



ROYAL AUSTRALASIAN
COLLEGE OF SURGEONS

ROYAL AUSTRALASIAN COLLEGE OF SURGEONS

A.B.N. 29 004 167 766

FINANCIAL REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

FINANCIAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2018

CONTENTS TO FINANCIAL REPORT

REPORT FROM THE TREASURER TO FELLOWS.....	2
COUNCILLORS' REPORT FOR THE FINANCIAL YEAR.....	4
DIRECTORS' REPORT.....	9
INDEPENDENT AUDITOR'S REPORT.....	11
AUDITOR'S INDEPENDENCE DECLARATION.....	12
DIRECTORS' DECLARATION.....	13
STATEMENT OF COMPREHENSIVE INCOME.....	14
STATEMENT OF FINANCIAL POSITION.....	15
STATEMENT OF CHANGES IN EQUITY.....	16
STATEMENT OF CASH FLOWS.....	17
NOTES TO THE FINANCIAL STATEMENTS.....	17
1. CORPORATE INFORMATION.....	18
2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.....	18
3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS.....	24
4. FOUNDATION FOR SURGERY.....	25
5. REVENUES AND EXPENSES.....	26
6. REVENUE AND EXPENDITURE BY FUNCTION.....	27
7. CASH AND SHORT-TERM DEPOSITS.....	28
8. TRADE AND OTHER RECEIVABLES (CURRENT).....	29
9. PREPAYMENTS.....	29
10. AVAILABLE FOR SALE - FINANCIAL ASSETS.....	29
11. TRADE AND OTHER RECEIVABLES (NON-CURRENT).....	30
12. PROPERTY, PLANT AND EQUIPMENT.....	30
13. INTANGIBLES.....	30
14. TRADE AND OTHER PAYABLES (CURRENT).....	30
15. PROVISIONS (CURRENT).....	31
16. INCOME IN ADVANCE.....	31
17. GOVERNMENT GRANTS RECEIVED IN ADVANCE.....	31
18. FUNDS HELD ON BEHALF OF OTHERS.....	31
19. PROVISIONS (NON-CURRENT).....	32
20. COMMITMENTS AND CONTINGENCIES.....	32
21. EVENTS AFTER BALANCE SHEET DATE.....	32
22. RELATED PARTY TRANSACTIONS.....	33
23. COMPENSATION OF KEY MANAGEMENT PERSONNEL.....	33
ACFID CODE OF CONDUCT.....	34

REPORT FROM THE TREASURER TO FELLOWS

The Financial Report for the year ended 31 December 2018 is presented together with the Auditor's Report and the voluntary Code of Conduct report for the Australian Council for International Development (ACFID).

Overall Performance

This year has seen an overall sound result while progressing a number of important initiatives including the transition to a new executive management team, improving governance within the partnership training program and staging a highly successful Annual Scientific Congress (ASC) in Sydney. We have also continued our commitment to the *Building Respect, Improving Patient Safety* (BRIPS) action plan, restructured key areas of our Education portfolio and targeted our investment in areas of strategic priority.

Overall revenues grew by +1.5% to \$69.1M (\$68.1M in 2017) due broadly to successful completion of Fellowship numbers resulting in a net increase of active Fellows and sound cash investment income from our investment portfolio, which funds our future scholarships, grants and philanthropic work of our Foundation. We also saw strong growth in registrant numbers for the ASC while sponsorship for the event was modestly down on 2017.

Our expenses for the year were well managed at \$66.3M (\$66.8M in 2017), as a result of contained staffing costs via the restructure and active staff leave entitlement plans. It is pleasing that despite increasing professional indemnity insurance expenses other cost control measures across a variety of supplier services such as printing, banking and other professional fees have been offsetting factors to achieve an overall static cost base compared to 2017.

This resulted in us exceeding our strategic goal of a +2% return, achieving a surplus of \$2.8M or +4% return across all activities (\$1.3M or +2% in 2017). This is a sound result and allows us to invest these funds into our future strategic initiatives. This includes our on-going commitment to the *Building Respect, Improving Patient Safety* (BRIPS) action plan, the program of education works flowing from the Australian Medical Council (AMC) and New Zealand Medical Board (MCNZ) review in 2017 and investing further in library resources, advocacy and IT systems that are critical in delivering our services to our members throughout their surgical career.

Key Revenue Streams

Key revenue streams for the year can be broken down into:

- Subscriptions and entrance fees of \$17.4M with an additional 222 new Fellows in 2018, being higher than \$16.5M in 2017;
- Training, examination and assessment fees of \$24.5M, which was modestly higher than the \$24.4M in 2017, primarily due to increased Fellowship exam candidate numbers;
- Project income and management fees from external parties of \$13.8M, which is below \$15M provided in 2017 and represents timing variations in funding agreements;
- Higher than expected revenue from conference registrations at \$2.9M (\$2M in 2017);
- Slightly lower sponsorship and donations of \$2.8M with industry sponsorship support for the ASC of \$0.9M down compared to \$1M in 2017.

Key Expenses

Key expense streams for the year can be broken down into:

- Personnel costs of \$25M (\$24.9M in 2017) representing less than 1% increase;
- Externally funded grants of \$5.8M mainly related to hospital training post payments funded under the Specialist Training Program (STP) (down from \$7.4M in 2017);
- Travel and accommodation of \$7.1M (\$6.1M in 2017), with the increase partially due to commencement of a new Papua New Guinea project funded by the Australian Government;
- Specialist Society funding costs of \$4.7M (\$4.3M in 2017) in line with the training partnership agreements.

Core Operations

The core operational activities of RACS include Fellowship services, education and training, the ASC and other events and the funding of the associated leadership, governance and administrative structures. In 2018, with the execution of improved governance measures for the partnership training program and related higher professional indemnity insurance costs it was necessary to run our core operations into a deficit result. However with a turnaround in our externally funded project activities mainly driven from additional funding being secured by ASERNIP-S the combined result was materially favourable compared to 2017.

Foundation for Surgery

The Foundation activities encompass scholarships, fellowships and research grants as well as direct oversight of our philanthropic endeavours. Scholarship commitments of \$1.2M were paid in 2018 being down from \$1.8M in 2017 due to less number of awarded surgical research scholarships. It is Council's strategic aim to commit to an annual funding limit of up to \$2.5M in order to maintain RACS as a nationally and globally recognised funding institution for surgical research, global health, indigenous health and other philanthropic initiatives.

Investments Portfolio – Funding the Foundation

Despite a high degree of volatility in the market, particularly in the last few months of the year, a modest positive return of +0.52% (+12.89% in 2017) was achieved. The overall positive return is thanks to continued strong cash investment income of \$5.4M (2017 - \$4.3M). However although not impacting on our overall operational surplus result, an unrealised loss of \$5.1M (2017 – gain of \$4M) due to a decrease in market value of our investment portfolio, has been booked to the reserve. The Investment Committee's Honorary Advisers continue to provide RACS with expert stewardship of our investment portfolio and we are truly thankful for their ongoing commitment and professionalism. In particular, we must thank Ms Siobhan Blewitt who has ably performed as Chair throughout the year.

Leading Surgical Performance

Over 2018, Council has continued to support advocacy and investments to ensure we can better serve the Fellowship and the broader community. Activities worth noting are:

1. Recognition of achievements, ASC visitors grants and presentations of awards and prizes have been distributed to the value of \$1M (\$0.9M in 2017).
2. An increase in the number of Fellows requesting and being supported with interest free travel loans for overseas studies and research.
3. The on-going investment in library publications to ensure our members have access to relevant information including online books, e-journals and multimedia items. Staff throughout the year also received over 5,000 journal article order requests and performed expert literature / database searches for members.
4. Delivering a successful 87th ASC with higher than expected attendance at what is the premium broad based surgical educational event for the region.

Summary of Financial Position

Overall, the funds and reserves have decreased to \$78.5M (\$80.8M in 2017), due mainly to a decrease in market value of our investment portfolio. Furthermore, current liabilities have increased largely due to government grants received in advance now at \$15M (\$8.2M in 2017) which will be administered in accordance with contractual agreements.

The Statement of Cash Flows indicates strong net cash inflow provided from operating activities of \$5.3M (2017 - \$0.9M). This is a result of the combined effects of timely and increasing receipting of annual subscription and training fees and net increase in government grants.

In Closing

I would like to acknowledge the services of our Honorary Advisers for which we remain indebted. I note my thanks to Mr Anthony Lewis (Audit, Investment, Finance & IT), Mr Stuart Gooley – Retired (Audit, Finance & IT), Ms Siobhan Blewitt (Investment), Ms Penny Heard (Investment), Mr Chesley Taylor (Investment), Mr Ian Taylor (Investment), Mr Michael Randall OAM (Investment), Mr Reg Hobbs - Retired (Property) and Mr John Craven (Information Technology) and for their generous and valued support during the year. RACS remains extremely grateful to all our Honorary Advisers for their wise counsel and support.

It is also with great sadness that we mourn the loss of Mr Peter Wetherall our trusted, talented and respected Honorary Investment Adviser whose contributions since 2013 as a key member of our Investment Committee extended way beyond his thoughtful and astute stewardship of our investments.

I should also thank the RACS staff for their ongoing hard work and commitment in 2018.

The College continues to maintain a strong Balance Sheet and is financially well positioned to meet its ongoing commitments and I recommend these accounts to the Fellows.

Associate Professor Julie Mundy – Treasurer

COUNCILLORS' REPORT FOR THE FINANCIAL YEAR

The Councillors as Directors of the Royal Australasian College of Surgeons (RACS) submit herewith the Annual Financial Report of RACS for the year ended 31 December 2018. In order to comply with the requirements of the *Australian Charities and Not-for-profits Commission Act 2012*, the Councillors' report as follows:

Councillors

The names and details of the Office Bearers and the Councillors in office during the financial year and until the date of this report are as follows. Office Bearers and Councillors were in office for this entire period unless otherwise stated. Three Council Meetings and seven Board of Council Meetings were held in 2018. The number of meetings attended by each Councillor is noted below.

		<u>Number of meetings attended</u>		<u>Number of meetings eligible to attend</u>	
		<u>Council</u>	<u>Board of Council</u>	<u>Council</u>	<u>Board of Council</u>
Office Holders					
Mr John Charles Batten	President	3	7	3	7
Dr Catherine Mary Ferguson	Vice President	3	7	3	7
A/Prof Julie Ann Mundy	Treasurer	3	7	3	7
Mr Anthony Lloyd Sparnon	Censor in Chief	3	7	3	7
Mr Richard Edward Perry	Chair, Professional Development & Standards Board	3	7	3	7
Elected Members of Council:					
Mr Adrian Anand Anthony		3		3	
Ms Ruth Caroline Bollard		3		3	
A/Prof Phillip James Carson		3		3	
Mr John Anthony Crozier AM CSM		3		3	
A/Prof Kerin Ann Fielding		3		3	
Prof David Rowley Fletcher AM		3		3	
Mr Bruce Ian Hall		3		3	
Prof Andrew Graham Hill		2	7	3	7
Dr Annette Coralie Holian		3		3	
Dr Sally Jane Langley		3		3	
A/Prof Christopher Martin Pyke		3		3	
Fellowship Elected Members of Council					
Dr Claire Belinda Campbell	Resigned 28 June 2018	2		3	
Dr Jennifer Lee Chambers OAM		3	5	3	5
Dr Christine Su-Li Lai	Appointed 10 May 2018	2	1	2	1
Dr Maxine Mariri Ronald	Appointed 10 May 2018	2		2	
Prof Owen Allan Ung		3	7	3	7
Specialty Elected Members of Council					
Prof Mark Frydenberg AM		3		3	
Dr Geoffrey Blake Lyons		3		3	
Mr Christopher Francis Perry OAM		3		3	
Dr Gregory Edwin Witherow		3	1	3	1
Co-Opted Members of Council					
The Hon Rob Knowles AO		3	7	3	7
Mr Garry Wilson KStJ		3		3	
Dr Rachel Care		3		3	
Retired Members of Council					
Dr Lawrence Pietro Malisano	Retired 10 May 2018	1		1	
Prof Jonathan William Serpell	Retired 10 May 2018	1		1	

**ROYAL AUSTRALASIAN COLLEGE OF SURGEONS****COUNCILLORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018****Councillors' and Chief Executive Officer's Qualifications and Current Experience****Mr Adrian Anand Anthony** MB BS MSurgEd FRACS

Senior Staff Surgeon and Director Clinical Training, The Queen Elizabeth Hospital, Central Adelaide Local Health Network; Senior Lecturer Upper GI Surgery, University of Adelaide; Lecturer in Surgical Education, University of Melbourne; Deputy Presiding Member, Health Advisory Council, SA Medical Education & Training

Mr John Charles Batten MBBS, FRACS, FAOrthA, GAICD

Orthopaedic surgeon; Visiting Medical Officer Launceston General Hospital; Senior Lecturer University of Tasmania; Director J C Batten Pty Ltd and Batten/Rooney Services

Ms Ruth Caroline Bollard MBChB, FRCS, FRCS (Gen), FRACS, MSc GAICD

Consultant General Surgeon, VMO Ballarat health services, East Grampians Health Service; Director Specialists on Drummond

Dr Claire Belinda Campbell MBBS FRACS

Visiting Medical Officer Epworth Hospital and St Vincent's Private Hospital; Director The Vein Centre Pty Ltd; Director Vascular Imaging Centre Pty Ltd

Dr Rachel Care BMedSci BMBS(hons) PGDipClinEd

Otolaryngology Trainee Christchurch Hospital, Honorary Clinical Lecturer Otago University, RACS Trainee Association Chair and representative on Council

Associate Professor Phillip James Carson MBBS, FRACS, FRCS(Ed), FRCS, FRCS(Glasg), GAICD

General Surgeon; Member Northern Territory Liquor Commission; Member Cancer Australia Advisory Committees

Dr Jennifer Lee Chambers OAM, MBBS (Hons), FRACS, GAICD

Senior Vascular Surgeon, Port Macquarie Base, Kempsey and Wauchope District Hospitals; Conjoint Lecturer in Surgery UNSW Rural Clinical School; Associate of Hastings Vascular Associates

Dr John Anthony Crozier AM CSM MBBS, FRACS, FRCST (Hon), FACRS, GAICD, DDU (Vasc)

Vascular Surgeon; VMO Liverpool Hospital, Sydney; CoDirector National Alliance for Action on Alcohol

Dr Catherine Mary Ferguson, MBChB, FRACS, GAICD

Otolaryngology Head and Neck Surgeon; Trustee Bowen Hospital Trust Board; Member NZ Medical Association Specialist Council; Trustee, St Michael's Vicarage Trust Board

Associate Professor Kerin Ann Fielding, MBBS(Syd), FRACS(Orth), FAOA

Senior visiting Orthopaedic Surgeon Calvary Hospital, Wagga Wagga Rural referral Hospital; Chair Clinical Surgical training Council for Health Education and Training Institute of NSW; Clinical Leader for Surgical Education, Notre Dame University Wagga Wagga Clinical School

Professor David Rowley Fletcher AM, MBBS, MD, FRACS, GAICD

General Surgeon and Head of Department Fiona Stanley and Fremantle Hospitals, University West Australia; Member Medical Services Advisory Committee and Clinical Casemix Committee

Professor Mark Frydenberg AM, MBBS, FRACS, GAICD

Professor Department of Surgery Monash University; Director Prostate Cancer Foundation; Chair MBS Review - Urology Clinical Committee; Member Ministerial Advisory Committee – Out of Pocket Expenses

Mr Bruce Ian Hall MBBS, FRACS, CIME

Chairman of Neurosurgery and Co-Director Gamma Knife Radiosurgery Unit Princess Alexandra Hospital; Director of Neurosurgery Greenslopes Private Hospital; Managing Director Queensland Neurosurgery & Spine Surgery

ROYAL AUSTRALASIAN COLLEGE OF SURGEONS

COUNCILLORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

Councillors' and Chief Executive Officer's Qualifications and Current Experience (continued)

Professor Andrew Graham Hill MBChB, MD, EdD, FACS, FCSSL (Hon), FAIS (Hon), FRACS, GAICD
Assistant Dean Faculty of Medical and Health Sciences and Head of the South Auckland Clinical Campus, University of Auckland; Consultant General Surgeon, Middlemore Hospital, Auckland; President, International Society of Surgeons, Zurich, Switzerland; Director Ormiston Hospital, Auckland; Member Board of Directors, The G4 Alliance, Chicago, USA

Ms Annette Coralie Holian MBBS, FRACS, FAOrthA
Clinical Director Surgery and Perioperative Services, RAAF; Governor, Shrine of Remembrance, Melbourne; Patron, Catalina Flying Boat section, RAAFA

Hon Rob Knowles AO, MAICD
Director, Silverchain Group of Companies, Drinkwise Australia Ltd, IPG Pty Ltd, Global Health Ltd, St John of God Healthcare; Chair, Royal Children's Hospital; Director Otway Health; Director Beyondblue Ltd

Dr Sally Jane Langley MBChB, FRACS, GAICD
Plastic and Reconstructive Surgeon, Canterbury District Health Board

Dr Christine Su-Li Lai MBBS (Adel) DDU FRACS FACS
Senior Staff Specialist, Breast and Endocrine Surgical Unit, Division of Surgery, The Queen Elizabeth Hospital; Visiting Surgeon, Breastscreen SA; Director of The Surgical Precinct; Director Christine Lai Pty Ltd

Dr Geoffrey Blake Lyons MBBS, FRACS
Council member, Australian Society of Plastic Surgeons; Director, GEL NSW Pty Ltd

Dr Lawrence Pietro Malisano MBBS, FRACS, FAOrthA, GAICD
Orthopaedic surgeon, Director Brisbane Orthopaedic and Sports Medicine Centre; President Australian Orthopaedic Association

Associate Professor Julie Ann Mundy MBBS, MBA, FRACS
Cardiothoracic Surgeon; Executive Member, Australian and New Zealand Society of Cardiac and Thoracic Surgeons

Professor Christopher Martin Pyke PhD, FRACS, FACS, GAICD
Senior Visiting Medical Officer and Head of General Surgery Mater Health Services; Chairman Foundation for Breast Cancer Care; Director CM Pyke Pty Ltd.

Associate Professor Christopher Perry OAM FRACS GAICD
Consultant, Otolaryngology Head & Neck Surgery Department, Princess Alexandra Hospital & Queensland Children's Hospital; Director ASOHNS; Director Brisbane ENT Pty Ltd; Director AMA QLD Foundation

Mr Richard Edward Perry, MBChB, Dip Obs(Otago), FRACS, FAICD
General surgeon, Visiting Consultant Surgeon Intus Digestive and Colorectal Care, St Georges Hospital and Southern Cross Hospital, Christchurch; Director, Intus Ltd; Director, Medical Software Corporation Ltd.

Dr Maxine Mariri Ronald MBChB, FRACS
General Surgeon, Whangarei Hospital, New Zealand; Member Perioperative Mortality Review Committee (NZ).

Professor Jonathan William Serpell MBBS, MD, MEd, FRACS, FACS, FRCSEd (ad hom), GAICD
Professor and Director General Surgery Alfred Hospital; Head Breast Endocrine and General Surgery Unit Alfred Hospital; Head Breast Endocrine and Surgical Oncology Unit Frankston Hospital, Department of Surgery Monash University

ROYAL AUSTRALASIAN COLLEGE OF SURGEONS

COUNCILLORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

Councillors' and Chief Executive Officer's Qualifications and Current Experience (continued)

Mr Anthony Lloyd Sparnon MBBS, FRACS, GAICD

Paediatric Surgeon; Senior Visiting Surgeon Women's and Children's Hospital, Adelaide

Professor Owen Allan Ung MBBS FRACS FAICD

Professor of Surgery School of Medicine University of Queensland; Senior Visiting Surgeon, Head Breast and Endocrine Unit, Director Centre for Breast Health Royal Brisbane and Women's Hospital; Director General Surgery St Andrews War Memorial Hospital; Visiting Specialist Wesley Hospital; Director Medical Insurance Australia (MIA); Director Medical Defence Association of South Australia (MDASA); Director Specialist Oncology Property Ltd; Director Royal Brisbane and Women's Hospital Foundation; Councillor Federal Australian Medical Association

Mr Garry Wilson KStJ, BA, BSc, DPA

Chair, Precision Seafood Harvesting and SPATnz; Chair, Governance Oversight Group, Canterbury University Rebuild; Member, Risk and Audit Committee NZ Ministry of Health; Board Member St John Emergency Communication Ltd; Board Member Anglican Insurance Board (NZ); Business and governance consultant

Dr Gregory Edwin Witherow MBBS, FRACS

Visiting Orthopaedic Surgeon Hollywood Private Hospital; Observer AOA Federal Board; Member Ramsay Orthopaedic Specialists Advisory Group

Chief Executive Officer

Ms Mary Harney BSc BA MAICD FIML

Principal Activities

The principal activities of RACS in the course of the year were promoting the study of the science and art of surgery and clinical and scientific research. During the year, there was no significant change in the nature of those activities.

Operating and Financial Review

The total comprehensive income of RACS for the year as shown in the Statement of Comprehensive Income and note 6 was (\$2,241,833) compared to 2017 total comprehensive income of \$5,552,965. RACS is a company limited by guarantee, which has no share capital and is prohibited by its constitution from paying dividends.

Significant Changes in the State of Affairs

During the year, there was no significant change in RACS state of affairs other than that referred to in the financial statements or notes thereto.

Significant events after the Balance Date

There has not been any matter or circumstance, other than that referred to in the financial statements or notes thereto, that has arisen since the end of the financial year that has significantly affected, or may significantly affect, RACS operations, the results of those operations, or RACS state of affairs in future financial years.

Indemnification and Insurance of Councillors and Auditors

During the year, RACS paid a premium in respect of a contract insuring the Councillors and Officers of RACS against a liability incurred as a Councillor or Officer to the extent permitted by the applicable laws and regulations. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

RACS has not otherwise, during or since the year end, indemnified or agreed to indemnify an officer or auditor of RACS or of any related body corporate against a liability incurred as an officer or auditor.



ROYAL AUSTRALASIAN COLLEGE OF SURGEONS

COUNCILLORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

Members' Guarantee

If RACS is wound up, the Constitution states that each member is required to contribute a maximum of \$50.00 towards meeting any outstanding obligations of RACS.

At 31 December 2018, the number of members was 7,871 (31 December 2017 – 7,747).

DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

Auditor's Independence Declaration

We, the Directors, hereby declare and note that the Auditor's Independence Declaration has been received and follows this report.

Signed in accordance with a resolution of the Directors made pursuant to the *Australian Charities and Not-for-profits Commission Act 2012*.

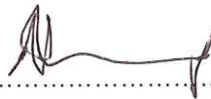
On behalf of the Directors.

Mr John Charles Batten



.....
President

Associate Professor Julie Ann Mundy



.....
Treasurer

MELBOURNE
5 APRIL 2019

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Independent Auditor's Report to the Directors of Royal Australasian College of Surgeons

Our Opinion

We have audited the accompanying financial report of Royal Australasian College of Surgeons (the Company), which comprises the statement of financial position as at 31 December 2018 and the statements of comprehensive income, changes in equity, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and the directors' declaration.

In our opinion the accompanying financial report is in accordance with the *Australian Charities and Not-for-Profits Commission Act 2012*, including:

- (a) giving a true and fair view of the Company's financial position as at 31 December 2018 and of its performance for the year then ended; and
- (b) complying with Australian Accounting Standards – Reduced Disclosure Requirements and the *Australian Charities and Not-for-Profits Commission Regulation 2013*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Company 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 our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Information other than the Financial Report and our Auditor's Report thereon

The directors are responsible for the Report from the Treasurer to Fellows, the Councillors' Report and the Directors' Report (together referred to as other information). The other information comprises the information included in the Company's annual report but does not include the financial report and our auditor's report thereon.

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

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact. We have nothing to report in this regard.

Directors' Responsibilities for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards – Reduced Disclosure Requirements and the *Australian Charities and Not-for-Profits Commission Act 2012* 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 Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using a going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our responsibility is to express an opinion on the financial report based on our audit. Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 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 Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the director's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We 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 we identify during our audit.



PKF

Melbourne, 5 April 2019



Steven Bradby

Partner

DIRECTORS' DECLARATION
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

Directors' declaration – *per section 60.15 of the Australian Charities and Not-for-profits Commission Regulation 2013*


The directors declare that in the directors' opinion:

- (a) there are reasonable grounds to believe that RACS is able to pay all of its debts, as and when they become due and payable; and
- (b) the financial statements and notes satisfy the requirements of the *Australian Charities and Not-for-profits Commission Act 2012*.

Signed in accordance with subsection 60.15(2) of the *Australian Charities and Not-for-profit Commission Regulation 2013*.

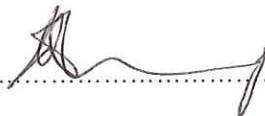
On behalf of the Directors

Mr John Charles Batten



.....
President

Associate Professor Julie Ann Mundy



.....
Treasurer

MELBOURNE
5 APRIL 2019

STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

	<u>Notes</u>	<u>2018</u> \$	<u>2017</u> \$
Revenue from operating activities	5(a)	63,781,574	63,836,927
Income from investments	5(a)	5,375,654	4,311,764
Revenue		69,157,228	68,148,691
Expenditure			
Personnel costs	5(c)	25,031,403	24,873,453
Consultants fees - clinical		1,147,066	1,108,751
Consultants fees - management		2,224,873	1,692,990
Telephone, teleconference and audio-visual costs		805,333	1,589,487
Printing, stationery and photocopying		1,161,321	1,400,063
Postage and courier costs		566,179	607,476
Information system costs		1,506,113	1,413,019
Travel and accommodation	5(b)	7,076,829	6,144,321
Associations and library publications		1,278,212	1,095,053
Audit, legal and professional fees		755,354	1,153,882
Bank fees and merchant charges		527,835	610,931
Rent		1,730,560	1,493,946
Utilities and other property costs		1,184,110	1,118,880
Insurance		623,969	424,120
Project equipment purchases, hire and repairs		560,633	612,643
Training manuals and consumables used in education and field projects		890,563	761,023
Scholarships, fellowships and research grants		1,170,019	1,787,938
Awards, other grants, gifts and prizes		999,899	870,402
Grants – funded from external sources		5,821,546	7,364,167
Facilities hire and catering costs	5(b)	4,073,168	3,453,437
Depreciation and amortisation expense		2,205,234	2,244,294
Specialty societies funding costs		4,727,982	4,278,527
Other expenses from operating activities		248,177	715,028
Expenditure		66,316,378	66,813,831
Surplus for the Period		2,840,850	1,334,860
Other Comprehensive Income			
Items not to be reclassified subsequently to profit or loss:			
Net gain / (loss) on revaluation of financial assets	5(d)	(5,112,443)	4,029,620
Foreign currency translation gain / (loss)	5(d)	29,760	188,485
Other Comprehensive Income for the Year		(5,082,683)	4,218,105
TOTAL COMPREHENSIVE INCOME	6	(2,241,833)	5,552,965

Notes to and forming part of the financial statements can be found from page 18.

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	<u>Notes</u>	<u>2018</u> \$	<u>2017</u> \$
ASSETS			
Current Assets			
Cash and short-term deposits	7	27,017,461	20,435,179
Trade and other receivables	8	23,430,414	22,018,754
Inventories		324,480	404,685
Prepayments	9	2,448,135	2,361,003
Available for sale financial assets	10	<u>64,308,565</u>	<u>65,575,360</u>
Total Current Assets		<u>117,529,055</u>	<u>110,794,981</u>
Non-Current Assets			
Trade and other receivables	11	611,611	734,359
Property, plant and equipment	12	17,980,055	18,680,716
Intangibles	13	<u>2,119,010</u>	<u>2,622,456</u>
Total Non-Current Assets		<u>20,710,676</u>	<u>22,037,531</u>
TOTAL ASSETS		<u>138,239,731</u>	<u>132,832,512</u>
LIABILITIES			
Current Liabilities			
Trade and other payables	14	3,051,605	3,689,276
Provisions	15	3,640,006	4,106,275
Income in advance	16	27,737,326	26,431,096
Government grants received in advance	17	15,017,401	8,218,915
Funds held on behalf of others	18	<u>9,891,231</u>	<u>9,229,903</u>
Total Current Liabilities		<u>59,337,569</u>	<u>51,675,465</u>
Non-Current Liabilities			
Provisions	19	<u>374,815</u>	<u>387,867</u>
Total Non-Current Liabilities		<u>374,815</u>	<u>387,867</u>
TOTAL LIABILITIES		<u>59,712,384</u>	<u>52,063,332</u>
NET ASSETS		<u>78,527,347</u>	<u>80,769,180</u>
RACS FUNDS AND RESERVES			
Retained surplus		79,678,590	76,837,740
Available for sale financial assets reserve		(1,082,823)	4,029,620
Foreign currency translation reserve		(68,420)	(98,180)
TOTAL RACS FUNDS AND RESERVES	4	<u>78,527,347</u>	<u>80,769,180</u>

Certain lines of items required in the ACFID Code of Conduct reporting including but not limited to Assets held for sale, Investment property, Intangibles, Borrowings and Current tax liabilities have nil balances for both reporting periods covered.

Notes to and forming part of the financial statements can be found from page 18.



STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

	Retained Surplus	Available for Sale Revaluation Reserve	Foreign Currency Translation Reserve	Total RACS Funds and Reserves
	\$	\$	\$	\$
At 1 January 2017	75,502,880	-	(286,665)	75,216,215
Surplus for the year	1,334,860	-	-	1,334,860
Other comprehensive income	-	4,029,620	188,485	4,218,105
At 31 December 2017	76,837,740	4,029,620	(98,180)	80,769,180
Surplus for the year	2,840,850	-	-	2,840,850
Other comprehensive income	-	(5,112,443)	29,760	(5,082,683)
At 31 December 2018	79,678,590	(1,082,823)	(68,420)	78,527,347



STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

	<u>Note</u>	<u>2018</u> \$	<u>2017</u> \$
Operating activities			
Subscriptions and entrance fees		18,543,498	14,530,510
Training, examination and assessment fees		25,946,142	23,086,935
Sponsorship and donations		2,946,318	2,932,631
Conference registrations		2,998,850	1,837,097
Property rental and recoveries		874,859	938,412
Project income and associated fees		19,514,392	18,896,934
Interest income		193,372	156,948
Other income / (expense)		(675,051)	1,411,736
Payments to suppliers and employees		(65,076,369)	(62,898,427)
Net cash flows from operating activities	7	5,266,011	892,776
Investing activities			
Net movement from investment securities		2,011,915	365,413
Payments for property, plant and equipment		(1,011,621)	(1,689,183)
Net proceeds from sale – property, plant and equipment		636	28,691
Net cash flows from / (used in) investing activities		1,000,930	(1,295,079)
Net increase / (decrease) in cash and short-term deposits		6,266,941	(402,303)
Net foreign exchange difference		315,341	(164,041)
Cash and short-term deposits at 1 January 2018		20,435,179	21,001,523
Cash and short-term deposits at 31 December 2018		27,017,461	20,435,179

Notes to and forming part of the financial statements can be found from page 18.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

1. CORPORATE INFORMATION

The financial report of RACS for the year ended 31 December 2018 was authorised for issue in accordance with a resolution of the Board of Council on 5 April 2019.

RACS is a company limited by guarantee incorporated in Australia and operating in Australia and New Zealand.

RACS is registered on the New Zealand Companies Office overseas company register.

Principal Registered Office and Place of Business is:

Royal Australasian College of Surgeons, 250-290 Spring Street, East Melbourne, Victoria 3002, telephone 03 9249 1200.

The nature of the operations and the principal activities of the RACS are described in the Councillors' Report.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the *Australian Charities and Not-for-profits Commission Act 2012* and Australian Accounting Standards – Reduced Disclosure Requirements and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has also been prepared on a historical cost basis, except for financial assets, employee and lease provisions which are measured at fair value.

The financial report is presented in Australian dollars and all values are rounded to the nearest dollar.

(b)(i) Statement of Compliance

For the purposes of preparing the financial statements, RACS is a not-for-profit entity. The financial statements were authorised for issue by the directors on 5 April 2019.

(b)(ii) Adoption of new and revised Accounting Standards and changes in accounting policy and disclosures

RACS has applied the following amendments to Australian Accounting Standards and Interpretations that are mandatorily effective for accounting periods beginning on or after 1 January 2018:

- AASB 9 Financial Instruments
- AASB 1048 Interpretation of Standards
- AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107
- AASB 2017-2 Amendments to Australian Accounting Standards – Further Annual Improvements 2014-2016.

The adoption of these amendments has not had any material impact on the financial statements. Consequently, there has been no requirement to amend any of the accounting policies, and they are otherwise consistent with those of the previous financial year.

At the reporting date, RACS has not applied the following new and revised Australian Accounting Standards, Interpretations and amendments that have been issued but are not yet effective. Each of these will be applicable to RACS in respect of the year ending 31 December 2019:

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards / amendment
AASB 15 Revenue from Contracts with Customers and related amendments, including AASB 2016-7 Amendments to Australian Accounting Standards – Deferral of AASB 15 for NFP entities
AASB 16 Leases
AASB 1058 Income of Not-for-Profit Entities, and related amendments
AASB 2008-1 Amendments to Australian Accounting Standards – Annual Improvements 2015-2017 Cycle

(c) Financial Assets

Classifications

RACS classifies its financial assets into the following four categories:

- (i) financial assets at fair value through profit or loss,
- (ii) loans and receivables,
- (iii) held-to-maturity investments, and,
- (iv) available-for-sale financial assets (AFS).

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its Investments at initial recognition and re-evaluates this designation at every reporting date.

Financial assets and liabilities are initially measured at fair value plus transaction costs unless they are carried at fair value through profit or loss in which case the transaction costs are recognised in the income statement.

Purchases and sales of investments are recognised on trade-date, the date on which RACS commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and RACS has transferred substantially all the risks and rewards of ownership.

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance date. The quoted market price used is the current bid price.

The four categories of financial assets are:

Financial assets at fair value through profit or loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the Statement of Financial Position date.

After initial recognition they are measured at their fair values. Gains or losses on re-measurement are recognised in the income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

After initial recognition they are measured at amortised cost using the effective interest method. Gains and losses when the asset is impaired or derecognised are recognised in the income statement. Loans and receivables are classified as “trade and other receivables” in the Statement of Financial Position.

Held to maturity investments

Held to maturity investments are assets with fixed or determinable payments and fixed maturities that RACS has the positive intention and ability to hold to maturity.

After initial recognition they are measured at amortised cost using the effective interest method. Gains and losses when the asset is impaired or derecognised are recognised in the income statement.

Available-for-sale financial assets (AFS)

Financial assets at fair value through equity are those that are designated as available-for-sale financial assets or are not classified in any of the other categories above. This category encompasses investments that RACS intends to hold long-term, but which may be realised before maturity. After initial recognition available-for-sale financial investments are measured at fair value with gains or losses being recognised in other comprehensive income until the investment is derecognised or until the investment is determined to be impaired, being either a significant or prolonged decline in value below cost, at which time the cumulative gain or loss previously recognised in other comprehensive income is reclassified to the statement of profit or loss and other comprehensive income.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date.

Reclassifications

An entity may, if a financial asset is no longer held for the purpose of selling or repurchasing it in the near term (notwithstanding that the financial asset may have been acquired or incurred principally for the purpose of selling or repurchasing it in the near term), reclassify that financial asset out of the fair value through profit or loss category if:

- (i) A financial asset may be reclassified out of the fair value through profit or loss category only in rare circumstances.
- (ii) A financial asset that would have met the definition of loans and receivables (if the financial asset had not been required to be classified as held for trading at initial recognition) may be reclassified out of the fair value through profit or loss category if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity.

If an entity reclassifies a financial asset out of the fair value through profit or loss category, it shall reclassify the financial asset at its fair value on the date of reclassification. Any gain or loss already recognised in profit or loss shall not be reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable.

Impairment of Financial Assets *AFS financial assets*

For AFS financial assets, RACS assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as AFS, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. ‘Significant’ is evaluated against the original cost of the investment and ‘prolonged’ against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss – measured as the difference

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss – is removed from OCI and recognised in the statement of profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognised in OCI.

The determination of what is 'significant' or 'prolonged' required judgement. In making this judgement, RACS evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

In the case of debt instruments classified as AFS, the impairment is assessed based on the same criteria as financial assets carried at amortised cost.

However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss.

Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of the finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the statement of profit or loss, the impairment is reversed through the statement of profit or loss.

(d) Foreign Currency Translation

Both the functional and presentation currency of the Australian operations is Australian dollars (AUD\$). The functional currency of the New Zealand operations is New Zealand dollars (NZD\$).

(i) Foreign Currency Transactions

Transactions in currencies other than functional currency ("foreign currencies") are initially recorded in the functional currencies using the exchange rate as at the date of the transaction. At each reporting date, monetary items denominated in foreign currencies are translated using the exchange rate as at the date of the initial transaction.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(ii) Foreign Operations

As at the reporting date, results and financial position of the foreign operation, New Zealand National Office are translated into the presentation currency of RACS as follows:

- a) Assets and liabilities are translated at the closing rate prevailing at the reporting date;
- b) Income and expenses are translated at average exchange rates for the year;
- c) All the resulting exchange differences are recognised in other comprehensive income and accumulated in a separate component of equity under foreign currency translation reserve.

(e) Property, Plant and Equipment and Intangibles

Property, plant and equipment are stated at cost less accumulated depreciation and/or any accumulated impairment losses, if any. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Buildings	40 years
Plant & Equipment	3–5 years
Land	not depreciated
Intangibles	5 years

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The assets residual values, useful lives and amortisation methods are reviewed and adjusted if appropriate at each financial year end. Project assets are written off in the year incurred.

Independent valuers are engaged for valuation purposes of property assets. The timing of valuations are performed every 3-5 years or undertaken in accordance with banking facility agreements.

Intangibles

Costs incurred in developing IT products or systems are capitalised and included as an asset when it is probable the development project will be successfully completed, RACS will be able to use the assets as part of its operations, and there is a continuing intention to complete the development project and the costs can be reliably measured. Costs capitalised include external direct costs of materials and services. Acquired software is also capitalised.

Impairment

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

The recoverable amount of plant and equipment is the greater of fair value less costs to sell and depreciable replacement cost. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Treasures (antique furniture, silverware and artwork) donated to RACS, are recorded at their fair value as determined by the Councillors and accounted for as donation income.

The Gordon Craig Library, Great Mace and Treasures, which are not replaceable and subject to proper maintenance are considered to have indefinite useful lives and their recoverable value is not expected to diminish overtime. Accordingly, these assets are not depreciated.

(f) **Inventories**

Inventories are valued at the lower of cost and current replacement cost. Costs are assigned to 'inventory on hand' comprise all the costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

(g) **Employee Benefits**

Provision is made for benefits accruing to employees in respect of annual leave, leave in lieu and long service leave when management has a present obligation as a result of a past event and it is probable that settlement will be required and capable of being measured reliably. Provisions made in respect of annual leave, leave in lieu and long service leave expected to be settled within 12 months are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All short-term employee benefits – wages, salaries, annual leave, leave in lieu and sick leave for current employees have not been discounted to present value. In accordance with RACS policy, the entitlement for leave in lieu expires annually on the 31st January and the provision is written down for any unused entitlement accrued up to the 31st December of the prior year.

Provisions made in respect of long service leave, which are not expected to be settled within 12 months are measured at the present value of the estimated future cash outflows to be made by RACS in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience, employee departures and period of service. In determining the present value of future cash outflow the market yield as at the reporting date on Australian corporate bond rates, which have a maturity approximating the terms of the related liability, are used.

(h) **Taxation**

(i) **Income Tax**

RACS is exempt from income tax as it is considered an income tax exempt charitable entity under Subdivision 50-B of the Income Tax Assessment Act 1997.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(ii) Other Taxes

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

- Where 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 net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

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

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

(i) Revenue recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent that it is probable that the economic benefits will flow to RACS and the revenue can be reliably measured, regardless of when payment is being made. The rendering of services performed during the year pertained to subscriptions, training fees, examination fees, registration fees, assessment fees and sponsorship. The following specific recognition criteria must also be met before revenue is recognised:

Subscriptions, Fees and Sponsorship

Revenue is recognised when at the reporting date the stage of completion of the transaction can be reliably measured and the costs incurred for the transaction and costs to complete for the transaction can be measured reliably.

RACS Projects (refer note 2 (k))

Revenue from projects is recognised by reference to the stage of completion. Stage of completion is measured by reference to costs incurred to date as a percentage of total cost to completion for each project. When the project outcome cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

Rental Income

Rental income arising on RACS properties is accounted for on a straight-line basis over the lease terms and is included in revenue due to its operating nature.

Investment Income

Investment income comprises interest and dividends. Interest income is recognised as it accrues, taking into account the effective yield on the financial asset. Dividends and trust distributions from listed entities are recognised when the right to receive a dividend or distribution has been established.

(j) Expense recognition

Expenses are recognised based on the timing of when RACS consumes the economic benefit of a service and the value of that consumption can be measured reliably. All expenses are accounted for on an accruals basis and therefore are recognised at the time that consumption has occurred irrespective of any timing of payment to an external party.

(k) Government Grants Received in Advance

Funding from the Commonwealth and State Governments are received for a wide range of projects carried out by RACS in the areas of overseas medical aid, rural and regional medicine, trauma, procedural registers and audits of breast cancer, mortality and morbidity. These funds are deferred for activities in

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

future periods. Government grants are recognised where there is reasonable assurance that the grant will be received, and all attached conditions will be complied with.

These projects are mostly won by competitive tender. These projects are accounted for according to Note 2 (i).

(l) Income in Advance

Subscriptions, training and course fees billed in advance are recorded as Income in Advance. Subscriptions are recognised as income on a straight-line basis in the related year. Training and courses income is deferred and recognised once the service has been provided.

(m) Contributions of Assets

RACS receives 'in kind' sponsorship in the form of specific equipment and materials for use in the education programmes. These contributions are recognised as income when all the following conditions have been met:

- (i) RACS obtains control of the contribution
- (ii) it is probable economic benefits comprising the contribution will flow to RACS
- (iii) the amount of the contribution can be reliably measured.

(n) Cash and Short-term Deposits

Cash and short-term deposits in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of generally 3 months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash short-term deposits as defined above.

(o) Trade and Other Receivables

Trade receivables are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An estimate for doubtful debts is made when there is objective evidence that collection of the full amount is no longer probable. Bad debts are written off when identified.

(p) Operating Leases

Operating lease payments are recognised on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern of the user's benefit.

Incentives given by the lessor to a lessee as an incentive to enter into a new or renewed operating lease agreement are recognised as a reduction of rental expense over the lease term, on a straight-line basis, unless another systematic basis is representative of the time pattern of the lessee's benefit from use of the leased asset.

(q) Comparatives

Where necessary, comparative figures have been reclassified and repositioned for consistency with current year disclosures.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. RACS bases its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market conditions or circumstances arising beyond the control of RACS. Such changes are reflected in the assumptions when they occur.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Significant accounting judgements

Impairment of assets

RACS carries out impairment assessment at each reporting date by evaluating conditions specific to RACS and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined.

Estimation of useful lives of assets

The estimation of the useful lives of assets has been on historical experience as well as manufacturers' warranties (for plant and equipment) and lease terms (for leased equipment). In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustments to useful lives are made when considered necessary.

Allowance for doubtful debts

An estimate for doubtful debts is made when collection of the full amount is no longer probable.

Long service leave

In determining the level of provision required for long service, RACS has made judgements in respect of anticipated future wage and salary levels, employee departures, periods of service and discount rates.

4. FOUNDATION FOR SURGERY

The Foundation for Surgery is strategically committed to providing surgical support, training and research where it is needed most. Funds have been generated through donations from Fellows, contributions from individuals (including bequests), other entities and RACS operational surpluses from time to time. This has enabled the establishment of a Foundation for Surgery corpora consisting of various funds predominantly used to fund surgical research, global health and Indigenous health scholarships. These funds, which account for a significant value of RACS overall funds and reserves, are either reserved for a specific purpose or unreserved but held and used in accordance with the prevailing objective of the Foundation for Surgery.

The total RACS funds and reserves of \$78,527,347 represents an allocation between the Foundation for Surgery funds of \$56,583,420 and General funds of \$21,943,927.

5. REVENUES AND EXPENSES

	<u>2018</u>	<u>2017</u>
	\$	\$
(a) Revenue		
Subscriptions and entrance fees	17,394,449	16,553,370
Training, examination and assessment fees	24,517,424	24,430,916
Sponsorship and donations	2,848,821	3,069,011
Contribution (in kind sponsorship)	200,000	225,000
Conference registrations	2,912,606	1,983,945
Property rental and recoveries	939,878	930,478
Project income and management fees	13,812,359	15,052,289
Bank account interest	193,372	156,948
Advertising, royalties and rebates	470,849	481,503
Investment income (dividends, interest, realised gains/(losses))	5,375,654	4,311,764
Other	491,816	953,467
Total	<u>69,157,228</u>	<u>68,148,691</u>
(b) Expenditure		
Travel and accommodation costs		
- Skills training courses	1,375,364	1,167,184
- Examinations	1,542,994	1,413,075
- Externally funded projects – domestic & international	1,030,571	820,542
- Other	3,127,900	2,743,520
Total	<u>7,076,829</u>	<u>6,144,321</u>
Facilities hire and catering costs		
- Skills training courses	1,104,566	1,238,982
- Annual scientific congress	1,288,669	640,861
- Other	1,679,933	1,573,594
Total	<u>4,073,168</u>	<u>3,453,437</u>
Audit – Professional Services		
- Annual accounts audit – Ernst & Young	4,654	115,270
- Annual accounts audit – PKF	67,000	-
- Project audits – Ernst & Young	4,320	4,635
- Project audits – PKF	5,750	-
- Internal audits – Protiviti	37,230	120,810
(c) Personnel Costs		
Wages and salaries expense	21,115,138	21,018,697
Workers' compensation costs	87,939	86,989
Superannuation costs	1,853,100	1,862,494
Other staffing costs	1,975,226	1,905,273
Total	<u>25,031,403</u>	<u>24,873,453</u>
(d) Other Comprehensive Income		
Net gain / (loss) on revaluation of financial assets	(5,112,443)	4,029,620
Foreign currency translation gain / (loss)	29,760	188,485
Total	<u>(5,082,683)</u>	<u>4,218,105</u>



6. REVENUE AND EXPENDITURE BY FUNCTION

	<u>2018</u> \$	<u>2017</u> \$
Revenue		
RACS operations	48,705,067	47,200,441
RACS projects	13,544,164	14,716,215
Foundation	<u>6,907,997</u>	<u>6,232,035</u>
Total Revenue	<u>69,157,228</u>	<u>68,148,691</u>
Expenditure		
RACS operations	49,700,838	47,956,215
RACS projects	13,485,623	15,326,765
Foundation	<u>3,129,917</u>	<u>3,530,851</u>
Total Expenditure	<u>66,316,378</u>	<u>66,813,831</u>
Surplus / (Deficit)		
RACS operations	(995,771)	(755,774)
RACS projects	58,541	(610,550)
Foundation	<u>3,778,080</u>	<u>2,701,184</u>
Sub-Total	<u>2,840,850</u>	<u>1,334,860</u>
Net gain / (loss) on revaluation of financial assets	(5,112,443)	4,029,620
Foreign currency translation gain / (loss)	<u>29,760</u>	<u>188,485</u>
TOTAL COMPREHENSIVE INCOME	<u>(2,241,833)</u>	<u>5,552,965</u>
Investment Portfolio – included in revenue above		
Investment income (dividends, interest, realised gains/(losses))	<u>5,375,654</u>	<u>4,311,764</u>


7. CASH AND SHORT-TERM DEPOSITS

	<u>2018</u>	<u>2017</u>
	\$	\$
Cash at bank and in hand	15,987,947	10,190,639
Funds at call	<u>11,029,514</u>	<u>10,244,540</u>
	<u>27,017,461</u>	<u>20,435,179</u>

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates.

Funds at call are used for investment purposes as well as for the immediate cash requirements of RACS and earn interest at the respective at call deposit rates and term deposits.

The fair value of cash and short-term deposits is \$27,017,461 (2017: \$20,435,179)

Reconciliation from the surplus to the net cash flows from operations

Operating Surplus	2,840,850	1,334,860
Adjustments to reconcile surplus to net cash flows:		
Depreciation and amortisation of non-current assets	2,205,234	2,244,294
Net (increase) / decrease in carrying value of investments	(5,196,234)	(3,853,899)
Write off - property, plant and equipment	23,171	21,500
Write off - intangible assets	-	1,210
(Gain) / Loss on disposal of property, plant and equipment	(636)	(28,691)
Operating leases	73,659	(133,205)
Unrealised foreign exchange (gain) / loss	(165,357)	312,694
Doubtful debts expense	6,821	6,234
Changes in assets and liabilities:		
(Increase) / decrease in receivables	(1,295,734)	(2,960,799)
(Increase) / decrease in prepayments and other assets	(6,927)	(393,408)
Increase / (decrease) in trade & other payables	(770,572)	565,629
Increase / (decrease) in provisions	(552,980)	146,254
Increase / (decrease) in income in advance	<u>8,104,716</u>	<u>3,630,103</u>
Net cash flows from operating activities	<u>5,266,011</u>	<u>892,776</u>

8. TRADE AND OTHER RECEIVABLES (CURRENT)

	<u>2018</u> \$	<u>2017</u> \$
Subscriptions, fees and levies	11,966,178	12,344,147
Training, examination and assessment fees	6,211,700	6,825,329
Conference registrations	116,155	227,980
RACS projects – work in progress	1,691,028	594,575
Other sundry debtors	<u>3,448,953</u>	<u>2,026,723</u>
	<u>23,434,014</u>	<u>22,018,754</u>
Provision for doubtful debts	<u>(3,600)</u>	-
Trade and other receivables (current)	<u>23,430,414</u>	<u>22,018,754</u>
Provision for doubtful debts movement		
Provision balance as at beginning of year	-	-
Amount provided for during the year	6,821	6,234
Amount written off during the year	<u>(3,221)</u>	<u>(6,234)</u>
Provision balance as at end of year	<u>3,600</u>	-

9. PREPAYMENTS

	<u>2018</u> \$	<u>2017</u> \$
Library – publications and journals	549,986	535,726
Software annual licence fees	375,831	514,728
Events – venue deposit and other advanced payments	775,293	861,437
Insurance	448,188	197,062
Other	<u>298,837</u>	<u>252,050</u>
Total inventories	<u>2,448,135</u>	<u>2,361,003</u>

10. AVAILABLE FOR SALE - FINANCIAL ASSETS

	<u>2018</u> \$	<u>2017</u> \$
At fair value		
Domestic equities	40,963,242	44,404,900
International equities	13,109,849	10,689,092
Domestic fixed interest	<u>10,235,474</u>	<u>10,481,368</u>
	<u>64,308,565</u>	<u>65,575,360</u>

RACS reclassified its Financial Assets from Fair Value through Profit or Loss to Available for Sale following its change in estimates on the holding period of investment portfolio from 'short-term' to 'long-term' basis. The change applied from the 2017 financial year, provides more relevant information to the users of RACS financial statements on the performance of the investment portfolio and the financial performance of RACS core business operations. The need for change is also supported by the growing significance of the endowment funds and the misleading effect that unrealised gain or loss recorded in the profit and loss when financial assets measured were under fair value through profit or loss.


11. TRADE AND OTHER RECEIVABLES (NON-CURRENT)

	<u>2018</u>	<u>2017</u>
	\$	\$
Fellowship entrance fees (due 2 to 5 years)	531,611	594,359
Loans to Fellows	<u>80,000</u>	<u>140,000</u>
	<u>611,611</u>	<u>734,359</u>

All non-current receivables are non-interest bearing. Loans to Fellows are fully repayable within 3 years.

12. PROPERTY, PLANT AND EQUIPMENT

	Freehold Land	Buildings	Plant and Equipment (incl WIP)	Treasures, Gordon Craig Library and Great Mace	Project & Low Value Equipment	TOTAL
	\$	\$	\$	\$	\$	\$
Cost						
At 31 December 2017	4,200,000	18,262,768	9,059,955	326,807	4,208,156	36,057,686
Additions	-	-	536,251	-	30,827	567,078
Disposals	-	-	(25,282)	-	(50,470)	(75,752)
Exchange differences	-	-	27,389	-	937	28,326
At 31 December 2018	<u>4,200,000</u>	<u>18,262,768</u>	<u>9,598,313</u>	<u>326,807</u>	<u>4,189,450</u>	<u>36,577,338</u>
Depreciation						
At 31 December 2017	-	6,259,684	6,909,130	-	4,208,156	17,376,970
Depreciation charge for the year	-	456,657	786,349	-	30,808	1,273,814
Disposals	-	-	(18,680)	-	(50,470)	(69,150)
Exchange differences	-	-	14,693	-	956	15,649
At 31 December 2018	<u>-</u>	<u>6,716,341</u>	<u>7,691,492</u>	<u>-</u>	<u>4,189,450</u>	<u>18,597,283</u>
Net Book Value						
At 31 December 2018	<u>4,200,000</u>	<u>11,546,427</u>	<u>1,906,821</u>	<u>326,807</u>	<u>-</u>	<u>17,980,055</u>
At 31 December 2017	<u>4,200,000</u>	<u>12,003,084</u>	<u>2,150,825</u>	<u>326,807</u>	<u>-</u>	<u>18,680,716</u>

13. INTANGIBLES

	<u>2018</u>	<u>2017</u>
	\$	\$
Net balance at the beginning of the year	2,622,456	2,785,358
Acquisitions	444,543	729,362
Write-offs	(16,569)	(1,210)
Amortisation expense	<u>(931,420)</u>	<u>(891,054)</u>
Net balance at the end of the year	<u>2,119,010</u>	<u>2,622,456</u>

14. TRADE AND OTHER PAYABLES (CURRENT)

	<u>2018</u>	<u>2017</u>
	\$	\$
Trade payables	1,249,391	1,579,669
Other payables	1,104,348	1,165,420
Net external conferences monies held	<u>697,866</u>	<u>944,187</u>
	<u>3,051,605</u>	<u>3,689,276</u>

15. PROVISIONS (CURRENT)

	<u>2018</u> \$	<u>2017</u> \$
Employee Benefits		
Annual leave	1,307,386	1,246,475
Leave in lieu	134,060	135,438
Long service leave	<u>1,723,979</u>	<u>2,323,440</u>
	<u>3,165,425</u>	<u>3,705,353</u>
Operating Leases		
Operating leases	<u>474,581</u>	<u>400,922</u>
	<u>3,640,006</u>	<u>4,106,275</u>

16. INCOME IN ADVANCE

	<u>2018</u> \$	<u>2017</u> \$
Subscriptions billed in advance	16,644,552	15,936,220
Examination entry and annual training fees billed in advance	10,495,552	9,680,463
Annual scientific conference fees billed in advance	465,472	749,726
Other fees billed in advance	<u>131,750</u>	<u>64,687</u>
	<u>27,737,326</u>	<u>26,431,096</u>

17. GOVERNMENT GRANTS RECEIVED IN ADVANCE

	<u>2018</u> \$	<u>2017</u> \$
Grant Funding Agreements		
Specialist Training Program	11,973,528	6,033,660
RACS Global Health Projects	2,830,450	1,979,079
Audits of Surgical Mortality	194,975	206,176
Other	<u>18,448</u>	<u>-</u>
	<u>15,017,401</u>	<u>8,218,915</u>

18. FUNDS HELD ON BEHALF OF OTHERS

	<u>2018</u> \$	<u>2017</u> \$
Funds held on behalf of other surgical societies and groups	9,891,231	9,229,903

These funds have been deposited with RACS to enable surgical societies and groups to have their funds managed within RACS investment portfolio.

Funds deposited with RACS and held on a "long-term" basis are distributed investment income consisting of cash investment income and any unrealised gains or losses from all underlining financial assets held by RACS within the main investment account.

Funds deposited with RACS and held on an "at call" basis are credited with investment income at the bank bill rate.

The underlining financial assets held within the RACS investment portfolio are disclosed in the Statement of Financial Position under the asset classification "Available for sale financial assets".

19. PROVISIONS (NON-CURRENT)

	<u>2018</u>	<u>2017</u>
	\$	\$
Employee Benefits		
Long service leave	374,815	387,867

20. COMMITMENTS AND CONTINGENCIES

Operating Lease Commitments

RACS entered into a further telecommunications service agreement with Macquarie Telecom for a period of 3 years (prior 3 year contract expired 27th May 2016). The current contract with Macquarie Telecom, under renegotiation, expires on 27th May 2019.

Future minimum rentals payable under non-cancellable operating leases as at 31 December are as follows:

(i) Commercial Lease Commitments	<u>2018</u>	<u>2017</u>
	\$	\$
Within one year	305,888	487,214
After one year but not more than five years	236,348	153,231
After more than five years	-	-
Total minimum lease payments	<u>542,236</u>	<u>640,445</u>
(ii) Property Lease Commitments	<u>2018</u>	<u>2017</u>
	\$	\$
Within one year	1,572,168	1,574,284
After one year but not more than five years	4,975,693	5,342,979
After more than five years	<u>2,939,900</u>	<u>1,466,131</u>
Total minimum lease payments	<u>9,487,761</u>	<u>8,383,394</u>

21. EVENTS AFTER BALANCE SHEET DATE

There are no other matters or circumstances, which have arisen since the end of the financial year, which have significantly affected or may significantly affect the operation of RACS, the results of those operations, or the state of affairs of RACS.

22. RELATED PARTY TRANSACTIONS

During the year, the Councillors and key management personnel of RACS noted below provided services to RACS. Payments disclosed comprise of payments made to a Councillor during the period they were a member of Council. These services were provided below commercial rates.

	<u>2018</u> \$	<u>2017</u> \$
International Medical Graduate Assessments		
- Associate Professor A Brooks AM	-	4,055
- Mr Adrian Anthony	1,280	945
- Associate Professor Kerin Fielding	4,144	1,258
Mortality Audit Projects		
- Associate Professor S Tobin	-	900
- Dr Claire Campbell	-	300
	<u>5,424</u>	<u>7,458</u>

23. COMPENSATION OF KEY MANAGEMENT PERSONNEL

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of RACS.

	<u>2018</u> \$	<u>2017</u> \$
Total compensation to key management personnel	3,523,275	3,902,146

ACFID CODE OF CONDUCT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

Information to be provided under the ACFID Code of Conduct

RACS is a signatory member of the Australian Council for International Development (ACFID). The ACFID Code of Conduct is a voluntary self-regulatory code of good practice that aims to improve international development outcomes and increase stakeholder trust by enhancing the accountability and transparency of signatory members. Information disclosed below is in accordance with the financial reporting requirements of the ACFID Code of Conduct.

INCOME STATEMENT

For the year ended 31 December 2018

International Aid and Development Programs

	<u>2018</u>	<u>2017</u>
	\$	\$
REVENUE		
Donations and gifts – monetary	329,400	362,939
Donations and gifts – non-monetary	-	-
Bequests and legacies	-	-
Grants		
– Department of Foreign Affairs and Trade	3,152,142	2,800,874
– Other Australian Grants	-	-
– Other Overseas	22,501	-
Investment income	1,024,876	621,648
Other income – International programs	312,320	666,261
Other income – all other RACS activities	64,315,989	63,696,969
Revenue for international political or religious adherence promotion programs	-	-
Total Revenue	<u>69,157,228</u>	<u>68,148,691</u>
EXPENDITURE		
International Aid and Development Programs		
International Programs		
– Funds to international programs	3,345,916	2,826,471
– Program support costs	732,796	783,686
Community education	-	-
Fundraising costs		
– Public	-	-
– Government, multilateral and private	-	-
Accountability and administration	177,028	182,940
Non-monetary expenditure	-	-
Total International Aid and Development Programs Expenditure	<u>4,255,740</u>	<u>3,793,097</u>
Expenses for international political or religious adherence promotion programs	-	-
Other expenditure – all other RACS activities	62,060,638	63,020,734
Total Expenditure	<u>66,316,378</u>	<u>66,813,831</u>
Surplus / (Deficit)	2,840,850	1,334,860
Other Comprehensive Income	<u>(5,082,683)</u>	<u>4,218,105</u>
TOTAL COMPREHENSIVE INCOME	<u>(2,241,833)</u>	<u>5,552,965</u>