee is to ensure that its internal policies and procedures comply with all its duties and obligations and that staff are operating accordingly. This is assessable through the Public Trustee's regular compliance reviews.

Performance: A summary of compliance activity on CSO clients for the year ended 30 June 2018 is as follows:

| | Number of files reviewed by compliance | Files with items of non-compliance raised |
|-----------------------|--|---|
| July 2017 – June 2018 | 34 | 4 |

2 Monitoring

Performance indicator: The service standards for each category of CSO client are to be measured internally on an ongoing basis using appropriate benchmarks.

Performance:

Trusts

| Standard | Agreed Benchmark | Final result |
|---|------------------|--------------|
| | % | % |
| Initial client contact | 90 | 100 |
| Initial management plan: * determination of client needs * meeting with client / family | 85 | 100 |
| Preparation and lodgement of taxation requirements | 95 | 100 |
| Annual client contact | 95 | 100 |
| Client contact – Minor Trusts | 90 | 100 |

Estates

| Standard | Agreed Benchmark | Final result |
|--|-------------------------|---------------------|
| | % | % |
| Initial client contact | 90 | 100 |
| Deceased estate procedures fully explained | 85 | 100 |
| Grant of administration | 95 | 73 |
| TPT services letter dispatched | 85 | 100 |
| Completion of absolute deceased estates | 80 | 76 |

Represented persons

| Standard | Agreed Benchmark | Final result |
|--|-------------------------|---------------------|
| | % | % |
| Initial client contact | 90 | 100 |
| Attendance at GAB hearing | 100 | 100 |
| Initial management plan: * initial statement * prudent person review * TPT fee collection | 85 | 100 |
| Preparation of Annual Financial Plan * Annual statement | 95 | 96 |
| Preparation of Admin Order review report | 95 | 97 |
| Pension review | 90 | 98 |
| Preparation and lodgement of taxation requirements | 100 | 100 |
| Client visit | 80 | 100 |

3 Staffing

Performance indicator: The Public Trustee has in place an induction program for new staff members involved in service provision. Further relevant training is provided on an ongoing basis to both new and existing employees.

Performance: During the reporting period, three Client Account Managers (CAMs) were appointed and had undertaken a specific CAM Induction Program. This program follows the generic induction program delivered to all new permanent Public Trustee employees. Further, the program provides new CAMs with the specific knowledge and skills required to undertake their role. The duration of the program is approximately six months.

4 Complaints

Performance indicator: The Public Trustee has in place a comprehensive policy on complaints handling including timeframes for resolving complaints. The number of complaints for each category of CSO client will be reported to Treasury on a half-yearly basis.

Performance:

The number of complaints for each category of CSO client was as follows:

| Category of CSO client | Number of complaints | Substantiated | Not Substantiated |
|--|----------------------|---------------|-------------------|
| Absolute estates, continuing trusts & life tenancies | 1 | 1 | 0 |
| Represented persons | 4 | 0 | 4 |
| Trusts | 0 | 0 | 0 |
| Total | 5 | 1 | 4 |

5 Operating initiatives

Performance indicator: Progress on any initiatives to improve the efficiency and /or quality of service being delivered to CSO clients.

Performance: Status reports on the major initiatives that are expected to either fully or in-part improve the efficiency and / or quality of services being delivered to CSO clients is set out below.

Projects progressed during the year ended 30 June 2018 included:

- continuous improvement to TACT (our key trustee services operating system) and the Client Management System (CMS);
- implementation of a Business Services Unit;
- Records Information Management Project.

Status reports on the major initiatives that are expected to either fully or in part improve the efficiency and / or quality of services being delivered to CSO clients is set out below.

TACT and CMS continuous improvements

TACT is the Public Trustee's client trust accounting system. The organisation continues to develop this system to support changing business requirements.

The CMS was implemented in July 2018. Post implementation, further enhancements have been made to the CMS to improve end user experience.

Business Services Unit

The data gathering exercise is in progress to fully understand the range of activities and processes that will be undertaken by the Business Services Unit. This will in turn provide the data to enable the identification of the resourcing required to deliver the activities and processes. This information is regarded as the base data required to be able to develop an informed business case and project plan to be submitted to the Board for approval.

Records Information Management project

The Public Trustee has an obligation to maintain good records of its business activities for legal and efficiency purposes. Records are vital assets that support business operations, they enable access to required information for operations and preserve corporate memory. They enable efficient operations and the ability to meet accountability and compliance requirements. Sound record keeping practices are essential to enable a well-managed organisation.

The first phase of this project has been completed with the introduction of a Records and Information Management Policy. The next phase of this project will consider the systems and processes required to embed the policy into the organisation.

11. Financial Statements



ABN 11 223 649 773

Financial Statements 30 June 2018



Level 8, 144 Macquarie Street, Hobart, Tasmania, 7000
Postal Address: GPO Box 851, Hobart, Tasmania, 7001
Phone: 03 6173 0900 | Fax: 03 6173 0999
Email: admin@audit.tas.gov.au
Web: www.audit.tas.gov.au

31 August 2018

The Board of Directors
Public Trustee
116 Murray Street
HOBART TAS 7000

Dear Board Members

Auditor's Independence Declaration

In relation to my audit of the financial report of The Public Trustee for the financial year ended 30 June 2018, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (a) the auditor independence requirements of Australian Auditing Standards in relation to the audit
- (b) any applicable code of professional conduct in relation to the audit.

As agreed with the Audit Committee, a copy of this declaration must be included in the Annual Report.

Yours sincerely

A handwritten signature in black ink, appearing to read "S. Morrison", is written over a light blue horizontal line.

Stephen Morrison
Assistant Auditor-General, Financial Audit Services
Delegate of the Auditor-General

Statement of profit or loss and other comprehensive income for the year ended 30 June 2018

| | Note | 2018 \$'000 | 2017 \$'000 |
|---|------|----------------|----------------|
| Continuing operations | | | |
| Revenue | 4 | 7,835 | 7,973 |
| Other income | 5 | 1,455 | 711 |
| Total revenue | | 9,290 | 8,684 |
| Administrative expenses | | (1,608) | (1,547) |
| Depreciation expense | | (285) | (237) |
| Employee benefits expense | 6 | (5,100) | (4,973) |
| Finance expense | 6 | (519) | (492) |
| Occupancy expenses | | (441) | (423) |
| Total expenses | | (7,953) | (7,672) |
| Profit before income tax equivalent | | 1,337 | 1,012 |
| Income tax equivalent expense | 7a | (565) | (263) |
| Profit for the year | | 772 | 749 |
| Other comprehensive income | | | |
| Items that will never be reclassified to profit or loss: | | | |
| Remeasurements of defined benefit liability | 18 | 163 | 2,085 |
| Related tax | 7c | (45) | (625) |
| | | 118 | 1,460 |
| Items that are or may be reclassified to profit or loss: | | | |
| Fair value movement in investments in managed funds | | (96) | 440 |
| Related tax | 7c | 27 | (132) |
| | | (69) | 308 |
| Other comprehensive income, net of tax | | 49 | 1,768 |
| Total comprehensive income | | 821 | 2,517 |

The accompanying notes form part of these financial statements.

Statement of financial position

as at 30 June 2018

| | Note | 2018 \$'000 | 2017 \$'000 |
|--------------------------------------|------|----------------------|----------------|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | 11 | 4,108 | 4,053 |
| Trade and other receivables | 12 | 1,342 | 422 |
| Prepayments | | <u>96</u> | <u>86</u> |
| Total current assets | | <u>5,546</u> | <u>4,561</u> |
| Non-current assets | | | |
| Other financial assets | 13 | 12,520 | 12,627 |
| Deferred tax assets | 16 | 3,162 | 3,455 |
| Plant and equipment | 14 | <u>1,312</u> | <u>1,559</u> |
| Total non-current assets | | <u>16,994</u> | <u>17,641</u> |
| Total assets | | <u>22,540</u> | <u>22,202</u> |
| Liabilities | | | |
| Current liabilities | | | |
| Trade and other payables | 15 | 542 | 700 |
| Current tax liabilities | | 256 | 221 |
| Provisions | 17 | <u>1,366</u> | <u>1,487</u> |
| Total current liabilities | | <u>2,164</u> | <u>2,408</u> |
| Non-current liabilities | | | |
| Provisions | 17 | <u>11,764</u> | <u>11,907</u> |
| Total non-current liabilities | | <u>11,764</u> | <u>11,907</u> |
| Total liabilities | | <u>13,928</u> | <u>14,315</u> |
| Net assets | | <u>8,612</u> | <u>7,887</u> |
| Equity | | | |
| Retained earnings | | 7,379 | 6,585 |
| Reserves | 19 | <u>1,233</u> | <u>1,302</u> |
| Total equity | | <u>8,612</u> | <u>7,887</u> |

The accompanying notes form part of these financial statements.

Statement of changes in equity

for the year ended 30 June 2018

| | Note | Fair value reserve \$'000 | Retained earnings \$'000 | Total \$'000 |
|---|------|---------------------------------|--------------------------------|-----------------|
| Balance at 1 July 2016 | | 994 | 4,376 | 5,370 |
| Total comprehensive income | | | | |
| Profit | | - | 749 | 749 |
| Other comprehensive income | | 308 | 1,460 | 1,768 |
| Total comprehensive income | | 308 | 2,209 | 2,517 |
| Transactions with owners of the Entity | | | | |
| Dividends | 10 | - | - | - |
| Total transactions | | - | - | - |
| Balance at 30 June 2017 | | 1,302 | 6,585 | 7,887 |
| Balance at 1 July 2017 | | 1,302 | 6,585 | 7,887 |
| Total comprehensive income / (loss) | | | | |
| Profit | | - | 772 | 772 |
| Other comprehensive income / (loss) | | (69) | 118 | 49 |
| Total comprehensive income / (loss) | | (69) | 890 | 821 |
| Transactions with owners of the Entity | | | | |
| Dividends | 10 | - | (96) | (96) |
| Total transactions | | - | (96) | (96) |
| Balance at 30 June 2018 | | 1,233 | 7,379 | 8,612 |

The accompanying notes form part of these financial statements.

Statement of cash flows

for the year ended 30 June 2018

| | Note | 2018 \$'000 | 2017 \$'000 |
|---|------|---------------------|---------------------|
| Cash flows from operating activities | | | |
| Receipts from clients | | 8,165 | 8,311 |
| Payments to suppliers and employees | | (8,312) | (7,559) |
| Interest received | | 49 | 137 |
| Income tax equivalent paid | | (256) | (54) |
| Net cash (used in) / from operating activities | 21 | <u>(354)</u> | <u>835</u> |
| Cash flows from investing activities | | | |
| Distributions from financial assets | | 544 | 643 |
| Purchase of plant and equipment | | (39) | (162) |
| Net cash provided by investing activities | | <u>505</u> | <u>481</u> |
| Cash flows from financing activities | | | |
| Dividends paid | | (96) | - |
| Net cash used in financing activities | | <u>(96)</u> | <u>-</u> |
| Net increase in cash held | | 55 | 1,316 |
| Cash and cash equivalents at the beginning of year | 11 | <u>4,053</u> | <u>2,737</u> |
| Cash and cash equivalents at the end of year | 11 | <u>4,108</u> | <u>4,053</u> |

The accompanying notes form part of these financial statements.

Notes to the financial statements

for the year ended 30 June 2018

Note 1. Reporting entity

The Public Trustee ("the entity") is a for-profit Tasmanian Government Business Enterprise operating since 1853 offering professional, independent trustee services to the Tasmanian community. The duties and obligations of the entity are set out in the *Trustee Act 1898* and the *Public Trustee Act 1930* determines the constitution and regulation of the entity.

The Public Trustee's Australian Business Number is 11 223 649 773. Its principal place of business is 116 Murray Street, Hobart, Tasmania.

Note 2. Basis of accounting

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards ("AASBs") adopted by the Australian Accounting Standards Board ("AASB"), the *Government Business Enterprise Act 1995* and related Treasurer's Instructions. The financial statements comply with International Financial Reporting Standards ("IFRS") adopted by the International Accounting Standards Board ("IASB"). They were authorised by the directors for issue on 31 August 2018. Details of the entity's accounting policies are included in Note 30.

Rounding

The entity is of a kind referred to in Class Order 98/0100 dated 10 July 1998, issued by the Australian Securities and Investments Commission, relating to "rounding off" of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar unless otherwise stated.

Note 3. Use of judgements and estimates

In preparing these financial statements judgements, estimates and assumptions have been made that affect the application of the entity's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Key estimates

The directors evaluate estimates and judgements incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the entity.

- (i) **Impairment - general**
The entity assesses impairment at each reporting period by evaluation of conditions and events specific to the entity that may be indicative of impairment triggers. In the current financial year there were no significant impaired assets identified and written off to profit or loss.
- (ii) **Employee benefits**
Assumptions utilised in the determination of the entity's employee entitlement provisions are discussed in note 30 (f).
- (iii) **Financial instruments**
Assumptions utilised in the determination of the entity's valuation of its investment are discussed in note 26.
- (iv) **Defined benefit superannuation fund obligations**
Actuarial assumptions utilised in the determination of the entity's defined benefit superannuation fund obligations are discussed in note 18.

Notes to the financial statements

for the year ended 30 June 2018

| | 2018 \$'000 | 2017 \$'000 |
|--|----------------|----------------|
| Note 4. Revenue | | |
| Fees and commissions | 5,812 | 5,995 |
| Funding of community service obligations | <u>2,023</u> | <u>1,978</u> |
| | <u>7,835</u> | <u>7,973</u> |
| Note 5. Other income | | |
| Dividends received or receivable from other persons | 1,406 | 574 |
| Interest received from other persons | <u>49</u> | <u>137</u> |
| | <u>1,455</u> | <u>711</u> |
| Note 6. Net profit for the year | | |
| Profit before income tax includes the following specific expenses: | | |
| Expenses | | |
| Employee benefits expense | | |
| - wages and salaries | 3,891 | 3,608 |
| - defined benefits superannuation service cost (note 18) | 112 | 153 |
| - long service leave | 50 | 76 |
| - recreation leave | 403 | 364 |
| - superannuation | 359 | 337 |
| - other associated personnel expenses | <u>285</u> | <u>435</u> |
| | <u>5,100</u> | <u>4,973</u> |
| Finance expenses | | |
| - defined benefits superannuation interest cost (note 18) | <u>519</u> | <u>492</u> |

Notes to the financial statements

for the year ended 30 June 2018

| 2018 | 2017 |
|--------|--------|
| \$'000 | \$'000 |

Note 7. Tax equivalent expense

a. The components of income tax equivalent expense comprise:

| | | |
|--------------|------------|------------|
| Current tax | 321 | 344 |
| Deferred tax | 244 | (81) |
| | <u>565</u> | <u>263</u> |

b. The prima facie income tax equivalent on profit before income tax is reconciled to income tax equivalent as follows:

| | | |
|--|------------|------------|
| Prima facie tax payable on profit before income tax at 27.5% (2017: 30%) | | |
| - entity | 368 | 303 |
| Add tax effect of: | | |
| - Restate opening deferred tax balances to 27.5% | 255 | - |
| - Entertainment | 1 | - |
| - Under / (over) provision for income tax in prior years | 3 | (3) |
| Less tax effect of: | | |
| - available franking credits | (54) | (37) |
| - foreign tax offset | (8) | - |
| Income tax attributable to entity | <u>565</u> | <u>263</u> |

c. Tax effects relating to each component of other comprehensive income:

| | | |
|---|------------|--------------|
| <i>Remeasurement of defined benefit liability</i> | | |
| Before tax amount | 163 | 2,085 |
| Income tax equivalent expense | (45) | (625) |
| Net-of-tax amount | <u>118</u> | <u>1,460</u> |

| | | |
|--|-------------|------------|
| <i>Fair value movement in investments in managed funds</i> | | |
| Before tax amount | (96) | 440 |
| Income tax equivalent benefit / (expense) | 27 | (132) |
| Net-of-tax amount | <u>(69)</u> | <u>308</u> |

Notes to the financial statements

for the year ended 30 June 2018

Note 8. Key management personnel compensation

The aggregate compensation to key management personnel of the entity is set out below

| | 2018 \$'000 | 2017 \$'000 |
|-----------------------------------|----------------|----------------|
| Short-term employee benefits | 908 | 896 |
| Post-employment benefits | 90 | 87 |
| Other long-term employee benefits | 14 | 24 |
| | <u>1,012</u> | <u>1,007</u> |

(a) Director remuneration

The following table discloses the remuneration details for each person that acted as a director during the current and previous financial years:

| 2018 | | | | |
|--------------------------------|---------------------------|--------------------------|--------------------------|-------------------------|
| Director Remuneration | Directors' fees \$'000 | Committee fees \$'000 | Superannuation \$'000 | Total 2018 \$'000 |
| Non-Executive Directors | | | | |
| Mr M Scanlon - Chairperson | 40 | 3 | 4 | 47 |
| Ms L Gillam | 28 | 2 | 3 | 33 |
| Mr M Dontschuk* | 27 | 1 | 3 | 31 |
| Ms T Matthews | 28 | 2 | 3 | 33 |
| Ms B Hingston | 28 | 2 | 3 | 33 |
| Total | 151 | 10 | 16 | 177 |

* Mr Dontschuk was appointed to the Board effective from 4th July 2017

| 2017 | | | | |
|--------------------------------|---------------------------|--------------------------|--------------------------|-------------------------|
| Director Remuneration | Directors' fees \$'000 | Committee fees \$'000 | Superannuation \$'000 | Total 2017 \$'000 |
| Non-Executive Directors | | | | |
| Mr M Scanlon – Chairperson # | 26 | 1 | 3 | 30 |
| Mr C Stephens – Chairperson # | 19 | 2 | 2 | 23 |
| Ms L Gillam | 25 | 1 | 2 | 28 |
| Ms C Rockefeller# | 13 | 2 | 1 | 16 |
| Ms T Matthews | 25 | 1 | 2 | 28 |
| Ms B Hingston # | 22 | 1 | 2 | 25 |
| Mr P Blackwood | 2 | - | - | 2 |
| Total | 132 | 8 | 12 | 152 |

Mr C Stephens' term as a director expired on 10 October 2016. Mr M Scanlon was appointed as Chairperson on 10 October 2016. Ms B Hingston became a Board member effective from 27 May 2016. Ms Hingston's remuneration to 30 June 2016 was paid in July 2016. Ms C Rockefeller's term as a director expired on the 25 November 2016.

Non-executive directors are appointed by the Governor-in-Council on the joint recommendation of the Treasurer and Portfolio Minister. Each instrument of appointment is for a maximum period of three years and prescribes the relevant remuneration provisions. Directors can be reappointed in accordance with the relevant Guidelines for *Tasmanian Government Businesses – Board Appointments*.

The level of fees paid to non-executive directors is administered by the Department of Premier and Cabinet. Superannuation is paid at the appropriate rates as prescribed by superannuation guarantee legislation. No other leave, termination or retirement benefits are accrued or paid to directors. Directors are entitled to reimbursement of expenses incurred while attending to Board business. Non-executive directors' remuneration is reviewed periodically whenever there is an increase in State Service wages with increases subject to approval by the Treasurer and Portfolio Minister.

Notes to the financial statements

for the year ended 30 June 2018

(b) Executive remuneration

The following table discloses the remuneration details for each person that acted as a senior executive during the current and previous financial years:

| 2018 | | | | | | |
|---|---------------|-----------------------|-----------------|-----------------------|---------------------------------|-------------------|
| Executive Remuneration | Salary | Superannuation | Vehicles | Other Benefits | Other Long-Term Benefits | Total 2018 |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| <i>Mr D Benbow- Chief Executive Officer</i> | 187 | 18 | 15 | - | 2 | 222 |
| <i>Mr G Lucas - Chief Financial Officer & Company Secretary</i> | 121 | 12 | - | - | 1 | 134 |
| <i>Ms G Cunningham - General Manager Trustee Services</i> | 118 | 15 | - | - | 1 | 134 |
| <i>Mr R Clifford - Manager Risk & Compliance</i> | 107 | 10 | - | - | 4 | 121 |
| <i>Mr T Levis - Corporate Solicitor</i> | 132 | 13 | - | - | 6 | 151 |
| <i>Ms A Dougan - General Manager People & Culture, Marketing and Communications #</i> | 65 | 6 | - | 2 | - | 73 |
| Total | 730 | 74 | 15 | 2 | 14 | 835 |

#1st July 2017 to the 19th January 2018

| 2017 | | | | | | |
|---|---------------|-----------------------|-----------------|-----------------------|------------------------------------|-------------------|
| Executive Remuneration | Salary | Superannuation | Vehicles | Other Benefits | Other non-monetary benefits | Total 2017 |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| <i>Mr D Benbow- Chief Executive Officer</i> | 177 | 17 | 17 | - | 6 | 217 |
| <i>Mr R Clifford - Manager Risk & Compliance</i> | 103 | 10 | - | - | 2 | 115 |
| <i>Ms G Cunningham - General Manager Trustee Services</i> | 112 | 14 | - | - | 4 | 130 |
| <i>Ms A Dougan - General Manager People & Culture, Marketing and Communications</i> | 112 | 11 | - | - | 4 | 127 |
| <i>Mr T Levis - Corporate Solicitor</i> | 121 | 12 | - | - | 4 | 137 |
| <i>Mr G Lucas - Chief Financial Officer & Company Secretary</i> | 114 | 11 | - | - | 4 | 129 |
| Total | 739 | 75 | 17 | - | 24 | 855 |

Notes to the financial statements

for the year ended 30 June 2018

(b) Executive remuneration (continued)

The employment terms and conditions of the Chief Executive Officer are contained in an individual employment contract which prescribe total remuneration, superannuation, annual and long service leave, motor vehicle and salary sacrifice provisions. The Corporate Solicitor is employed pursuant to the Legal Practitioners Agreement 2010.

The Chief Executive Officer is appointed by the Premier on the recommendation of the Board. The remuneration package is in accordance with the Senior Executive Service determination. There is no provision within the senior executives' remuneration packages for the payment of short term incentives based on meeting key performance indicators.

The performance of each senior executive, including the Chief Executive Officer, is reviewed annually.

The terms of employment of the Chief Executive Officer contains a termination clause that requires the senior executive or the Board to provide a minimum notice period of up to 6 months prior to termination of the contract. Employment contracts have durations not exceeding five years.

(c) Overseas travel

There was no overseas travel undertaken on behalf of the entity during the year by the Chairman, Directors or Senior Executives.

| 2018 | 2017 |
|------|------|
| \$ | \$ |

Note 9. Auditor's remuneration

Remuneration of the auditor for:

- auditing the financial statements

| | |
|---------------|--------|
| 31,120 | 29,920 |
|---------------|--------|

| 2018 | 2017 |
|--------|--------|
| \$'000 | \$'000 |

Note 10. Dividends

Declared and paid

| | |
|-----------|---|
| 96 | - |
|-----------|---|

The entity pays dividends in accordance with its statutory requirements as determined under Part 11 Division 2 of the Government Business Enterprises Act 1995.

On the 29th August 2014, the Treasurer made public that Government Business Enterprises are required to pay 90% of net profits after tax as a dividend each year, unless a business can justify a lower pay-out policy. The entity has an agreement with Government that a dividend will only become payable should the amount of that dividend exceed the Community Service Obligation funding gap for that year.

Notes to the financial statements

for the year ended 30 June 2018

| 2018 | 2017 |
|--------|--------|
| \$'000 | \$'000 |

Note 11. Cash and cash equivalents

| | | |
|--------------------------|--------------|--------------|
| Cash at bank and on hand | 1 | 1 |
| Short term bank deposits | 4,107 | 4,052 |
| | <u>4,108</u> | <u>4,053</u> |

The effective interest rate on short-term bank deposits was between 1.2% and 1.5% (2017: between 1.1% and 1.7%).

Reconciliation of cash

Cash at the end of the financial year as shown in the statement of cash flows is reconciled to items in the statement of financial position as follows:

| | | |
|---------------------------|--------------|--------------|
| Cash and cash equivalents | <u>4,108</u> | <u>4,053</u> |
|---------------------------|--------------|--------------|

In its capacity as trustee and financial administrator, the entity holds funds on behalf of its clients that are not available for use by the entity. Details of the cash held under management and trusteeship have been included at note 27. As at 30 June 2018 cash or cash equivalent assets disclosed above are not restricted from being exchanged or used to settle a liability for at least 12 months after the reporting date.

Reconciliation of liabilities arising from financing activities:

| Liabilities | Closing Balance 2017 \$'000 | Non-Cash Changes | Cash Flows | Closing Balance 2018 \$'000 |
|-------------------|-----------------------------------|--------------------------------|----------------------------|-----------------------------------|
| | | Dividend Declared \$'000 | Cash Payments \$'000 | |
| Dividends Payable | - | 96 | (96) | - |
| Total | - | 96 | (96) | - |

Note 12. Trade and other receivables

Current

| | | |
|-------------------|--------------|------------|
| Trade receivables | - | - |
| Other receivable | 1,342 | 422 |
| | <u>1,342</u> | <u>422</u> |

Credit risk

The entity has no trade receivables therefore no significant concentration of credit risk with respect of any single counterparty or group of counterparties. Other receivable amounts relate to accrued revenue and distributions receivable from investment in unlisted managed funds.

Notes to the financial statements

for the year ended 30 June 2018

| 2018 | 2017 |
|--------|--------|
| \$'000 | \$'000 |

Note 13. Other financial assets

Non-current

Investments in managed funds at fair value through other comprehensive income.

| | |
|---------------|---------------|
| <u>12,520</u> | <u>12,627</u> |
| <u>12,520</u> | <u>12,627</u> |

The entity classifies its investments in managed funds at fair value through other comprehensive income. There are no fixed returns or fixed maturity dates attached to these investments. No intention to dispose of any investments in managed funds assets existed at 30 June 2018.

Note 14. Plant and equipment

Plant and equipment

Leasehold improvements at cost
Accumulated amortisation

| | |
|--------------|--------------|
| 1,136 | 1,136 |
| <u>(481)</u> | <u>(386)</u> |
| <u>655</u> | <u>750</u> |

Fixtures, furniture and equipment at cost
Accumulated depreciation

| | |
|----------------|----------------|
| 1,397 | 1,510 |
| <u>(1,057)</u> | <u>(1,075)</u> |
| <u>340</u> | <u>435</u> |

Client Management System
Accumulated depreciation

| | |
|-------------|----------|
| 361 | - |
| <u>(72)</u> | <u>-</u> |
| <u>289</u> | <u>-</u> |

Capital works in progress

| | |
|--------------|--------------|
| 28 | 375 |
| <u>28</u> | <u>375</u> |
| <u>1,312</u> | <u>1,559</u> |

Movement in carrying amounts

Movement in the carrying amounts of each class of plant and equipment between the beginning and end of the current financial year:

Leasehold improvements

Balance at 1 July

750

842

Additions

-

5

Depreciation expense

(95)

(97)

Balance at 30 June

655

750

Fixtures, furniture and equipment

Balance at 1 July

435

462

Additions

12

12

Reclassifications

11

129

Assets written off#

-

(28)

Depreciation expense

(118)

(140)

Balance at 30 June

340

435

\$136,536 of redundant assets were retired during the year, these assets have been fully depreciated and as at 30 June 2018 had a carrying amount of nil.

Notes to the financial statements

for the year ended 30 June 2018

| | 2018 \$'000 | 2017 \$'000 |
|---------------------------|----------------|----------------|
| Client Management System | | |
| Balance at 1 July | - | - |
| Reclassifications | 361 | - |
| Depreciation expense | (72) | - |
| Balance at 30 June | <u>289</u> | <u>-</u> |
| Capital works in progress | | |
| Balance at 1 July | 375 | 359 |
| Additions | 26 | 145 |
| Asset write-offs | (1) | - |
| Reclassification | (372) | (129) |
| Balance at 30 June | <u>28</u> | <u>375</u> |

Note 15. Trade and other payables

Current

| | | |
|--------------------------------------|------------|------------|
| Trade payables | 128 | 181 |
| Sundry payables and accrued expenses | 414 | 519 |
| | <u>542</u> | <u>700</u> |

Note 16. Deferred tax asset

Non-Current

| | | |
|----------------------------------|--------------|--------------|
| Deferred tax assets | | |
| Balance at 1 July | 3,455 | 4,131 |
| Provisions – employee benefits | (320) | (545) |
| Other expenses | - | 1 |
| Change in value of managed funds | 27 | (132) |
| Balance at 30 June | <u>3,162</u> | <u>3,455</u> |

Note 17. Provisions

Analysis of total provisions

Current

| | | |
|-----------------------------|--------------|--------------|
| Losses | 5 | 52 |
| Recreation leave | 328 | 330 |
| Long service leave | 398 | 287 |
| Defined benefits obligation | 635 | 818 |
| Total current | <u>1,366</u> | <u>1,487</u> |

Non-current

| | | |
|-----------------------------|---------------|---------------|
| Long service leave | 294 | 377 |
| Defined benefits obligation | 11,470 | 11,530 |
| Total non-current | <u>11,764</u> | <u>11,907</u> |
| Total provisions | <u>13,130</u> | <u>13,394</u> |

Losses

| | | |
|-----------------------|----------|-----------|
| Balance at 1 July | 52 | 50 |
| Additional provisions | 27 | 2 |
| Amounts used | (74) | - |
| Balance at 30 June | <u>5</u> | <u>52</u> |

Notes to the financial statements

for the year ended 30 June 2018

| | 2018 | 2017 |
|-----------------------------|---------------|---------------|
| | \$'000 | \$'000 |
| Employee benefits | | |
| Balance at 1 July | 13,342 | 15,159 |
| Additional provisions | 704 | 683 |
| Amounts used | (758) | (415) |
| Unused amounts reversed - * | (163) | (2,085) |
| Balance at 30 June | <u>13,125</u> | <u>13,342</u> |

* - The unused amount wholly relates to the entity's defined benefits obligation.

Provision of losses

Provision for losses includes estimates of costs arising from a legal matter. Further details of this matter have not been disclosed as the matter is the subject of legal privilege.

Provision for long term employee benefits

Provision for employee benefits represents amounts accrued for annual leave, long service leave and defined benefits obligations.

The current portion of this provision included the total amount accrued for annual leave entitlements and the amounts accrued for long service leave entitlements that have vested due to employees having completed the required period of service. Based on past experience, the entity does not expect the full amount of annual leave or long service leave balances classified as current liabilities to be settled within the next twelve months. However these amounts must be classified as current liabilities since the entity does not have an unconditional right to defer settlement of these amounts in the event employees wish to use their leave entitlements.

The non-current portion for this provision includes amounts accrued for long service leave entitlements that have not yet vested in relation to those employees who have not yet completed the required period of service.

In calculating the present value of future cash flows in respect of long service leave, the probability of long service leave being taken is based on historical data. The measurement and recognition criteria relating to employee benefits have been discussed in Note 30(f).

Notes to the financial statements

for the year ended 30 June 2018

Note 18. Retirement benefit obligations

Fund information

The Retirement Benefits Fund ("RBF") is a defined benefit fund in which members receive lump sum benefits on resignation and lump sum or pension benefits on retirement, death or invalidity. The defined benefit section of RBF is closed to new members.

Regulatory Framework

The Scheme operates under the *Public Sector Superannuation Reform Act 2016* and the *Public Sector Superannuation Reform Regulations 2017*. Although the Scheme is not formally subject to the Superannuation Industry (Supervision) (SIS) legislation, the Tasmanian Government has undertaken (in a Heads of Government Agreement) to operate the scheme in accordance with the spirit of the SIS legislation. As an exempt public sector superannuation scheme (as defined in the SIS legislation), the Scheme is not subject to any minimum funding requirements.

RBF is a complying superannuation fund within the provisions of the *Income Tax Assessment Act 1997* such the fund's taxable income is taxed at a concessional rate of 15%. However RBF is also a public sector superannuation scheme which means that employer contributions may not be subject to the 15% tax (if the Tasmanian Government and RBF elect) up to the amount of "untaxed" benefits paid to members in the year.

The Superannuation Commission (the Commission) has fiduciary responsibility for, and oversees the administration of, the Scheme. The day to day running of the Scheme is managed by the Office of the Superannuation Commission, within the Department of Treasury and Finance.

Description of risks

There are a number of risks to which the Scheme exposes the Public Trustee. The more significant risks relating to the defined benefits are;

Investment Risk – The risk that investment returns will be lower than assumed and employers will need to increase contributions to offset this shortfall over the long term.

Salary growth risk – The risk that wages or salaries (on which future benefit amounts will be based) will rise more rapidly than assumed, increasing defined benefit amounts and the associated employer contributions over the long term.

Inflation risk – The risk that inflation is higher than anticipated, increasing pension payments and the associated employer contributions over the long term.

Benefit options risk – The risk that a greater proportion of members who joined prior to 1 July 1994 will elect the pension option, which is generally more costly than the alternative lump sum option.

Pensioner mortality risk – The risk is that a pensioner mortality will be lighter than expected, resulting in pensions being paid for a longer period.

Legislative risk – The risk is that legislative changes could be made which increase the cost of providing the defined benefits.

Description of significant events

There were no Scheme amendments affecting the defined benefits payable, curtailments or settlements during the year.

Notes to the financial statements

for the year ended 30 June 2018

Reconciliation of the defined benefit obligation

| | 2018 \$'000 | 2017 \$'000 |
|---|----------------|----------------|
| Present value of defined benefit obligations at the beginning of the year | 15,034 | 16,670 |
| Current service cost | 112 | 153 |
| Interest cost | 630 | 576 |
| Contributions by plan participants | 39 | 31 |
| Actuarial (gains) losses | 24 | (1,691) |
| Benefits paid | (962) | (682) |
| Taxes, premiums and expenses | - | (23) |
| Present value of defined benefit obligations at the end of the year | <u>14,877</u> | <u>15,034</u> |

Reconciliation of the fair value of scheme assets

| | | |
|--|--------------|--------------|
| Fair value of plan assets at the beginning of the year | 2,686 | 2,446 |
| Interest income | 111 | 84 |
| Actual return on plan assets less interest income | 195 | 296 |
| Employer contributions | 703 | 534 |
| Contributions by plan participants | 39 | 31 |
| Benefit paid | (962) | (682) |
| Taxes, premiums and expenses | - | (23) |
| Fair value of plan assets at the end of the year | <u>2,772</u> | <u>2,686</u> |

Reconciliation of the net defined benefit liability

| | | |
|-------------------------------|----------------|----------------|
| Defined benefit obligation | 14,877 | 15,034 |
| Fair value of plan assets | <u>(2,772)</u> | <u>(2,686)</u> |
| Net defined benefit liability | <u>12,105</u> | <u>12,348</u> |
| Current net liability | 635 | 818 |
| Non-current net liability | <u>11,470</u> | <u>11,530</u> |
| | <u>12,105</u> | <u>12,348</u> |

Reconciliation of the Effect of the Asset Ceiling

The asset ceiling has no impact on the net defined benefit liability.

Expense recognised in the statement of comprehensive income

| | | |
|---------------|------------|------------|
| Service cost | 112 | 153 |
| Interest cost | <u>519</u> | <u>492</u> |
| | <u>631</u> | <u>645</u> |

Amounts recognised in other comprehensive income

| | | |
|-----------------|------------|--------------|
| Actuarial gains | <u>163</u> | <u>2,085</u> |
|-----------------|------------|--------------|

Cumulative amount recognised in other comprehensive income

| | | |
|--|--------------|----------------|
| Cumulative amount of actuarial (gains) / losses at end of prior year | 3,341 | 5,426 |
| Actuarial (gains) / losses recognised during the year | <u>(163)</u> | <u>(2,085)</u> |
| Cumulative amount of actuarial (gains) / losses at end of year | <u>3,178</u> | <u>3,341</u> |

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

Reconciliation of the Effect of the Asset Ceiling

The asset ceiling has no impact on the net defined benefit liability.

Fair Value of scheme assets as at 30 June 2018[^]

| Asset category | Total (\$'000) | Quoted prices in active markets for identical assets - Level 1 (\$,000) | Significant observable inputs – Level 2 (\$,000) | Unobservable inputs – Level 3 (\$,000) |
|-------------------|----------------|---|--|--|
| Equity securities | 1,018 | 437 | 581 | - |
| Unit Trusts | 1,727 | 913 | 813 | 1 |
| Direct Property | 26 | - | 26 | - |
| Derivative assets | 1 | - | 1 | - |
| Total | 2,772 | 1,350 | 1,421 | 1 |

[^] Estimated based on assets allocated to Public Trustee as at 30 June 2018 and asset allocation of the RBF Scheme as at 30 June 2017.

Fair value of the entity's own financial instruments

The fair value of scheme assets includes no amounts relating to:

- any of the entity's own financial instruments, and
- any property occupied by, or other assets used by, the entity.

Assets are not held separately for each reporting entity but are held for the Fund as a whole. The fair value of the Scheme assets for each reporting entity was estimated by allocating the total Fund assets in proportion to the value of each reporting entity's funded liabilities, calculated using the assumptions outlined in the Actuaries report by Mercer, with the exception of the discount rate. For the purposes of allocating assets to each reporting entity, we have used the Government Bond yield of 3.00%, in order to be consistent with the allocation of assets reported to the Department of Treasury and Finance.

Significant actuarial assumptions at the reporting date

Assumptions to determine defined benefit cost and start of year defined benefit obligation:

| | 30 June 2018 | 30 June 2017 |
|---|-----------------|--------------|
| Discount rate (active member and pensioners) | 4.35% pa | 3.55% pa |
| Expected rate of increase in compulsory preserved amounts | 3.00% pa | 4.50% pa |
| Expected salary increase rate | 3.00% pa | 3.00% pa |
| Expected pension increase rate | 2.50% pa | 2.50% pa |

Assumptions to determine end of year defined benefit obligation:

| | | |
|---|-----------------|----------|
| Discount rate (active member and pensioners) | 4.30% pa | 4.35% pa |
| Expected rate of increase in compulsory preserved amounts | 3.00% pa | 3.00% pa |
| Expected salary increase rate | 3.00% pa | 3.00% pa |
| Expected pension increase rate | 2.50% pa | 2.50% pa |

Sensitivity analysis

The defined benefit obligation as at 30 June 2018 under several scenarios is presented below.

Scenario A and B relate to discount rate sensitivity. Scenario C and D relate to expected pension increase rate sensitivity.

| | Base case | Scenario A | Scenario B | Scenario C | Scenario D |
|-------------------------------------|-----------|------------------------|------------------------|--------------------------------|--------------------------------|
| | | -1.0% pa discount rate | +1.0% pa discount rate | -1.0% pa pension increase rate | +1.0% pa pension increase rate |
| Discount rate | 4.30% pa | 3.30% pa | 5.30% pa | 4.30% pa | 4.30% pa |
| Pension increase rate | 2.50% pa | 2.50% pa | 2.50% pa | 1.50% pa | 3.50% pa |
| Defined benefit obligation (\$'000) | 14,877 | 16,784 | 13,324 | 13,600 | 16,416 |

The defined benefit obligation has been recalculated by changing the assumption as outlined above, whilst retaining all other assumptions.

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

Asset-Liability matching strategies

We are not aware of any asset and liability matching strategies adopted by the Fund.

Funding arrangements

The employer contributes a percentage of each lump sum or pension benefit payment. This percentage may be amended by the Minister on the advice of the Actuary.

Expected contributions

Financial Year Ending

30 June

2019

\$'000

Expected employer contributions

635

Maturity profile of defined benefit obligation

The weighted average duration of the defined benefit obligation for the Public Trustee is 12 years.

Notes to the financial statements

for the year ended 30 June 2018

Note 19. Reserves

Fair value reserve

| | 2018 \$'000 | 2017 \$'000 |
|--|----------------|----------------|
| Balance at beginning of year | 1,302 | 994 |
| Fair value movement in investments in managed funds (net of related tax) | <u>(69)</u> | <u>308</u> |
| Balance at end of the year | <u>1,233</u> | <u>1,302</u> |

The fair value reserve is used to recognise the change in fair values of managed investment funds that are measured at fair value through other comprehensive income.

Note 20. Leasing commitments

Operating lease commitments

Non cancellable operating leases contracted for but not capitalised in the financial statements.

Payable – minimum lease payments:

| | | |
|---|--------------|--------------|
| - Not later than one year | 408 | 422 |
| - Later than one year but not later than five years | 722 | 1,085 |
| - Later than five years | - | - |
| | <u>1,130</u> | <u>1,507</u> |

The property lease in Hobart was renegotiated during the year ended 30 June 2014 and is a non-cancellable lease with a seven year term, with rent payable monthly in advance. Contingent rental provisions within the lease agreement require that the minimum lease payments should be increased by 3% per annum. An option exists to renew the lease at the end of the seven year term for an additional term of three years.

The property lease in Launceston is a non-cancellable lease with a five year term, rent payable monthly in advance and a five year lease option. The lease option has been exercised and the lease expires in January 2019. Contingent rental provisions within the lease agreement require that the minimum lease payments should be increased at the higher of consumer price index ("CPI") or 0% per annum.

The property lease term in Burnie was extended during the year ended 30 June 2014. The lease is a non-cancellable lease with a six year term, with rent payable monthly in advance. Contingent rental provisions within the lease agreement require that the minimum lease payments should be increased at the higher of consumer price index ("CPI") or 0% per annum.

The property rented in Devonport is subject to a monthly licence.

Notes to the financial statements

for the year ended 30 June 2018

Note 21. Cash flow information

| a. Reconciliation of cash flows from operations with profit after income tax | 2018 | 2017 |
|--|--------------|------------|
| | \$'000 | \$'000 |
| Profit after income tax before other comprehensive income | 772 | 749 |
| Non-cash flows in profit: | | |
| Depreciation | 285 | 237 |
| Assets written off expense | - | 28 |
| Distribution income treated as investing activities | (1,406) | (575) |
| Changes in assets and liabilities: | | |
| (Increase) in trade and other receivables | (48) | (5) |
| (Increase) / decrease in prepayments | (9) | 18 |
| (Decrease) in trade and other payables | (158) | (95) |
| Decrease in tax assets | 310 | 207 |
| (Decrease) / Increase in provisions | (100) | 271 |
| Cash flows (used in) / provided by operations | <u>(354)</u> | <u>835</u> |

Note 22. Contingent liabilities and contingent assets

The entity had no contingent liabilities and no contingent assets at the end of the reporting period.

Note 23. Events after the reporting period

Since 30 June 2018, there were no other matters that have occurred after balance date requiring disclosure.

Note 24. Operating segments

The entity provides trustee and related financial services and operates predominantly in Tasmania and has no separate operating segments.

Note 25. Related party transactions

a. The entity's main related parties are as follows:

Key management personnel

Any person(s) having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity, is considered key management personnel.

For details of disclosures relating to key management personnel, refer to note 8: Key management personnel compensation.

Other related parties

Other related parties include entities over which key management personnel have joint control.

b. Transactions with related parties

There were no related party transactions during the year ended 30 June 2018.

Notes to the financial statements

for the year ended 30 June 2018

Note 26. Financial risk management

The entity's financial instruments consist mainly of deposits with banks, investments in unlisted managed funds and trade and other receivables / payables.

The totals for each category of financial instruments, measured in accordance with AASB 9 Financial Instruments as detailed in the accounting policies to these financial statements, are as follows.

| | 2018 | 2017 |
|------------------------------|---------------|---------------|
| | \$'000 | \$'000 |
| Financial assets | | |
| Cash and cash equivalents | 4,108 | 4,053 |
| Trade and other receivables | 1,342 | 422 |
| Other financial assets | 12,520 | 12,627 |
| | 17,970 | 17,102 |
| Financial liabilities | | |
| Trade and other payables | 542 | 700 |

Financial risk management policies

The directors' overall risk management strategy seeks to assist the entity in meeting its financial targets, while minimising potential adverse effects on financial performance.

Specific financial risk exposure and management

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

There have been no substantive changes in the types of risks the entity is exposed to, how these risks arise, or the Board's objectives, policies and processes for managing or measuring the risks from the previous period.

a. Credit risk

Exposure to credit risk relating to financial assets arises from the potential non-performance by counterparties of contract obligations that could lead to a financial loss to the entity.

Credit risk is managed through maintaining procedures (such procedures include the utilisation of systems for the approval, granting and renewal of credit limits, the regular monitoring of exposures against such limits and the monitoring of the financial stability of significant customers and counterparties) ensuring, to the extent possible that customers and counterparties to transactions are of sound credit worthiness. Such monitoring is used in assessing receivables for impairment. Credit terms are generally 14 to 30 days from the date of invoice.

The entity minimizes the risks associated with the investment of its corporate funds by investing strictly in accordance with its Corporate Funds Investment Policy which complies with the Treasurer's Instruction GBE 07-44-01. The policy is monitored regularly and reviewed on an annual basis by the directors.

Risk is also minimised through investing surplus funds in financial institutions that maintain a high credit rating or in entities that the directors have otherwise cleared as being financially sound.

Credit risk exposures

The maximum exposure to credit risk by class of recognised financial assets at the end of the reporting period excluding the value of any collateral or other security held is equivalent to the carrying value and classification of those financial assets (net of any provisions) as presented in the statement of financial position.

The entity has no significant concentrations of credit risk with any single counterparty or entity of counterparties. Details with respect to credit risk of trade and other receivables are provided in Note 12.

Trade and other receivables that are neither past due nor impaired are considered to be of high credit quality. Aggregates of such amounts are as detailed in Note 12.

Notes to the financial statements

for the year ended 30 June 2018

Credit risk related to balances with banks and other financial institutions is managed in accordance with approved board policy. The following table provides information regarding the credit risk relating to cash and money market securities based on Standard and Poor's counterparty credit ratings:

| | 2018 \$'000 | 2017 \$'000 |
|----------------------------------|----------------|----------------|
| Cash and cash equivalents | | |
| - AA- Rated | 4,108 | 4,053 |
| Financial assets | | |
| - Unrated | 12,520 | 12,627 |
| | 12,520 | 12,627 |

b. Liquidity risk

Liquidity risk arises from the possibility that the entity might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The entity manages this risk through the following mechanisms:

- preparing forward looking cash flow analysis in relation to its operational, investing and financing activities,
- maintaining a reputable credit profile,
- only investing surplus cash with major financial institutions, and
- comparing the maturity profile of financial liabilities with the realisation profile of financial assets.

The table below reflect the undiscounted contractual maturity for financial liabilities.

Cash flows realised from financial assets reflect management's expectation as to the timing of realisation. Actual timing may therefore differ from that disclosed. The timing of cash flows presented in the table to settle financial liabilities reflects the earliest contractual settlement dates and does not reflect management's expectations that banking facilities will be rolled forward.

Financial liability and financial asset maturity analysis

| | Within 1 year | | 1 to 5 years | | Total | |
|--|----------------|----------------|----------------|----------------|----------------|----------------|
| | 2018 \$'000 | 2017 \$'000 | 2018 \$'000 | 2017 \$'000 | 2018 \$'000 | 2017 \$'000 |
| Financial liabilities due for payment | | | | | | |
| Trade and other payables | (542) | (700) | - | - | (542) | (700) |
| Total expected outflows | (542) | (700) | - | - | (542) | (700) |
| Financial assets – cash flow realisable | | | | | | |
| Cash and cash equivalents | 4,108 | 4,053 | - | - | 4,108 | 4,053 |
| Trade and other receivables | 1,342 | 422 | - | - | 1,342 | 422 |
| Financial assets | - | - | 12,520 | 12,627 | 12,520 | 12,627 |
| Total anticipated inflows | 5,450 | 4,475 | 12,520 | 12,627 | 17,970 | 17,102 |
| Net inflow on financial instruments | 4,908 | 3,775 | 12,520 | 12,627 | 17,428 | 16,402 |

c. Market risk

Interest rate risk

Exposure to interest rate risk arises on financial assets and financial liabilities recognised at the end of the reporting period whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments. The entity is also exposed to earnings volatility on floating rate instruments. The financial instruments which primarily expose the entity to interest rate risk are government and fixed interest securities and cash and cash equivalents.

Price risk

Price risk relates to the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices of securities held. Such risk is managed through diversification of investments across industries and geographic location

Notes to the financial statements

for the year ended 30 June 2018

d. Sensitivity analysis

The following table illustrates sensitivities to the entity's exposures to changes in interest rates and equity prices. The table indicates the impact on how profit and equity values reported at balance date would have been affected by changes in the relevant risk variable that management considers to be reasonably possible.

These sensitivities assume that the movement in a particular variable is independent of other variables.

| | Profit \$'000 | Equity \$'000 |
|--------------------------------|------------------|------------------|
| Year ended 30 June 2018 | | |
| +/- 100 bps in interest rates | 41 | 30 |
| +/- 100 bps in investments | 125 | 91 |
| Year ended 30 June 2017 | | |
| +/- 100 bps in interest rates | 41 | 28 |
| +/- 100 bps in investments | 126 | 88 |

There have been no changes in any of the methods or assumptions used to prepare the above sensitivity analysis from the prior year.

e. Net fair values

(i) Fair value estimation

The fair values of financial assets and financial liabilities are presented in the following table and can be compared to their carrying values as presented in the statement of financial position. Fair value is the amount at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Fair values derived may be based on information that is estimated or subject to judgement, where changes in assumptions may have a material impact on the amounts estimated. Areas of judgement and the assumptions have been detailed below. Where possible, valuation information used to calculate fair value is extracted from the market, with more reliable information available from markets that are actively traded. Where securities are unlisted and no market quotes are available, fair value is obtained using discounted cash flow analysis and other valuation techniques commonly used by market participants.

Differences between fair values and carrying values of financial instruments with fixed interest rates are due to the change in discount rates being applied by the market since their initial recognition by the entity. Most of these instruments, which are carried at amortised cost (i.e. trade receivables) are to be held until maturity and therefore the net fair value figures calculated bare little relevance to the entity.

(ii) Financial instruments measured at fair value

The financial instruments recognised at fair value in the statement of financial position have been analysed and classified using a fair value hierarchy reflecting the significance of the inputs used in making the measurements. The fair value hierarchy consists of the following levels:

- quoted unit prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2); and
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

| | Level 1 \$'000 | Level 2 \$'000 | Level 3 \$'000 | Total \$'000 |
|---------------------------------------|-------------------|-------------------|-------------------|-----------------|
| 2018 | | | | |
| Financial assets | | | | |
| Investments in unlisted managed funds | - | 12,520 | - | 12,520 |
| 2017 | | | | |
| Financial assets | | | | |
| Investments in unlisted managed funds | - | 12,627 | - | 12,627 |

The fair value of investments in unlisted managed funds has been based on the closing quoted unit prices at the end of the reporting period, excluding transaction costs.

Notes to the financial statements

for the year ended 30 June 2018

Note 27. Client assets under management and trusteeship

The entity manages the assets of its clients pursuant to *The Public Trustee Act 1930*. These assets are not reflected in the Statement of Financial Position as they are held in trust. The entity maintains two investment funds to provide clients with a prudent investment for the particular circumstances of each client. The details of the fund assets are as follows:

| | Common Fund \$'000 | No. 1 Fund \$'000 | No. 2 Fund \$'000 | Total '000 |
|-------------------------------------|--------------------------|----------------------|----------------------|----------------|
| 2018 | | | | |
| Net assets | | | | |
| Cash | 6,131 | 23 | 173 | 6,327 |
| Term deposits | 63,000 | - | - | 63,000 |
| Receivables | - | 318 | 6,972 | 7,290 |
| Financial assets | | | | |
| - Cash | - | 2,438 | 6,674 | 9,112 |
| - Australian fixed interest * | - | 1,850 | 22,323 | 24,173 |
| - Australian equities * | - | 756 | 17,883 | 18,639 |
| - Property securities * | - | 376 | 7,988 | 8,364 |
| - International equities * | - | 389 | 8,848 | 9,237 |
| - International equities (hedged) * | - | 362 | 8,328 | 8,690 |
| Payables | - | (286) | (7,648) | (7,934) |
| | 69,131 | 6,226 | 71,541 | 146,898 |
| Equity | | | | |
| Client funds | 65,024 | 6,226 | 71,541 | 142,791 |
| Entity funds | 4,107 | - | - | 4,107 |
| | 69,131 | 6,226 | 71,541 | 146,898 |
| 2017 | | | | |
| Net assets | | | | |
| Cash | 12,343 | 25 | 229 | 12,597 |
| Term deposits | 64,000 | - | - | 64,000 |
| Receivables | - | 97 | 1,650 | 1,747 |
| Financial assets | | | | |
| - Cash | - | 2,858 | 6,024 | 8,882 |
| - Australian fixed interest * | - | 2,318 | 21,307 | 23,625 |
| - Australian equities * | - | 1,091 | 21,982 | 23,073 |
| - Property securities * | - | 449 | 7,446 | 7,895 |
| - International equities * | - | 371 | 7,627 | 7,998 |
| - International equities (hedged) * | - | 402 | 8,483 | 8,885 |
| Payables | - | (70) | (1,925) | (1,995) |
| | 76,343 | 7,541 | 72,823 | 156,707 |
| Equity | | | | |
| Client funds | 72,290 | 7,541 | 72,823 | 152,654 |
| Entity funds | 4,053 | - | - | 4,053 |
| | 76,343 | 7,541 | 72,823 | 156,707 |

* These investments are in unlisted unit trusts which would, applying the fair value hierarchy outlined in note 26(e) (ii), be categorised as level 2.

Notes to the financial statements

for the year ended 30 June 2018

A summary of the investment flows to and from each fund and the allocation of net fund earnings follows:

| | Common Fund \$'000 | No. 1 Fund \$'000 | No. 2 Fund \$'000 | Total \$'000 |
|--------------------|--------------------------|----------------------|----------------------|-----------------|
| 2018 | | | | |
| Fund value | | | | |
| Balance at 1 July | 76,343 | 7,541 | 72,823 | 156,707 |
| Applications | 101,900 | 706 | 8,361 | 110,967 |
| Redemptions | (109,112) | (2,079) | (7,901) | (119,092) |
| Net profit | 942 | 304 | 6,306 | 7,552 |
| Distributions | (942) | (246) | (8,048) | (9,236) |
| Balance at 30 June | 69,131 | 6,226 | 71,541 | 146,898 |
| 2017 | | | | |
| Fund value | | | | |
| Balance at 1 July | 66,032 | 7,357 | 72,615 | 146,004 |
| Applications | 122,171 | 2,508 | 4,611 | 129,290 |
| Redemptions | (111,860) | (2,467) | (6,950) | (121,277) |
| Net profit | 884 | 215 | 5,265 | 6,364 |
| Distributions | (884) | (72) | (2,718) | (3,674) |
| Balance at 30 June | 76,343 | 7,541 | 72,823 | 156,707 |

Note 28. Economic dependency

The entity is reliant on the funding received from the Tasmanian Government in respect of the Community Service Obligations (CSO) performed by the entity. During the year ended 30 June 2017, the entity settled a new CSO funding agreement with State for a 3-year term effective from 1 July 2017.

The amount of CSO funding received by the entity during the year ended 30 June 2018 was \$2,023,000 (2017: \$1,978,000).

Note 29. Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following items, which are measured on an alternative basis on each reporting date.

| Items | Measurement bases |
|---------------------------------------|--|
| Investments in unlisted managed funds | Fair value - closing quoted unit prices at the end of the reporting period, excluding transaction costs. |
| Net defined benefits obligation | Fair value of plan assets less the present value of the defined benefit obligation. |

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

Note 30. Significant accounting policies

The entity has consistently applied the following accounting policies to all periods presented in these financial statements.

a. Income tax equivalent

Pursuant to the *Government Business Enterprise Act 1995* the entity is required to pay an income tax equivalent to the State of Tasmania as if it were a company pursuant to Australian income tax laws. The entity has applied tax effect accounting principles prescribed in AASB112 *Income Taxes*.

The income tax expense (income) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to profit or loss is the tax payable on taxable income. Current tax liabilities (assets) are measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense (income) is charged or credited outside profit or loss when the tax relates to items that are recognised outside profit or loss.

No deferred income tax is recognised from the initial recognition of an asset or liability where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled and their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where: (a) a legally enforceable right of set-off exists; and

(b) the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

b. Plant and equipment

Each class of plant and equipment is carried at cost as indicated less, where applicable, any accumulated depreciation and impairment losses.

(i) Plant and equipment

Plant and equipment are measured on the cost basis and are therefore carried at cost less accumulated depreciation and any accumulated impairment. In the event the carrying amount of plant and equipment is greater than the estimated recoverable amount, the carrying amount is written down immediately to the estimated recoverable amount and impairment losses are recognised either in profit or loss or as a revaluation decrease if the impairment losses relate to a revalued asset. A formal assessment of recoverable amount is made when impairment indicators are present (refer to Note 1 (e) for details of impairment).

(ii) Depreciation

The depreciable amount of all fixed assets is depreciated on a straight-line basis over the asset's useful life to the entity commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

| Class of Fixed Asset | Depreciation Rate |
|-----------------------------------|-------------------|
| Leasehold improvements | 10% |
| Fixtures, furniture and equipment | 10% to 40% |
| Client Management System | 20% |

Notes to the financial statements

for the year ended 30 June 2018

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the statement of comprehensive income. When revalued assets are sold, amounts included in the revaluation surplus relating to that asset are transferred to retained earnings.

c. Leases

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are recognised as expenses in the periods in which they are incurred.

d. Financial instruments

Non-derivative financial assets

The entity initially recognises financial assets on the trade date at which the entity becomes a party to the contractual provisions of the instrument.

Financial assets are initially measured at fair value. If the financial asset is not subsequently measured at fair value through profit or loss, then the initial measurement includes transaction costs that are directly attributable to the asset's acquisition or origination. The entity subsequently measures financial assets at either amortised cost or fair value.

The entity derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the right to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset that is created or retained by the entity is recognised as a separate asset or liability.

On initial recognition, the entity classifies its financial assets as subsequently measured at either amortised cost or fair value, depending on its business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

In accordance with the transitional provisions of AASB 9, the classification of the financial assets that the entity held at the date of initial application was based on the facts and circumstances of the business model in which the financial assets were held at that date.

Financial assets measured at amortised cost

A financial asset is subsequently measured at amortised cost using the effective interest method and net of any impairment loss, if:

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

Financial assets measured at fair value

Financial assets other than those classified as financial assets measured at amortised cost are subsequently measured at fair value with all changes in value recognised in profit or loss.

However, for investments in non-rated managed funds that are not held for trading, the entity may elect at initial recognition to present gains and losses in other comprehensive income. For instruments measured at fair value through other comprehensive income, gains or losses are never classified to profit or loss and no impairments are recognised in profit or loss. Distributions earned from such investments are recognised in profit or loss unless the distribution clearly represents a repayment of part of the cost of the investment.

Non-derivative financial liabilities

The entity initially recognises financial liabilities on the trade date, which is the date the entity becomes a party to the contractual provision of the instrument.

The entity classified all other non-derivative financial liabilities into the amortised cost measurement category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Financial liabilities comprise trade and other payables.

Notes to the financial statements

for the year ended 30 June 2018

Impairment

At the end of each reporting date, the entity assesses whether there is objective evidence that a financial asset has been impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events (a 'loss event') having occurred, which has an impact on the estimated future cash flows of the financial asset(s).

In the case of available-for-sale financial instruments, a significant or prolonged decline in the value of the instrument is considered to constitute a loss event. Impairment losses are recognised in profit or loss immediately. Also, any cumulative decline in fair value previously recognised in other comprehensive income is reclassified to profit or loss at this point.

De-recognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expire or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or have expired.

The difference between the carrying amount of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

e. Impairment of assets

At the end of each reporting period, the entity assesses whether there is any indication that an asset may be impaired. The assessment will include the consideration of external and internal sources of information. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, to the asset's carrying amount. Any excess of the asset's carrying amount over its recoverable amount is recognised immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with another Standard (e.g. in accordance with the revaluation model in AASB 116). Any impairment loss of a revalued asset is treated as a revaluation decrease in accordance with that other Standard.

Where it is not possible to estimate the recoverable amount of an individual asset, the entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

f. Employee benefits

(i) Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the entity has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided.

(iii) Defined benefits plan

The entity's defined benefits plan is in respect of current and former employees who have defined benefits arising from membership of the contributory section of the Tasmanian Government's Retirement Benefits Fund.

The entity's net obligation in respect of its defined benefit plan is calculated by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a Tasmanian Government appointed qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the entity, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan.

To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income.

Notes to the financial statements

for the year ended 30 June 2018

The entity determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the corporate bond discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The entity recognises gain and losses on settlement of a defined benefit plan when the settlement occurs.

(iv) Other long-term employee benefits

The entity's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognised in profit or loss in the period in which they arise.

g. Provisions

Provisions are recognised when the entity has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

Provisions are measured using the best estimate of the amounts required to settle the obligation at the end of the reporting date.

h. Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

i. Revenue and other income

Revenue is measured at the fair value of the consideration received or receivable.

(i) Commissions

Commissions revenue is recognised as the relevant administration transactions occur.

(ii) Fees

Fees revenue from rendering a service is recognised as the service is provided.

(iii) Funding of Community Service Obligations (CSO)

CSO funding revenue is recognised as the CSOs are performed.

(iv) Interest revenue is recognised using the effective interest method.

(v) Dividend revenue is recognised when the right to receive a dividend has been established.

j. Trade and other payables

Trade and other payables represent the liability for goods and services received by the entity that remain unpaid at the end of the reporting period. The balance is recognised as a current liability with the amount being normally paid within 30 days of recognition of the liability.

k. 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 ("ATO").

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the ATO is included with other receivables or payables in the statement of financial position.

Cash flows in the Statement of Cash Flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities, which are recoverable from or payable to the ATO, are presented as operating cash flows included in receipts from clients or payments to suppliers.

l. Comparative figures

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

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

m. Pending accounting standards

AASB 15 Revenue from Contracts with Customers and AASB 16 Leases are new accounting standards with the following effective and application dates.

| New Standard | Application for Year Ended | Key requirement |
|---------------------------------------|----------------------------|-----------------|
| Revenue from contracts with customers | 30 June 2019 | Note m (i) |
| Leases | 30 June 2020 | Note m (ii) |

Whilst early adoption of AASB 15 and AASB 16 is permitted by both accounting standards, the Public Trustee intends to adopt them in the financial reporting periods shown in the table above.

(i) AASB 15 requires entities to recognise revenue from contracts with customers based on performance obligations contained in a contract/s for the provision of goods or services. Revenue can be recognised at a point in time or over time. Management have identified the appropriate treatment of revenue from contracts with its customers and is well progressed with determining the appropriate transition method and disclosure requirements under the standard.

(ii) AASB 16 removes the classification of leases as either operating leases or finance leases – for the lessee – effectively treating all leases under a single balance sheet model. Short-term leases (less than 12 months) and leases of low-value assets (such as personal computers) are exempt from the lease accounting requirements. There are also changes in accounting over the life of the lease. In particular, companies will now recognise an interest expense on the lease liability and a depreciation expense on the corresponding right of use asset. Management are currently working through the requirements and impact of the standard. Management intend applying the modified retrospective transition method on application of the standard. Based on current leasing arrangements application of the standard is predicted to have the following increase/(decrease) on the Public Trustees Profit and Loss account;

| | |
|------|------------|
| 2020 | (\$10,214) |
| 2021 | \$7,350 |
| 2022 | \$2,864 |

The leases for Burnie, Devonport and Launceston will expire within one year. Until new terms and conditions for these leases have been finalised, management cannot reliably estimate the final impact of the changes resulting from the application of AASB 16.

Statement of certification

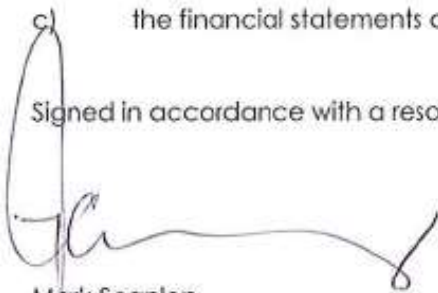
In the opinion of the directors of the Public Trustee ("the entity"):

- a) the financial statements and notes of the entity are in accordance with the Government Business Enterprises Act 1995, including:
 - (i) giving a true and fair view of the results and cash flows for the year ended 30 June 2018 and the financial position as at 30 June 2018 of the entity; and
 - (ii) complying with the Australian Accounting Standards and Interpretations and with the Treasurer's Instructions.
- b) there are reasonable grounds to believe that the entity will be able to pay its debts as and when they fall due.

This declaration has been made after receiving the following declaration from the Chief Executive Officer and Chief Financial Officer of the entity:

- a) the financial records of the enterprise for the year ended 30 June 2018 have been properly maintained in accordance with Section 51 of the Government Business Enterprises Act 1995;
- b) the financial statements and notes for the year ended 30 June 2018 have been prepared in accordance with Section 52 of the Government Business Enterprises Act 1995; and
- c) the financial statements and notes for the year ended 30 June 2018 give a true and fair view.

Signed in accordance with a resolution of the directors:



Mark Scanlon
Chairperson



Tracy Matthews
Director

Hobart, 31 August 2018

Independent Auditor's Report



Independent Auditor's Report

To the Members of Parliament

Public Trustee

Report on the Audit of the Financial Report

Opinion

I have audited the financial report of the Public Trustee which comprises the statement of financial position as at 30 June 2018, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies and the statement of certification by the directors.

In my opinion, the accompanying financial report:

- (a) presents fairly, in all material respects, the Public Trustee's financial position as at 30 June 2018 and its financial performance and its cash flows for the year then ended
- (b) is in accordance with the *Government Business Enterprises Act 1995* and Australian Accounting Standards.

Basis for Opinion

I conducted the audit in accordance with Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of my report. I am independent of the Public Trustee in accordance with 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 my audit of the financial report in Australia. I have also fulfilled my other ethical responsibilities in accordance with the Code.

The *Audit Act 2008* further promotes the independence of the Auditor-General. The Auditor-General is the auditor of all Tasmanian public sector entities and can only be removed by Parliament. The Auditor-General may conduct an audit in any way considered appropriate and is not subject to direction by any person about the way in which audit powers are to be exercised. The Auditor-General has for the purposes of conducting an audit, access to all documents and property and can report to Parliament matters which in the Auditor-General's opinion are significant.

...1 of 4

To provide independent assurance to the Parliament and Community on the performance and accountability of the Tasmanian Public sector.
Professionalism | Respect | Camaraderie | Continuous Improvement | Customer Focus

Strive | Lead | Excel | To Make a Difference

Independent Auditor's Report

I confirm that the independence declaration was provided to the directors of the Public Trustee on the same date as this auditor's report.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the financial report of the current period. These matters were addressed in the context of my audit of the financial report as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

| Why this matter is considered to be one of the most significant matters in the audit | Audit procedures to address the matter included |
|--|---|
| <p>Defined benefits superannuation <i>Refer to notes 17 and 18</i></p> <p>The Public Trustee had employees who were members of a defined benefit superannuation scheme. The Public Trustee's obligation under this scheme (less fair value of plan assets) was recognised in the statement of financial position and was valued at \$12.11m at 30 June 2018.</p> <p>The value of the superannuation liability was significant and its estimation involved complex judgements about future events.</p> | <ul style="list-style-type: none"> Assessing the competence of the State Actuary that performed the valuation. Evaluating information provided to the State Actuary. Assessing the adequacy of the disclosures in the financial statements. |
| <p>Investment in financial assets/assets under management and trusteeship <i>Refer to notes 13 and 27</i></p> <p>As at 30 June 2018, the Public Trustee had a large amount of assets invested in managed funds, \$12.52m, measured at fair value based on advice from external providers.</p> <p>The Public Trustee also held assets managed on behalf of its clients, pursuant to the <i>Public Trustee Act 1930</i>, which had a high volume of activity and a significant monetary value at 30 June 2018, \$146.90m.</p> <p>Assets held in trust were not recognised in the statement of financial position but disclosed by way of note.</p> <p>Investments included unlisted funds which were valued based on proprietary valuations</p> | <ul style="list-style-type: none"> Reconciling and confirming investment balances. Analysing revenue and investment balances. Obtaining and assessing confirmations of the number of units, the redemption value of units at year-end and copies of audited financial statements directly from fund managers. Assessing the adequacy of internal controls related to valuation of unlisted funds. Performing a reconciliation of the investment funds held in trust, including |

...2 of 4

To provide independent assurance to the Parliament and Community on the performance and accountability of the Tasmanian Public sector.
Professionalism | Respect | Camaraderie | Continuous Improvement | Customer Focus

Strive | Lead | Excel | To Make a Difference

Independent Auditor's Report

| | |
|---|---|
| prepared by fund managers under their respective valuation methodologies. | agreeing the reasonableness of unit rates identified within the funds to supporting confirmations. |
| | <ul style="list-style-type: none">Assessing the adequacy of relevant disclosures in the financial report. |

Responsibilities of the Directors for the Financial Report

The directors of the Public Trustee are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards, and the *Government Business Enterprises Act 1995* 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 Public Trustee'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 the directors either intend to liquidate the Public Trustee or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

My 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 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 Public Trustee's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

...3 of 4

To provide independent assurance to the Parliament and Community on the performance and accountability of the Tasmanian Public sector.
Professionalism | Respect | Camaraderie | Continuous Improvement | Customer Focus

Strive | Lead | Excel | To Make a Difference

Independent Auditor's Report

- Conclude on the appropriateness of the directors' 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 Public Trustee'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 conclusion is based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Public Trustee 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 directors 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.

I also provide the directors with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

From the matters communicated with the directors, I determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. I describe these matters in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



Stephen Morrison
Assistant Auditor-General – Financial Audit Services
Delegate of the Auditor-General

Tasmanian Audit Office

3 September 2018
Hobart

...4 of 4

To provide independent assurance to the Parliament and Community on the performance and accountability of the Tasmanian Public sector.
Professionalism | Respect | Camaraderie | Continuous Improvement | Customer Focus

Strive | Lead | Excel | To Make a Difference

Superannuation declaration

I hereby certify that the Public Trustee has met its obligations under the Commonwealth's *Superannuation Guarantee (Administration) Act 1992* in respect of any employee who is a member of a complying superannuation scheme to which the Public Trustee contributes.



David Benbow
Chief Executive Officer

Hobart, 31 August 2018

12. Public Interest Disclosures Act 2002

In accordance with the *Public Interest Disclosures Act 2002*, the Public Trustee has developed procedures and established a system for reporting disclosures of improper conduct or detrimental action by the Public Trustee or its employees.

Any person wishing to obtain a copy of these procedures may do so by contacting the Public Trustee's Right to Information Officer.

During the year in review, no disclosed matters were made to or by the Public Trustee as follows:

| Disclosure requirement | Disclosure |
|--|-------------------|
| The number and types of disclosures made to the relevant public body during the year and the number of disclosures determined to be a public interest disclosure | Nil |
| The number of disclosures determined by the relevant public body to be public interest disclosures that it investigated during the year | Nil |
| The number and types of disclosed matters referred to the public body during the year by the Ombudsman | Nil |
| The number and types of disclosure matters referred during the year by the public body to the Ombudsman to investigate | Nil |
| The number and types of investigations of disclosed matters taken over by the Ombudsman from the public body during the year | Nil |
| The number and types of disclosed matters that the relevant public body has declined to investigate during the year | Nil |
| The number and type of disclosed matters that were substantiated upon investigation and the action taken on completion of the investigation | Nil |
| Any recommendations made by the Ombudsman that related to the relevant public body | Nil |

13. Payment of Accounts and Buy Local disclosures

In accordance with Treasurer's Instruction, disclosures are made in respect of payment of accounts and buying local.

| Accounts due or paid within each year | |
|---|----------------|
| Measure | |
| Creditors Days | 30 days |
| Number of accounts due for payment | 1,325 |
| Number of accounts paid on time | 1,332 |
| Amount due for payment | \$2.53 Million |
| Amount paid on time | \$2.45 Million |
| Number of payments for interest on overdue accounts | NIL |
| Interest paid on overdue accounts | NIL |
| Commentary (if applicable) | |
| Reason for delays: disputed accounts | |

| Consultancies valued at more than \$50,000 (ex GST) | | | | |
|--|----------|-------------|----------------------|------------------|
| Name of consultant | Location | Description | Period of engagement | Amount |
| | | | | |
| | | | Total | \$ - |
| Consultants engaged for \$50,000 or less totalling | | | | \$ 89,346 |
| Total Payment to Consultants | | | | \$ 89,346 |

| Purchases from Tasmanian Business | |
|--|-----------------|
| % of purchases from Tasmanian businesses | 88.1 % |
| Value of purchases from Tasmanian businesses (Exc GST) | \$ 2.05 Million |

14. Managing Performance in the Public Trustee

In accordance with *Employment Direction No. 26 – Managing Performance in the State Service*, employment practices at Public Trustee are aligned to meet priorities, strategies, operational plans and the corporate values. Priorities are identified through the corporate planning process, individual business unit plans and alignment with individual roles within the organisation.

Public Trustee places a high importance on performance management and this is reinforced through a number of practices. Public Trustee's performance management system includes a comprehensive induction program; the probationary process (where applicable); the development of annual performance agreements with all employees; the identification of learning and development needs; career progression planning; and regular reviews of an individual's performance against his/her plan.

15. Investment Fund Special Purpose Annual Reports for the Year Ended 30 June 2018

Public Trustee Common Fund Special Purpose Annual Report - 30 June 2018

General information

The Public Trustee Common Fund was established under Section 38 of *The Public Trustee Act 1930* and is authorised to invest in the manner permitted by *The Trustee Act 1898*.

The Common Fund is a capital secure cash fund with a very low exposure to the risk of any loss.

Under the provisions of *The Public Trustee Act 1930* capital and interest invested in the Public Trustee Common Fund is guaranteed by the State of Tasmania.

The objective of the Fund is to provide investors with a capital secure investment generating a consistent income stream in line with market rates.

Interest is calculated on the daily balances and credited quarterly on 31 March, 30 June, 30 September and 31 December.

The information provided in this annual report is unaudited.

Interest Rate History

| Average Annual Rate to 30 June 2018 | |
|-------------------------------------|-------|
| 1 Month | 1.34% |
| 3 Months | 1.38% |
| 6 Months | 1.26% |
| 1 year | 1.29% |
| 2 years | 1.32% |
| 3 years | 1.43% |
| 5 years | 1.82% |

Public Trustee Common Fund
Statement of comprehensive income
For the year ended 30 June 2018

Statement of comprehensive income - unaudited

| | Year ended | |
|---|-------------------|--------------|
| | 30 June | 30 June |
| | 2018 | 2017 |
| | \$'000 | \$'000 |
| Investment revenue | | |
| Interest income | <u>1,726</u> | <u>1,759</u> |
| Total investment revenue | <u>1,726</u> | <u>1,759</u> |
| | | |
| Expenses | | |
| Management fees charged by Public Trustee | <u>784</u> | <u>783</u> |
| Total operating expenses | <u>784</u> | <u>783</u> |
| | | |
| Net profit attributable to account holders¹ | <u>942</u> | <u>976</u> |
| | | |
| Distributions to account holders | <u>(942)</u> | <u>(976)</u> |
| Amount retained but not distributed | <u>-</u> | <u>-</u> |

¹ The Common Fund net profit as at 30 June 2017 disclosed at Note 27 in the notes to the Financial Statements is incorrect and varies to the amount disclosed in the Annual Report. The amount disclosed at Note 27 does not include interim distributions of interest from the Common Fund paid out during the quarter; the correct amount of net profit is \$976k as disclosed above. As at the 30th June 2018, all interest was distributed from the Common Fund with the change having no impact on investor entitlements.

Public Trustee Common Fund
Statement of financial position
As at 30 June 2018

Statement of financial position – unaudited

| | | As at | |
|---|-------|----------------------|---------------|
| | | 30 June | 30 June |
| | | 2018 | 2017 |
| | Notes | \$'000 | \$'000 |
| Assets | | | |
| Cash and cash equivalents | | <u>69,131</u> | 76,343 |
| Total assets | | <u>69,131</u> | <u>76,343</u> |
| | | | |
| Net assets attributable to unitholders - liability | 4 | <u>69,131</u> | <u>76,343</u> |

Public Trustee Common Fund
Statement of changes in net assets attributable to unitholders
For the year ended 30 June 2018

Statement of changes in net assets attributable to unitholders - unaudited

| | Year ended | |
|--|---------------------------|---------------------------|
| | 30 June 2018 \$'000 | 30 June 2017 \$'000 |
| Total net assets attributable to unitholders at the beginning of the year | 76,343 | 66,032 |
| Net profit attributable to unitholders | 942 | 976 |
| Distributions to unitholders | (942) | (976) |
| Application for units | 101,900 | 122,171 |
| Redemption of units | (109,112) | (111,860) |
| Total net assets attributable to unitholders at the end of the year | <u>69,131</u> | <u>76,343</u> |

Public Trustee Group Common Fund
Statement of cash flows
For the year ended 30 June 2018

Statement of cash flows - unaudited

| | Year ended | |
|---|-------------------|---------------|
| | 30 June | 30 June |
| | 2018 | 2017 |
| | \$'000 | \$'000 |
| Cash flows from operating activities | | |
| Interest received | 1,726 | 1,759 |
| Management fees | (784) | (783) |
| Net cash inflow from operating activities | 942 | 976 |
| Cash flows from financing activities | | |
| Applications | 101,900 | 122,171 |
| Redemptions | (109,112) | (111,860) |
| Distributions paid | (942) | (976) |
| Net cash inflow/(outflow) from financing activities | (8,154) | 9,335 |
| Net increase/(decrease) in cash and cash equivalents | (7,212) | 10,311 |
| Cash and cash equivalents at the beginning of the year | 76,343 | 66,032 |
| Cash and cash equivalents at the end of the year | 69,131 | 76,343 |

1 General information

The Public Trustee Common Fund (Common Fund) was established under Section 38 of *The Public Trustee Act 1930* and is authorised to invest in the manner permitted by *The Trustee Act 1898*.

The Common Fund is a capital secure cash fund with a very low exposure to the risk of any loss.

Under the provisions of *The Public Trustee Act 1930* capital and interest invested in the Common Fund is guaranteed by the State of Tasmania.

The objective of the Common Fund is to provide investors with a capital secure investment generating a consistent income stream in line with market rates. Money currently held in the Common Fund includes the Public Trustee's corporate funds as well as client funds held on trust.

The Common Fund is managed by the Public Trustee.

The information provided in this annual report is unaudited.

2 Basis of accounting

This special purpose financial report has been prepared in accordance with Australian Accounting Standards as issued by the Australian Accounting Standards Board.

The financial report has been prepared on a historical cost basis.

The statement of financial position is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and are not distinguished between current and non-current. All balances are expected to be recovered or settled within twelve months, except for investments in financial assets and net assets attributable to unitholders.

The financial statements are presented in Australian dollars. Both the functional and presentation currency is Australian dollars (\$).

The financial statements comply with Australian Accounting Standards as issued by the Australian Accounting Standards Board.

Rounding

Amounts in the financial statements have been rounded off to the nearest thousand dollars, or in certain cases, the nearest dollar unless otherwise stated. Rounding is consistent with Class Order 98/0100 dated 10 July 1998, issued by the Australian Securities and Investments Commission, related to "rounding off" of amounts in the financial statements.

New and amended standards adopted by the Common Fund

There are no standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning 1 July 2017 that would be expected to have a material impact on the Common Fund.

3 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated in the following text.

(a) Impairment of financial assets

At the end of each reporting date, the Trustee assesses whether there is objective evidence that a financial asset has been impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events (a 'loss event') having occurred, which has an impact on the estimated future cash flows of the financial asset(s).

In the case of available-for-sale financial instruments, a significant or prolonged decline in the value of the instrument is considered to constitute a loss event. Impairment losses are recognised in profit or loss immediately. Also, any cumulative decline in fair value previously recognised in other comprehensive income is reclassified to profit or loss at this point.

(b) Financial instruments

Non-derivative financial assets

The Common Fund initially recognises financial assets on the trade date at which the entity becomes a party to the contractual provisions of the instrument.

Financial assets are initially measured at fair value. If the financial asset is not subsequently measured at fair value through profit or loss, then the initial measurement includes transaction costs that are directly attributable to the asset's acquisition or origination. The Common Fund subsequently measures financial assets at either amortised cost or fair value.

The entity derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the right to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset that is created or retained by the entity is recognised as a separate asset or liability.

On initial recognition, the entity classifies its financial assets as subsequently measured at either amortised cost or fair value, depending on its business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. In accordance with the transitional provisions of AASB 9, the classification of the financial assets that the entity held at the date of initial application was based on the facts and circumstances of the business model in which the financial assets were held at that date.

Financial assets measured at amortised cost

A financial asset is subsequently measured at amortised cost using the effective interest method and net of any impairment loss, if:

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

Financial assets measured at fair value

Financial assets other than those classified as financial assets measured at amortised cost are subsequently measured at fair value with all changes in value recognised in profit or loss.

(c) Investment revenue recognition

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

Interest received from investments in cash and cash equivalents

Interest income is recognised using the effective interest rate method.

(d) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank, deposits at call and short-term deposits with an original maturity of 12 months or less.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above.

(e) Taxation

Under current legislation, the Common Fund is not subject to income tax provided the unitholders are presently entitled to the income of the Common Fund and the Common Fund fully distributes net taxable income.

(f) Distributions

Interest is calculated on the daily balances and credited quarterly on 31 March, 30 June, 30 September and 31 December. The distributions are recognised in profit or loss as distributions to account holders.

(g) Unit holders

Investment in the Common Fund is by direct investment in cash or cash equivalents.

(h) Goods and Services Tax (GST)

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

when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

Receivables and payables are stated with the amount of GST included.

The Common Fund qualifies for Reduced Input Tax Credits (RITC) on management fees. These RITCs recoverable by the Common Fund from the ATO are recognised in the statement of comprehensive income.

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

(i) Derecognition of financial instruments

The derecognition of a financial instrument takes place when the Common Fund no longer controls the contractual rights that comprise the financial instrument, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed through to an independent third party.

(j) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2018 reporting period and have not been early adopted by the Fund.

There are no standards that are not yet effective and that are expected to have a material impact on the Common Fund in the current or future reporting periods and on foreseeable future transactions.

| 4 | Net assets attributable to unitholders – liability | As at | |
|----------|---|------------------------------------|------------------------------------|
| | | 30 June 2018 \$'000 | 30 June 2017 \$'000 |
| | Client funds | 65,024 | 72,290 |
| | Corporate funds | <u>4,107</u> | <u>4,053</u> |
| | Net assets attributable to unitholders - liability | <u>69,131</u> | <u>76,343</u> |

5 Financial risk management

The Common Fund's financial instruments consist of deposits with bank.

The totals for each category of financial instruments, measured in accordance with AASB 9 as detailed in the accounting policies to these financial statements, are as follows.

| | 2018 \$'000 | 2017 \$'000 |
|---------------------------|----------------|----------------|
| Financial assets | | |
| Cash and cash equivalents | <u>69,131</u> | <u>76,343</u> |
| | <u>69,131</u> | <u>76,343</u> |

Financial risk management policies

The Common Fund's overall risk management strategy seeks to assist the Common Fund in meeting its financial targets, while minimising potential adverse effects on financial performance.

Specific financial risk exposure and management

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

There have been no substantive changes in the types of risks the entity is exposed to, how these risks arise, or the Common Fund's objectives, policies and processes for managing or measuring the risks from the previous period.

a. Credit risk

Exposure to credit risk relating to financial assets arises from the potential non-performance by counterparties of contract obligations that could lead to a financial loss to the Common Fund.

The Common Fund minimises the risks associated with investment by investing strictly in accordance with the Common Fund Investment Policy.

Risk is also minimised through investing funds in financial institutions that maintain a high credit rating.

Credit risk exposures

The maximum exposure to credit risk by class of recognised financial assets at the end of the reporting period excluding the value of any collateral or other security held is equivalent to the carrying value and classification of those financial assets (net of any provisions) as presented in the statement of financial position.

The Common Fund has a concentration of credit risk with a single counterparty as all funds are held with the one bank. This concentration is managed as under the provisions of *The Public Trustee Act 1930* capital and interest invested in the Common Fund is guaranteed by the State of Tasmania.

Credit risk related to balances with banks and other financial institutions is managed in accordance with approved board policy. The following table provides information regarding the credit risk relating to cash and money market securities based on Standard and Poor's counterparty credit ratings:

| | 2018 \$'000 | 2017 \$'000 |
|----------------------------------|----------------|----------------|
| Cash and cash equivalents | | |
| - AA- Rated | <u>69,131</u> | <u>76,343</u> |
| | <u>69,131</u> | <u>76,343</u> |

b. Liquidity risk

Liquidity risk arises from the possibility that the Common Fund might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Common Fund manages this risk through the following mechanisms:

- preparing forward looking cash flow analysis in relation to its operational, investing and financing activities;
- maintaining a reputable credit profile;
- only investing surplus cash with major financial institutions; and
- comparing the maturity profile of financial liabilities with the realisation profile of financial assets.

c. Market risk

Interest rate risk

Exposure to interest rate risk arises on financial assets recognised at the end of the reporting period whereby a future change in interest rates will affect future cash flows. The Common Fund is also exposed to earnings volatility on floating rate instruments. The financial instruments which primarily expose the entity to interest rate risk are cash and cash equivalents.

6 Related part transactions

A management fee is calculated by the Public Trustee against money invested in the Common Fund at the rate of 1.1% (inclusive of GST) of the value of the Common Fund on a daily basis. The management fee is charged as at the last business day of each month.

7 Events after the reporting period

The Common Fund is not aware of any significant events since the end of the reporting period.

Public Trustee Group Investment Fund 1 Special Purpose Annual Report - 30 June 2018

General information

The Group Investment Fund 1 invests in a portfolio of diversified investments. The Fund is designed for those clients requiring an investment over the medium term with a moderate exposure to market risk. The Fund holds a major proportion of funds in defensive assets (cash and Australian fixed interest) with some exposure to growth assets (property, Australian shares and international shares).

The benchmark asset allocation of the fund is as follows

| Benchmark Asset Allocation | |
|--------------------------------------|-----|
| Cash | 40% |
| Australian Fixed Interest | 30% |
| Australian Shares | 15% |
| International Shares | 5% |
| International Shares – Hedged to AUD | 5% |
| Property | 5% |

The investments of the fund are managed by professional investment managers appointed by the Public Trustee. The Public Trustee also utilises the services of an external administrator and custodian.

Income is distributed quarterly in January, April, July and October each year.

The performance of the Group Investment Fund 1, after fees, to 30 June 2018 is as follows:

| Performance after Fees to 30 June 2018 | |
|---|-------|
| 1 Month | 0.76% |
| 3 Months | 2.25% |
| 6 Months | 1.50% |
| 1 year | 4.36% |
| 2 years | 3.53% |
| 3 years | 3.02% |
| 5 years | 4.16% |

The information provided in this annual report is unaudited.

Public Trustee Group Investment Fund 1
Statement of comprehensive income
For the year ended 30 June 2018

Statement of comprehensive income - unaudited

| | Year ended | |
|--|---------------------------|---------------------------|
| | 30 June 2018 \$'000 | 30 June 2017 \$'000 |
| Investment revenue | | |
| Dividend/distribution income | 439 | 253 |
| Interest income | - | 1 |
| Net gains/loss on financial instruments held at fair value through profit or loss | (15) | 120 |
| Total investment revenue | 424 | 374 |
| Expenses | | |
| Management fees charged by Public Trustee | 73 | 77 |
| Custody fees | 32 | 68 |
| Other expenses | 15 | 14 |
| Total operating expenses | 120 | 159 |
| Net profit attributable to account holders | 304 | 215 |
| | | |
| Distributions to account holders | (246) | (72) |
| Change in net assets attributable to unitholders | (58) | (143) |
| Amount retained but not distributed | - | - |

Statement of financial position - unaudited

| | As at | |
|---|-----------------|-----------------|
| | 30 June 2018 | 30 June 2017 |
| Notes | \$'000 | \$'000 |
| Assets | | |
| Cash and cash equivalents | 23 | 25 |
| Receivables | 318 | 97 |
| Financial assets at fair value through profit or loss | 6,171 | 7,489 |
| Total assets | <u>6,512</u> | <u>7,611</u> |
| Liabilities | | |
| Distributions Payable | 41 | 48 |
| Payables | 245 | 22 |
| Total liabilities (excluding net assets attributable to unitholders) | <u>286</u> | <u>70</u> |
| | | |
| Net assets attributable to unitholders - liability | 4 <u>6,226</u> | <u>7,541</u> |

Public Trustee Group Investment Fund 1
Statement of changes in net assets attributable to unitholders
For the year ended 30 June 2018

Statement of changes in net assets attributable to unitholders - unaudited

| | Year ended | |
|--|---------------------------|---------------------------|
| | 30 June 2018 \$'000 | 30 June 2017 \$'000 |
| Total net assets attributable to unitholders at the beginning of the year | 7,541 | 7,357 |
| Net profit attributable to unitholders | 304 | 215 |
| Distributions to unitholders | (246) | (72) |
| Application for units | 706 | 2,508 |
| Redemption of units | (2,079) | (2,467) |
| Total net assets attributable to unitholders at the end of the year | <u>6,226</u> | <u>7,541</u> |

Public Trustee Group Investment Fund 1
Statement of cash flows
For the year ended 30 June 2018

Statement of cash flows - unaudited

| | Year ended | |
|--|---------------------------|---------------------------|
| | 30 June 2018 \$'000 | 30 June 2017 \$'000 |
| Cash flows from operating activities | | |
| Proceeds from sale of financial instruments held at fair value through Profit or loss | 1,303 | 1,522 |
| Purchase of financial instruments held at fair value through profit or loss | - | (1,975) |
| Dividends received | 214 | 287 |
| Interest received | - | 1 |
| Other revenue received | 2 | 2 |
| Management fees | (75) | (77) |
| Custodian fees | (47) | (68) |
| Payment of other expenses | (4) | (14) |
| Net cash inflow from operating activities | 1,393 | (322) |
| Cash flows from financing activities | | |
| Receipts from issue of units | 706 | 2,508 |
| Payments for redemption of units | (2,079) | (2,464) |
| Distributions paid | (22) | (124) |
| Net cash outflows from financing activities | (1,395) | (80) |
| Net increase/(decrease) in cash and cash equivalents | (2) | (402) |
| Cash and cash equivalents at the beginning of the year | 25 | 427 |
| Cash and cash equivalents at the end of the year | 23 | 25 |

1 General information

The Group Investment Fund 1 invests in a portfolio of diversified investments with 70% invested in defensive assets (cash and fixed interest) and 30% in growth assets (shares and property) and is designed for clients requiring an investment over the medium term with moderate exposure to market risk.

The Group Investment Fund 1 is managed by the Public Trustee.

The information provided in this annual report is unaudited.

2 Basis of accounting

This special purpose financial report has been prepared in accordance with Australian Accounting Standards as issued by the Australian Accounting Standards Board.

The financial report has been prepared on an accruals basis.

The financial statements are presented in Australian dollars. Both the functional and presentation currency is Australian dollars.

Rounding

Amounts in the financial statements have been rounded off to the nearest thousand dollars, or in certain cases, the nearest dollar unless otherwise stated. Rounding is consistent with Class Order 98/0100 dated 10 July 1998, issued by the Australian Securities and Investments Commission, related to "rounding off" of amounts in the financial statements.

New and amended standards adopted by the Group Investment Fund 1

There are no standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning 1 July 2017 that would be expected to have a material impact on the Group Investment Fund 1.

3 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated in the following text.

(a) Impairment of financial assets

At the end of each reporting date, the trustee assesses whether there is objective evidence that a financial asset has been impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events (a 'loss event') having occurred, which has an impact on the estimated future cash flows of the financial asset(s).

In the case of available-for-sale financial instruments, a significant or prolonged decline in the value of the instrument is considered to constitute a loss event. Impairment losses are recognised in profit or loss immediately. Also, any cumulative decline in fair value previously recognised in other comprehensive income is reclassified to profit or loss at this point.

(b) Financial instruments

Non-derivative financial assets

The Group Investment Fund 1 initially recognizes financial assets on the trade date at which the entity becomes a party to the contractual provisions of the instrument.

Financial assets are initially measured at fair value being the consideration given.

On initial recognition, the entity classifies its financial assets as subsequently measured at either amortized cost or fair value, depending on its business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. In accordance with the transitional provisions of AASB 9, the classification of the financial assets that the entity held at the date of initial application was based on the facts and circumstances of the business model in which the financial assets were held at that date.

The entity derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the right to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset that is created or retained by the entity is recognised as a separate asset or liability.

Financial assets measured at amortised cost

A financial asset is subsequently measured at amortised cost using the effective interest method and net of any impairment loss, if:

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

Financial assets measured at fair value

Financial assets other than those classified as financial assets measured at amortised cost are subsequently measured at fair value with all changes in value recognised in profit or loss.

(c) Investment revenue recognition

Investment revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Group Investment Fund 1 and the revenue can be reliably measured. The following specific recognition criteria must also be met before income is recognised:

Interest received from investments in cash and cash equivalents

Interest income is recognised using the effective interest rate method.

Distributions from unlisted managed investment schemes

Distributions from unlisted managed investment schemes are recognised in the Statement of Comprehensive Income in the year the income was earned by the unlisted managed investment scheme. Distributions received may include capital gains. The Fund is required to offset carried forward capital losses with any capital gains received as part of a distribution. If this situation arises the distributable income of the Fund will not be the same as the distributions the Fund receives.

(d) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank, deposits at call and short-term deposits with an original maturity of 12 months or less.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above.

(e) Taxation

Under current legislation, the Group Investment Fund 1 is not subject to income tax provided the unitholders are presently entitled to the income of the Group Investment Fund 1 and the Group Investment Fund 1 fully distributes net taxable income.

(f) Distributions

Income is calculated quarterly and is distributed to investors in January, April, July and October.

(g) Unit holders

Redeemable units

All units issued by the Fund provide investors with the right to require redemption for cash and give rise to a financial liability.

Unit prices

Unit prices are calculated as the net assets of the Fund, less estimated costs, divided by the number of units on issue.

Change in net assets attributable to investors

Non-distributable income, which may comprise unrealised changes in the fair value of investments, net capital losses, tax deferred income, accrued income not yet assessable and non-deductible expenses are reflected in the Statement of Comprehensive Income as change in net assets attributable to unitholders.

(h) Goods and Services Tax (GST)

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

when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

Receivables and payables are stated with the amount of GST included.

The Group Investment Fund 1 qualifies for Reduced Input Tax Credits (RITC) on management fees. These RITCs recoverable by the Group Investment Fund 1 from the ATO are recognised in the statement of comprehensive income.

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

(i) Derecognition of financial instruments

The derecognition of a financial instrument takes place when the Group Investment Fund 1 no longer controls the contractual rights that comprise the financial instrument, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed through to an independent third party.

(j) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2018 reporting period and have not been early adopted by the Fund.

There are no standards that are not yet effective and that are expected to have a material impact on the Group Investment Fund 1 in the current or future reporting periods and on foreseeable future transactions.

| | As at | |
|---|------------------------------------|------------------------------------|
| | 30 June 2018 \$'000 | 30 June 2017 \$'000 |
| 4 Net assets attributable to unitholders - liability | | |
| Client funds | 6,226 | 7,541 |
| Net assets attributable to unitholders - liability | 6,226 | 7,541 |

5 Financial risk management

The Group Investment Fund 1's financial instruments consist mainly of investments in unlisted managed funds.

The totals for each category of financial instruments, measured in accordance with AASB 9 as detailed in the accounting policies to these financial statements, are as follows.

| | 2018 | 2017 |
|---|---------------|---------------|
| | \$'000 | \$'000 |
| Financial assets | | |
| Cash and cash equivalents | 23 | 25 |
| Receivables | 318 | 97 |
| Financial assets at fair value through profit or loss | 6,171 | 7,489 |
| | 6,512 | 7,611 |
| Financial liabilities | | |
| Trade and other payables | 286 | 70 |

Financial risk management policies

The Group Investment Fund 1's overall risk management strategy seeks to assist the entity in meeting its financial targets, while minimising potential adverse effects on financial performance.

Specific financial risk exposure and management

The main risks the Group Investment Fund 1 is exposed to through its financial instruments are investment manager risk, liquidity risk and market risk.

There have been no substantive changes in the types of risks the entity is exposed to, how these risks arise, or the Group Investment Fund 1's objectives, policies and processes for managing or measuring the risks from the previous period.

a. Investment manager risk

Investment manager risk is the risk that an investment in a fund managed by an external fund manager does not achieve the performance objectives of the Fund. To reduce this risk the Public Trustee utilises the services of a professional asset consultant when selecting managers and in monitoring their ongoing performance. In addition the Public Trustee's Investment Committee, a Board subcommittee, reviews the performance of the Fund's investment managers on a quarterly basis.

b. Liquidity risk

Liquidity risk arises from the possibility that the entity might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The entity manages this risk through the following mechanisms:

- preparing forward looking cash flow analysis;
- investing with reputable investment managers; and
- comparing the maturity profile of financial liabilities with the realisation profile of financial assets.

The table below reflect the undiscounted contractual maturity for financial liabilities.

Cash flows realised from financial assets reflect management's expectation as to the timing of realisation. Actual timing may therefore differ from that disclosed. The timing of cash flows presented in the table to settle financial liabilities reflects the earliest contractual settlement dates and does not reflect management's expectations that banking facilities will be rolled forward.

Financial liability and financial asset maturity analysis

| | Within 1 year | | 1 to 5 years | | Total | |
|--|----------------|----------------|----------------|----------------|----------------|----------------|
| | 2018 \$'000 | 2017 \$'000 | 2018 \$'000 | 2017 \$'000 | 2018 \$'000 | 2017 \$'000 |
| Financial liabilities due for payment | | | | | | |
| Trade and other payables | (286) | (70) | - | - | (286) | (70) |
| Total expected outflows | (286) | (70) | - | - | (286) | (70) |
| Financial assets – cash flow realisable | | | | | | |
| Cash and cash equivalents | 23 | 25 | - | - | 23 | 25 |
| Receivables | 318 | 97 | - | - | 318 | 97 |
| Financial assets at fair value | 6,171 | 7,489 | - | - | 6,171 | 7,489 |
| Total anticipated inflows | 6,512 | 7,611 | - | - | 6,512 | 7,611 |
| Net inflow on financial instruments | 6,226 | 7,541 | - | - | 6,226 | 7,541 |

c. Market risk*Interest rate risk*

Investments in the Group Investment Fund 1 are subject to interest rate risk and movements in interest rates will have an impact on the underlying value of its investments. For example, the market value of an Australian Government Bond will increase in value when interest rates are declining. The Fund has 70% of its assets invested in defensive assets (cash and fixed interest) and 30% in growth assets (Property and Equity).

Market price risk

Market price risk is the risk that the value of the investments will fluctuate as a result of changes in market prices. The Managed Investment Funds invest in listed and unlisted securities across a wide range of securities and is therefore subject to market price risk. Market Price risk is mitigated by selecting investments that have a robust investment process in place. Risk is further reduced by having the Portfolio diversified across the major recognised assets classes.

Net fair values**(i) Fair value estimation**

The fair values of financial assets and financial liabilities are presented in the following table and can be compared to their carrying values as presented in the statement of financial position. Fair value is the amount at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Fair values derived may be based on information that is estimated or subject to judgement, where changes in assumptions may have a material impact on the amounts estimated. Areas of judgement and the assumptions have been detailed below. Where possible, valuation information used to calculate fair value is extracted from the market, with more reliable information available from markets that are actively traded. Where securities are unlisted and no market quotes are available, fair value is obtained using discounted cash flow analysis and other valuation techniques commonly used by market participants.

Differences between fair values and carrying values of financial instruments with fixed interest rates are due to the change in discount rates being applied by the market since their initial recognition by the entity. Most of these instruments, which are carried at amortised cost (i.e. trade receivables) are to be held until maturity and therefore the net fair value figures calculated bear little relevance to the entity.

(ii) Financial instruments measured at fair value

The financial instruments recognised at fair value in the statement of financial position have been analysed and classified using a fair value hierarchy reflecting the significance of the inputs used in making the measurements.

The fair value hierarchy consists of the following levels:

- quoted unit prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2); and
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

| | Level 1 | Level 2 | Level 3 | Total |
|---------------------------------------|----------------|----------------|----------------|---------------|
| | \$'000 | \$'000 | \$'000 | \$'000 |
| 2018 | | | | |
| Financial assets | | | | |
| Investments in unlisted managed funds | - | 6,171 | - | 6,171 |
| 2017 | | | | |
| Financial assets | | | | |
| Investments in unlisted managed funds | - | 7,489 | - | 7,489 |

The fair value of investments in unlisted managed funds has been based on the closing quoted unit prices at the end of the reporting period, excluding transaction costs.

6 Related party transactions

A management fee is calculated by the Public Trustee against money invested in the Group Investment Fund 1 at the rate of 1.1% (inclusive of GST) of the value of the Group Investment Fund 1 on a daily basis. The management fee is charged as at the last business day of each month.

7 Events after the reporting period

Since the end of the reporting period, the Trustee has approved the closure of Group Investment Fund 1. The decision to close this fund is because of an increase in custodian fees that the fund cannot sustain on a net expense ratio basis.

The Group Investment Fund 1 is not aware of any other significant events since the end of the reporting period.

Public Trustee Group Investment Fund 2 Special Purpose Annual Report - 30 June 2018

General information

The Public Trustee Group Investment Fund 2 invests in a portfolio of diversified investments. The fund is designed for those clients requiring a balanced exposure to market risk in their investment portfolio over a longer timeframe (6+ years). The fund holds a major proportion of funds in growth assets (property, Australian shares and International shares) with some exposure to defensive assets (cash and Australian fixed interest).

The benchmark asset allocation of the fund is as follows

| Benchmark Asset Allocation | |
|--------------------------------------|-----|
| Cash | 10% |
| Australian Fixed Interest | 30% |
| Australian Shares | 30% |
| International Shares | 10% |
| International Shares – Hedged to AUD | 10% |
| Property | 10% |

The investments of the fund are managed by professional investment managers appointed by the Public Trustee. The Public Trustee also utilises the services of an external administrator and custodian.

Income is distributed quarterly in January, April, July and October each year.

The performance of the Group Investment Fund 2, after fees, to 30 June 2018 is as follows:

| Performance after Fees to 30 June 2018 | |
|---|-------|
| 1 Month | 1.35% |
| 3 Months | 4.11% |
| 6 Months | 2.48% |
| 1 year | 8.66% |
| 2 years | 8.02% |
| 3 years | 6.47% |
| 5 years | 8.06% |

The information provided in this annual report is unaudited.

Public Trustee Group Investment Fund 2
Statement of comprehensive income
For the year ended 30 June 2018

Statement of comprehensive income - unaudited

| | Year ended | |
|--|-------------------|---------|
| | 30 June | 30 June |
| | 2018 | 2017 |
| | \$'000 | \$'000 |
| Investment revenue | | |
| Dividend/distribution Income | 8,448 | 3,405 |
| Interest income | 2 | 4 |
| Net gains/losses on financial instruments held at fair value through profit or loss | (1,215) | 2,719 |
| | 7,235 | 6,128 |
| Total investment revenue | | |
| Expenses | | |
| Management fees charged by Public Trustee | 744 | 728 |
| Custody fees | 108 | 68 |
| Other expenses | 77 | 66 |
| Total operating expenses | 929 | 862 |
| Net profit attributable to account holders | 6,306 | 5,266 |
| Distributions to account holders | (8,048) | (2,718) |
| Change in net assets attributable to unitholders | 1,742 | (2,548) |
| Amount retained but not distributed | - | - |

Statement of financial position - unaudited

| | | As at | |
|---|-------|---------------------------|---------------------------|
| | Notes | 30 June 2018 \$'000 | 30 June 2017 \$'000 |
| Assets | | | |
| Cash and cash equivalents | | 173 | 229 |
| Receivables | | 6,972 | 1,650 |
| Financial assets at fair value through profit or loss | | <u>72,044</u> | <u>72,869</u> |
| Total assets | | <u>79,189</u> | <u>74,748</u> |
| Liabilities | | | |
| Distributions Payable | | 7,515 | 1,803 |
| Payables | | <u>133</u> | <u>122</u> |
| Total liabilities (excluding net assets attributable to unitholders) | | <u>7,648</u> | <u>1,925</u> |
| | | | |
| Net assets attributable to unitholders - liability | 4 | <u>71,541</u> | <u>72,823</u> |

Public Trustee Group Investment Fund 2
Statement of changes in net assets attributable to unitholders
For the year ended 30 June 2018

Statement of changes in net assets attributable to unitholders - unaudited

| | Year ended | |
|--|---------------------------|---------------------------|
| | 30 June 2018 \$'000 | 30 June 2017 \$'000 |
| Total net assets attributable to unitholders at the beginning of the year | 72,823 | 72,615 |
| Net profit attributable to unitholders | 6,306 | 5,265 |
| Distributions to unitholders | (8,048) | (2,718) |
| Application for units | 8,361 | 4,611 |
| Redemption of units | (7,901) | (6,950) |
| Total net assets attributable to unitholders at the end of the year | <u>71,541</u> | <u>72,823</u> |

Statement of cash flows - unaudited

| | Year ended | |
|---|------------------------------------|---------------------------|
| | 30 June 2018 \$'000 | 30 June 2017 \$'000 |
| Cash flows from operating activities | | |
| Proceeds from sale of financial instruments held at fair value through Profit or loss | 1,210 | 2,812 |
| Purchase of financial instruments held at fair value through profit or loss | (1,600) | (1,900) |
| Dividends received | 3,138 | 3,765 |
| Interest received | 2 | 4 |
| Management fees | (741) | (728) |
| Custodian fees | (93) | (68) |
| Payment of other expenses | (95) | (50) |
| Net cash inflow from operating activities | 1,821 | 3,835 |
| Cash flows from financing activities | | |
| Receipts from issue of units | 8,360 | 4,611 |
| Payments for redemption of units | (7,901) | (6,950) |
| Distributions paid | (2,336) | (2,308) |
| Net cash outflow from financing activities | (1,877) | (4,647) |
| Net increase/(decrease) in cash and cash equivalents | (56) | (812) |
| Cash and cash equivalents at the beginning of the year | 229 | 1,041 |
| Cash and cash equivalents at the end of the year | 173 | 229 |

1 General information

The Group Investment Fund 2 invests in a diversified portfolio with 40% invested in cash and fixed interest and 60% in shares and property. The Fund is designed for those clients requiring a balanced exposure to market risk in the investment portfolio over a longer timeframe (6+ years).

The Group Investment Fund 2 is managed by the Public Trustee.

The information provided in this annual report is unaudited.

2 Basis of accounting

This special purpose financial report has been prepared in accordance with Australian Accounting Standards as issued by the Australian Accounting Standards Board.

The financial report has been prepared on an accruals basis.

The financial statements are presented in Australian dollars. Both the functional and presentation currency is Australian dollars.

Rounding

Amounts in the financial statements have been rounded off to the nearest thousand dollars, or in certain cases, the nearest dollar unless otherwise stated. Rounding is consistent with Class Order 98/0100 dated 10 July 1998, issued by the Australian Securities and Investments Commission, related to "rounding off" of amounts in the financial statements.

New and amended standards adopted by the Group Investment Fund 2

There are no standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning 1 July 2017 that would be expected to have a material impact on the Group Investment Fund 2.

3 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated in the following text.

(a) Impairment of financial assets

At the end of each reporting date, the trustee assesses whether there is objective evidence that a financial asset has been impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events (a 'loss event') having occurred, which has an impact on the estimated future cash flows of the financial asset(s).

In the case of available-for-sale financial instruments, a significant or prolonged decline in the value of the instrument is considered to constitute a loss event. Impairment losses are recognised in profit or loss immediately. Also, any cumulative decline in fair value previously recognised in other comprehensive income is reclassified to profit or loss at this point.

(b) Financial instruments

Non-derivative financial assets

The Group Investment Fund 2 initially recognizes financial assets on the trade date at which the entity becomes a party to the contractual provisions of the instrument.

Financial assets are initially measured at fair value being the consideration given.

On initial recognition, the entity classifies its financial assets as subsequently measured at either amortized cost or fair value, depending on its business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. In accordance with the transitional provisions of AASB 9, the classification of the financial assets that the entity held at the date of initial application was based on the facts and circumstances of the business model in which the financial assets were held at that date.

The entity derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the right to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset that is created or retained by the entity is recognised as a separate asset or liability.

Financial assets measured at amortised cost

A financial asset is subsequently measured at amortised cost using the effective interest method and net of any impairment loss, if:

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

Financial assets measured at fair value

Financial assets other than those classified as financial assets measured at amortised cost are subsequently measured at fair value with all changes in value recognised in profit or loss.

(c) Investment revenue recognition

Investment revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Group Investment Fund 2 and the revenue can be reliably measured. The following specific recognition criteria must also be met before income is recognised:

Interest received from investments in cash and cash equivalents

Interest income is recognised using the effective interest rate method.

Distributions from unlisted managed investment schemes

Distributions from unlisted managed investment schemes are recognised in the Statement of Comprehensive Income in the year the income was earned by the unlisted managed investment scheme. Distributions received may include capital gains. The Fund is required to offset carried forward capital losses with any capital gains received as part of a distribution. If this situation arises the distributable income of the Fund will not be the same as the distributions the Fund receives.

(d) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank, deposits at call and short-term deposits with an original maturity of 12 months or less.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above.

(e) Taxation

Under current legislation, the Group Investment Fund 2 is not subject to income tax provided the unitholders are presently entitled to the income of the Group Investment Fund 2 and the Group Investment Fund 2 fully distributes net taxable income.

(f) Distributions

Income is calculated quarterly and is distributed to investors in January, April, July and October.

(g) Unit holders

Redeemable units

All units issued by the Fund provide investors with the right to require redemption for cash and give rise to a financial liability.

Unit prices

Unit prices are calculated as the net assets of the Fund, less estimated costs, divided by the number of units on issue.

Change in net assets attributable to investors

Non-distributable income, which may comprise unrealised changes in the fair value of investments, net capital losses, tax deferred income, accrued income not yet assessable and non-deductible expenses are reflected in the Statement of Comprehensive Income as change in net assets attributable to unitholders.

(h) Goods and Services Tax (GST)

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

when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

Receivables and payables are stated with the amount of GST included.

The Group Investment Fund 2 qualifies for Reduced Input Tax Credits (RITC) on management fees. These RITCs recoverable by the Group Investment Fund 2 from the ATO are recognised in the statement of comprehensive income.

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

(i) Derecognition of financial instruments

The derecognition of a financial instrument takes place when the Group Investment Fund 2 no longer controls the contractual rights that comprise the financial instrument, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed through to an independent third party.

(j) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2018 reporting period and have not been early adopted by the Fund.

There are no standards that are not yet effective and that are expected to have a material impact on the Group Investment Fund 2 in the current or future reporting periods and on foreseeable future transactions.

4 Net assets attributable to unitholders - liability

| | As at | |
|---|----------------|---------|
| | 30 June | 30 June |
| | 2018 | 2017 |
| | \$'000 | \$'000 |
| Client funds | 71,541 | 72,823 |
| Net assets attributable to unitholders - liability | 71,541 | 72,823 |

5 Financial risk management

The Group Investment Fund 2's financial instruments consist mainly of investments in unlisted managed funds.

The totals for each category of financial instruments, measured in accordance with AASB 9 as detailed in the accounting policies to these financial statements, are as follows.

| | 2018 \$'000 | 2017 \$'000 |
|---|----------------|----------------|
| Financial assets | | |
| Cash and cash equivalents | 173 | 229 |
| Receivables | 6,972 | 1,650 |
| Financial assets at fair value through profit or loss | <u>72,044</u> | <u>72,869</u> |
| | <u>79,189</u> | <u>74,748</u> |
| Financial liabilities | | |
| Trade and other payables | <u>7,648</u> | <u>1,925</u> |

Financial risk management policies

The Group Investment Fund 2's overall risk management strategy seeks to assist the entity in meeting its financial targets, while minimising potential adverse effects on financial performance.

Specific financial risk exposure and management

The main risks the Group Investment Fund 2 is exposed to through its financial instruments are investment manager risk, liquidity risk and market risk.

There have been no substantive changes in the types of risks the entity is exposed to, how these risks arise, or the Group Investment Fund 2's objectives, policies and processes for managing or measuring the risks from the previous period.

a. Investment manager risk

Investment manager risk is the risk that an investment in a fund managed by an external fund manager does not achieve the performance objectives of the Fund. To reduce this risk the Public Trustee utilises the services of a professional asset consultant when selecting managers and in monitoring their ongoing performance. In addition the Public Trustee's Investment Committee, a Board subcommittee, reviews the performance of the Fund's investment managers on a quarterly basis.

b. Liquidity risk

Liquidity risk arises from the possibility that the entity might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The entity manages this risk through the following mechanisms:

- preparing forward looking cash flow analysis,
- investing with reputable investment managers,
- comparing the maturity profile of financial liabilities with the realisation profile of financial assets.

The table below reflect the undiscounted contractual maturity for financial liabilities.

Cash flows realised from financial assets reflect management's expectation as to the timing of realisation. Actual timing may therefore differ from that disclosed. The timing of cash flows presented in the table to settle financial liabilities reflects the earliest contractual settlement dates and does not reflect management's expectations that banking facilities will be rolled forward.

Financial liability and financial asset maturity analysis

| | Within 1 year | | 1 to 5 years | | Total | |
|--|----------------|----------------|----------------|----------------|----------------|----------------|
| | 2018 \$'000 | 2017 \$'000 | 2018 \$'000 | 2017 \$'000 | 2018 \$'000 | 2017 \$'000 |
| Financial liabilities due for payment | | | | | | |
| Trade and other payables | (7,648) | (1,925) | - | - | (7,648) | (1,925) |
| Total expected outflows | (7,648) | (1,925) | - | - | (7,648) | (1,515) |
| Financial assets – cash flow realisable | | | | | | |
| Cash and cash equivalents | 173 | 229 | - | - | 173 | 229 |
| Receivables | 6,972 | 1,650 | - | - | 6,972 | 1,650 |
| Financial assets at fair value | 72,044 | 72,869 | - | - | 72,044 | 72,869 |
| Total anticipated inflows | 79,189 | 74,748 | - | - | 79,189 | 74,748 |
| Net inflow on financial instruments | 71,541 | 72,823 | - | - | 71,541 | 72,823 |

c. Market risk*Interest rate risk*

Investments in the Group Investment Fund 2 are subject to interest rate risk and movements in interest rates will have an impact on the underlying value of its investments. For example, the market value of an Australian Government Bond will increase in value when interest rates are declining. The Fund has 400% of its assets invested in defensive assets (cash and fixed interest) and 60% in growth assets (Property and Equity).

Market price risk

Market price risk is the risk that the value of the investments will fluctuate as a result of changes in market prices. The Macquarie and Black Rock Investment Funds invest in listed and unlisted securities across a wide range of securities and is therefore subject to market price risk. Market Price risk is mitigated by selecting investments that have a robust investment process in place. Risk is further reduced by having the Portfolio diversified across the major recognised assets classes.

Net fair values**(i) Fair value estimation**

The fair values of financial assets and financial liabilities are presented in the following table and can be compared to their carrying values as presented in the statement of financial position. Fair value is the amount at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Fair values derived may be based on information that is estimated or subject to judgement, where changes in assumptions may have a material impact on the amounts estimated. Areas of judgement and the assumptions have been detailed below. Where possible, valuation information used to calculate fair value is extracted from the market, with more reliable information available from markets that are actively traded. Where securities are unlisted and no market quotes are available, fair value is obtained using discounted cash flow analysis and other valuation techniques commonly used by market participants.

Differences between fair values and carrying values of financial instruments with fixed interest rates are due to the change in discount rates being applied by the market since their initial recognition by the entity. Most of these instruments, which are carried at amortised cost (i.e. trade receivables) are to be held until maturity and therefore the net fair value figures calculated bear little relevance to the entity.

(ii) Financial instruments measured at fair value

The financial instruments recognised at fair value in the statement of financial position have been analysed and classified using a fair value hierarchy reflecting the significance of the inputs used in making the measurements. The fair value hierarchy consists of the following levels:

- quoted unit prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2); and
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

| | Level 1 | Level 2 | Level 3 | Total |
|---------------------------------------|----------------|----------------|----------------|---------------|
| | \$'000 | \$'000 | \$'000 | \$'000 |
| 2018 | | | | |
| Financial assets | | | | |
| Investments in unlisted managed funds | - | 72,044 | - | 72,044 |
| 2017 | | | | |
| Financial assets | | | | |
| Investments in unlisted managed funds | - | 72,869 | - | 72,869 |

The fair value of investments in unlisted managed funds has been based on the closing quoted unit prices at the end of the reporting period, excluding transaction costs.

6 Related party transactions

A management fee is calculated by the Public Trustee against money invested in the Group Investment Fund 2 at the rate of 1.1% (inclusive of GST) of the value of the Group Investment Fund 2 on a daily basis. The management fee is charged as at the last business day of each month.

7 Events after the reporting period

The Group Investment Fund 2 is not aware of any significant events since the end of the reporting period.