

**MASTER BUILDERS FIDELITY FUND**

**FINANCIAL REPORT  
FOR THE YEAR ENDED  
30 JUNE 2010**

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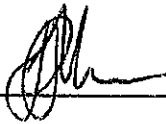
**MASTER BUILDERS FIDELITY FUND**

**TRUSTEES' DECLARATION**

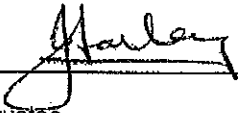
The trustees of the fund declare that:

1. The financial statements and notes, being the Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity, Cash Flow Statement and notes to the financial statements present fairly the financial position as at 30 June 2010 and performance for the year ended 30 June 2010 in accordance with Australian Accounting Standards and other mandatory professional reporting requirements.
2. In the trustees' opinion there are reasonable grounds to believe that the fund will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the trustees.



Trustee



Trustee

Dated this 14 day of December 2010

RSM Bird Cameron  
Level 1, 103-106 Northbourne Avenue Canberra ACT 2601  
GPO Box 200 Canberra ACT 2601  
T +61 2 6247 6988 F +61 2 6247 3703  
www.rsm.com.au

**INDEPENDENT AUDITOR'S REPORT**

**TO THE TRUSTEES OF**

**MASTER BUILDERS FIDELITY FUND**

We have audited the accompanying financial report of Master Builders Fidelity Fund, which comprises the balance sheet as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended a summary of significant accounting policies, other explanatory notes and the trustees' declaration.

*Trustees' Responsibility for the Financial Report*

The trustees of the fund are responsible for the preparation and fair presentation of the financial report in accordance Australian Accounting Standards (including the Australian Accounting Interpretations) and the Building (Prudential Standards) Determination 2002. The trustee's responsibility also includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

*Auditor's Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the trustees, as well as evaluating the overall presentation of the financial report.

The financial report has been prepared for distribution to members for the purpose of fulfilling the trustees financial reporting requirements under the Australian Accounting Standards (including the Australian Accounting Interpretations) and the Building (Prudential Standards) Determination 2002. We disclaim any assumption of responsibility for any reliance on this report or on the financial report to which it relates to any person other than the members, or for any purpose other than that for which it was prepared.

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

Liability limited by a  
scheme approved under  
Professional Standards  
Legislation

Dirdanco Nominees Pty Ltd  
ABN 33 009 321 377  
Practising as  
RSM Bird Cameron  
ABN 65 319 382 479

Major Offices in:  
Perth, Sydney,  
Melbourne, Adelaide  
and Canberra

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each of which practises in its own right. RSM International does not exist in any  
jurisdiction as a separate legal entity.

# RSM Bird Cameron

Chartered Accountants

## *Independence*

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

## *Auditor's Opinion*

In our opinion the financial report is in accordance with the trust deed, including:

- (a) Giving a true and fair view of the Master Builders Fidelity Fund's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
- (b) Complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Building (Prudential Standards) Determination 2002.

**RSM Bird Cameron**  
Chartered Accountants  
Sch 2.2(a)(ii)

Canberra, Australian Capital Territory  
Dated: 14 December 2010

**GED STENHOUSE**  
Director

**MASTER BUILDERS FIDELITY FUND**

**STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 30 JUNE 2010**

	NOTE	2010	2009
		\$	\$
Direct contribution revenue		1,770,183	1,482,761
Claim expense		(349,000)	(7,639)
Movement in provision for Requests incurred but not reported		386,402	(560,564)
Acquisition Costs		(214,190)	(207,053)
Underwriting Result		<u>1,593,395</u>	<u>707,505</u>
Interest received		256,101	326,515
Dividends received		29,001	47,859
Unrealised gain/(loss) on investments		52,138	(117,563)
Other sundry income		3,144	1,046
Finance cost expense		(9,231)	(9,701)
Administration expense		(720,349)	(561,607)
Other expenses		(87,966)	(61,275)
Depreciation expense		(12,862)	(13,310)
Skills Centre Building Fund		-	(500,000)
Result before income tax expense	2	<u>1,103,371</u>	<u>(180,531)</u>
Income tax (benefit)/expense	3	(323,022)	45,573
Net result after income tax expense		<u>780,349</u>	<u>(134,958)</u>
Other comprehensive income for the year		-	-
Total comprehensive income for the year		<u>780,349</u>	<u>(134,958)</u>

The accompanying notes form part of these financial statements.

**MASTER BUILDERS FIDELITY FUND**

**BALANCE SHEET  
AS AT 30 JUNE 2010**

	NOTE	2010 \$	2009 \$
<b>CURRENT ASSETS</b>			
Cash	5	6,611,812	1,714,363
Financial assets at fair value through profit and loss	6	1,308,117	5,068,903
Trade and other receivables	7	53,095	101,148
Deferred acquisition costs	8	274,408	233,640
<b>TOTAL CURRENT ASSETS</b>		<b>8,247,432</b>	<b>7,118,054</b>
<b>NON CURRENT ASSETS</b>			
Deferred acquisition costs	8	429,613	428,576
Property plant & equipment	9	12,387	16,698
Deferred tax asset	14	-	41,337
<b>TOTAL NON CURRENT ASSETS</b>		<b>442,000</b>	<b>486,611</b>
<b>TOTAL ASSETS</b>		<b>8,689,432</b>	<b>7,604,665</b>
<b>CURRENT LIABILITIES</b>			
Unearned contributions	10	2,398,610	1,981,996
Payables	11	162,762	161,941
Outstanding Requests	12	595,043	943,185
Tax liability	14	273,589	-
<b>TOTAL CURRENT LIABILITIES</b>		<b>3,430,004</b>	<b>3,087,122</b>
<b>NON CURRENT LIABILITIES</b>			
Unearned contributions	10	3,788,106	3,796,406
Outstanding Requests	12	35,213	73,473
Deferred tax liability	14	8,096	-
<b>TOTAL NON CURRENT LIABILITIES</b>		<b>3,831,415</b>	<b>3,869,879</b>
<b>TOTAL LIABILITIES</b>		<b>7,261,419</b>	<b>6,957,001</b>
<b>NET ASSETS</b>		<b>1,428,013</b>	<b>647,664</b>
<b>EQUITY</b>			
Retained surplus		<b>1,428,013</b>	<b>647,664</b>
<b>TOTAL EQUITY</b>		<b>1,428,013</b>	<b>647,664</b>

The accompanying notes form part of these financial statements.

**MASTER BUILDERS FIDELITY FUND**

**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30 JUNE 2010**

	<b>Retained Earnings</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>
<b>Balance at 1 July 2008</b>	782,622	782,622
Result for the year	(134,958)	(134,958)
<b>Balance at 30 June 2009</b>	<u>647,664</u>	<u>647,664</u>
Result for the year	780,349	780,349
<b>Balance at 30 June 2010</b>	<u>1,428,013</u>	<u>1,428,013</u>

The accompanying notes form part of these financial statements.

**MASTER BUILDERS FIDELITY FUND**

**CASH FLOW STATEMENT  
FOR THE YEAR ENDED 30 JUNE 2010**

	NOTE	2010 \$	2009 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Contributions received		2,428,279	1,834,779
Interest received		212,187	326,515
Other		32,145	48,905
Payments to suppliers		(1,009,254)	(2,021,545)
Requests paid		(349,000)	(59,292)
Acquisition costs paid		(255,995)	(255,767)
<b>Net cash provided by operating activities</b>	13b	1,058,362	(126,405)
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Payments for property, plant & equipment		(8,551)	-
Purchase of investment		-	(3,847,638)
Proceeds from sale of investments		3,847,638	-
<b>Net cash used in Investing activities</b>		3,839,087	(3,847,638)
Net increase in cash held		4,897,449	(3,974,043)
Cash at the beginning of the period		1,714,363	5,888,406
<b>Cash at the end of the period</b>	13a	6,611,812	1,714,363

The accompanying notes form part of these financial statements.

## MASTER BUILDERS FIDELITY FUND

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

#### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, including Australian Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board.

The financial report covers the fund as an individual entity. The fund is a trust established under a trust deed dated 21 June 2002, pursuant to the Building Act 2004 (ACT).

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

#### **Basis of Preparation**

##### *Reporting Basis and Conventions*

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

#### **a. Cash**

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. Bank overdrafts are shown within short-term borrowings in current liabilities on the balance sheet.

#### **b. Income Tax**

The charge for current income tax expenses is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the Statement of comprehensive income except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic fund will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

#### **c. Revenue**

Contribution revenue comprises amounts charged for the issue of warranty certificates. The earned portion of the contribution received and receivable is recognised as revenue. The pattern of recognition over the certificate period is based on the pattern of risk underwritten. The proportion of contributions received and receivable not earned at balance date are recognised in the balance sheet as unearned contributions liability.

## MASTER BUILDERS FIDELITY FUND

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

#### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES CONT

##### d. Requests

Requests Incurred expense and liabilities for outstanding requests are recognised in respect to certificates issued. The liability covers incurred but not reported requests and the anticipated direct and indirect costs of settling those requests. Requests outstanding are assessed by reviewing individual claim files and estimating un-notified Requests and settlement costs using statistics based on past experience trends.

The liability for outstanding requests is measured as the central estimate of the present value of the expected future payments. The expected future payments are estimated on the basis of the ultimate cost of settling Requests. The expected future payments are then discounted to a present value at reporting date using discount rates based on investment opportunities available to the organisation on the amounts of funds sufficient to meet Requests as they become payable. During the year ended 30 June 2010:

Average discount rate – 4.49% per annum

Average inflation rate – 4% per annum

##### e. Acquisition Costs

A portion of acquisition costs relating to the unearned premium revenue is deferred as an asset as it represents future benefits to the fund. Deferred acquisition costs are measured at the lower of cost and the recoverable amount. A write-down to the recoverable amount is recognised where the present value of expected future Requests (including settlement costs) in relation to the business written to the reporting date exceeds related unearned premiums. Deferred acquisitions costs are amortised in accordance with the expected pattern of incidence of risk under related contracts.

##### f. Property, Plant & Equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

##### Plant and Equipment

Plant and equipment are measured on the cost basis less depreciation and impairment losses.

The carrying amount of plant and equipment is reviewed annually by the trustees to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the fund and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Statement of comprehensive income during the financial period in which they are incurred.

##### Depreciation

The depreciable amount of all fixed assets is depreciated on a straight line basis over their useful lives to the fund commencing from the time the asset is held ready for use.

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

Class of Fixed Asset	Depreciation Rate
Plant and Equipment	33.3 %

## MASTER BUILDERS FIDELITY FUND

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

#### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES CONT

##### g. Financial Instruments

###### *Recognition and Initial Measurement*

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

Financial instruments are initially at fair value plus transactions costs where the instrument is not classified at fair value through profit or loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below

###### *Derecognition*

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

###### *Classification and Subsequent Measurement*

###### (i) *Financial assets at fair value through profit or loss*

The Fund has determined that all financial assets are held to back insurance liabilities. Financial assets are managed by key management personnel on a fair value basis in accordance with a documented risk management/investment strategy, accordingly; financial assets are classified at fair value through profit or loss. Realised and unrealised gains and losses arising from the changes in fair value are included in profit or loss in the period in which they arise.

###### *Loans and Receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measure at amortised cost using the effective interest rate method.

###### *Held-to-maturity investments*

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

###### *Financial Liabilities*

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method.

###### *Fair Value*

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

###### *Impairment*

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

**MASTER BUILDERS FIDELITY FUND**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2010**

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES CONT**

**h. 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 Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

**i. Finance Costs**

Finance costs are recognized in the Statement of comprehensive income in the period in which they are incurred.

**j. Comparative Figures**

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

**k. Impairment of Assets**

At each reporting date, the Fund reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the Statement of comprehensive income.

**l. Critical accounting estimates**

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience, external advice and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying value of assets and liabilities estimates. The entity's most significant estimates relate to warranty certificates (see note 12). The key actuarial assumptions are :

***Contribution Liability***

Contributions are considered in two parts; insolvency risks and warranty risk. Insolvency risk relates to the constructions phase and ceases once the construction is finalised. Warranty risk covers a period of up to 6 years.

***Insolvency Requests***

In respect of insolvency requests, management have assumed requests at completion of 0.165% of the contract price, plus 1.25% of that amount in each earlier quarter for incomplete certificates allowing for weighted average rates of completion. The observed rates of completion can be variable. The assumed rates are based on observed rates for the successive quarters and a weighted average using all the data but emphasising the most recent. Certificates shown as speculative have no exposure to insolvency requests.

***Warranty Requests***

The warranty requests are assumed at 140% of 0.015% of the contract price at the expiry of the warranty period.

***Economic Assumptions***

The contribution and request liabilities are calculated on a discounted present value basis, using rates appropriate to Commonwealth Government Bonds. The average discount rate is 4.49%. The management have not made an explicit inflation assumption in relation to request payments, which are, however, consistent with inflation at 4% per annum.

**MASTER BUILDERS FIDELITY FUND**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 30 JUNE 2010**

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES CONT**

**m. New standards and interpretations issued but not yet effective**

At the date of this financial report the following standards and interpretations, which may impact the fund in the period of initial application, have been issued but are not yet effective:

Reference	Title	Summary	Application date (financial years beginning)	Expected Impact
AASB 2009-5	<i>Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136, 139]</i>	Amends a number of standards as a result of the annual improvements project.	1 January 2010	Minimal
AASB 9	<i>Financial Instruments</i>	Replaces the requirements of AASB 139 for the classification and measurement of financial assets. This is the result of the first part of Phase 1 of the IASB's project to replace IAS 39.	1 January 2013	Minimal
Interpretation 19	<i>Extinguishing Financial Liabilities with Equity Instruments</i>	This Interpretation addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. It does not address the accounting by the creditor.	1 July 2010	Minimal
AASB 124	<i>Related Party Disclosures</i>	Revised standard. The definition of a related party is simplified to clarify its intended meaning and eliminate inconsistencies from the application of the definition	1 January 2011	Disclosure only
2009-11	<i>Amendments to Australian Accounting Standards arising from AASB 9</i>	Amends AASB 1, 3, 4, 6, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 and 1038 and Interpretations 10 and 12 as a result of the issuance of AASB 9.	1 January 2013	Minimal
2009-12	<i>Amendments to Australian Accounting Standards</i>	Amends AASB 8 Operating Segments as a result of the revised AASB 124. Amends AASB 5, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052 as a result of the annual Improvement project.	1 January 2011	Minimal

**MASTER BUILDERS FIDELITY FUND**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2010**

	NOTE	2010 \$	2009 \$
<b>NOTE 2: RESULT BEFORE INCOME TAX</b>			
Result before income tax has been determined after:			
Expenses:			
Remuneration of auditor		20,592	19,800
Depreciation		12,861	13,310
Acquisition costs amortised	8	125,593	175,464
 <b>NOTE 3: INCOME TAX EXPENSE</b>			
The components of tax expense comprise:			
Current tax		273,589	-
Deferred tax		49,433	(47,022)
Under provision in respect to prior years		-	1,449
		323,022	(45,573)
 The prima facie tax payable on profit from ordinary activities in reconciled to the income tax expense as follows:			
Prima facie tax payable on profit from ordinary activities before income tax at 30% (2009: 30%)		331,011	(54,159)
Add:			
Tax effect of			
Gross up of fully franked dividends & foreign income		3,717	7
Permanent differences		685	21,482
Under provision for income tax in prior years		-	1,449
Deferred tax asset previously overstated		-	530
		335,413	(24,323)
 Less:			
Tax effect of:			
Rebate fully franked dividends		12,391	21,250
Income tax expense		323,022	(45,573)

**NOTE 4: REMUNERATION AND RETIREMENT BENEFITS**

The trustees do not receive any remuneration from the fund in accordance with the funds trust deed. No amounts were paid into any superannuation fund in connection with the retirement of any trustees.

**MASTER BUILDERS FIDELITY FUND**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2010**

	NOTE	2010 \$	2009 \$
<b>NOTE 5: CASH</b>			
Cash at bank		<u>6,611,812</u>	<u>1,714,363</u>
 <b>NOTE 6: FINANCIAL ASSETS</b>			
Term deposits		-	3,847,638
Shares in listed entities at fair value through profit and loss		<u>1,308,117</u>	<u>1,221,266</u>
		<u>1,308,117</u>	<u>5,068,904</u>
 <b>NOTE 7: RECEIVABLES</b>			
<b>CURRENT</b>			
Premium receivables		33,666	34,440
Other debtors		<u>19,430</u>	<u>66,709</u>
		<u>53,095</u>	<u>101,149</u>
 <b>NOTE 8: DEFERRED ACQUISITION COSTS</b>			
Deferred acquisition costs at beginning of the year		662,217	632,325
Additions		247,694	205,357
Amortisation expense	2	<u>(205,890)</u>	<u>(175,465)</u>
Deferred acquisition costs at end of the year		<u>704,021</u>	<u>662,217</u>
 Allocation			
Current		274,408	190,722
Non Current		<u>429,613</u>	<u>441,603</u>
		<u>704,021</u>	<u>632,325</u>

**MASTER BUILDERS FIDELITY FUND**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2010**

	NOTE	2010 \$	2009 \$
<b>NOTE 9: PROPERTY, PLANT AND EQUIPMENT</b>			
Plant & Equipment at cost		130,285	121,735
Accumulated depreciation		<u>(117,898)</u>	<u>(105,037)</u>
		<u>12,387</u>	<u>16,698</u>
Balance at the beginning of the year		16,698	30,008
Additions		8,552	..
Depreciation expense		<u>(12,861)</u>	<u>(13,310)</u>
Carrying amount at the end of the year		<u>12,389</u>	<u>16,698</u>
<b>NOTE 10: UNEARNED CONTRIBUTIONS</b>			
Unearned contributions at the beginning of the year		5,778,402	5,681,685
Contributions income deferred		2,178,497	1,579,478
Contributions income recognised		<u>(1,770,183)</u>	<u>(1,482,761)</u>
Unearned contributions at the end of the year		<u>6,186,716</u>	<u>5,778,402</u>
Allocation			
Current		2,398,610	1,981,996
Non current		<u>3,788,106</u>	<u>3,796,406</u>
		<u>6,186,716</u>	<u>5,778,402</u>
<b>NOTE 11: PAYABLES</b>			
<b>CURRENT</b>			
Creditors		84,496	88,791
Accruals		<u>78,266</u>	<u>73,150</u>
		<u>162,762</u>	<u>161,941</u>

MASTER BUILDERS FIDELITY FUND

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2010

	NOTE	2010 \$	2009 \$
<b>NOTE 12: OUTSTANDING REQUESTS</b>			
Balance at the beginning of the year		1,016,658	456,093
Increase/(decrease) in provision		(386,402)	560,565
Balance at the end of the year		<u>630,256</u>	<u>1,016,658</u>

	Current	Non Current	Total
Reported Request Liabilities	\$121,150	\$6,804	\$127,955
Valuation Margin (Reported)	\$109,035	\$6,124	\$115,159
Reported Request Provision	\$230,186	\$12,928	\$243,114
IBNR Request Liabilities	\$192,030	\$11,729	\$203,760
Valuation Margin (IBNR)	\$172,827	\$10,556	\$183,384
IBNR Request Provision	\$364,857	\$22,284	\$387,142
Request Provision	<u>\$595,044</u>	<u>\$35,212</u>	<u>\$630,256</u>

	Impact of Discounting		
	Undiscounted	Discount	Discounted
Reported Request Liabilities	\$129,906	-\$1,952	\$127,955
Valuation Margin (Reported)	\$116,916	-\$1,757	\$115,159
Reported Request Provision	\$246,822	-\$3,708	\$243,114
IBNR Request Liabilities	\$207,031	-\$3,272	\$203,760
Valuation Margin (IBNR)	\$183,384	\$0.00	\$183,384
IBNR Request Provision	\$390,415	-\$3,272	\$387,142
Request Provision	<u>\$635,481</u>	<u>-\$5,224</u>	<u>\$630,256</u>

**MASTER BUILDERS FIDELITY FUND**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2010**

	NOTE	2010 \$	2009 \$
<b>NOTE 13: CASH FLOW INFORMATION</b>			
a. Reconciliation of Cash			
Cash at bank		<u>6,611,812</u>	<u>1,714,363</u>
b. Reconciliation of cash flow from operations with result after income tax			
Result after income tax		780,349	(134,958)
Non-cash flows in profit			
Depreciation		12,862	13,310
Unrealised loss/(gain) on investments (net)		(86,853)	58,174
Changes in assets and liabilities			
(Increase) / Decrease in receivables		48,054	120,506
(Increase) in deferred acquisition costs		(41,805)	(29,892)
Increase / (decrease) in payables		821	(531,202)
Increase / (decrease) in outstanding Requests		(386,402)	560,565
Increase / (decrease) in unearned contributions		408,314	96,717
Increase / (decrease) in income taxes payable		273,589	(232,603)
Increase / (decrease) in deferred taxes		49,433	(47,022)
Cash flows from operations		<u>1,058,362</u>	<u>(126,405)</u>
c. The fund has no credit stand-by or financing facilities in place.			
d. Non-cash financing activities.			
There were no non-cash financing activities during the period.			

**NOTE 14: TAX**

**CURRENT**

Income tax		<u>273,589</u>	<u>-</u>
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**NON CURRENT**

	Opening Balance	Charged to Income	Closing Balance
<b>Deferred tax liability/(asset)</b>			
Deferred acquisition costs	189,697	8,968	198,665
Investments	(124,636)	100,772	(23,864)
Future income tax benefits attributable to tax losses	(59,376)	(166,762)	(216,138)
Balance at 30 June 2009	5,685	(47,022)	(41,337)
Deferred acquisition costs	198,665	12,541	211,206
Investments	(23,864)	15,642	(8,222)
Future income tax benefits attributable to tax losses	(216,138)	21,250	(194,888)
Balance at 30 June 2010	<u>(41,337)</u>	<u>(49,433)</u>	<u>8,096</u>

**MASTER BUILDERS FIDELITY FUND**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2010**

**NOTE 15: RELATED PARTY DISCLOSURES**

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated. The name of the trustees during the period are:

John Harris	John Halley
Josip Zivko	Robert Terzi
Col Alexander	

As detailed in Note 4 the trustees do not receive any remuneration.

During the 2003 financial year the fund entered into an agreement with the Master Builders Association of the ACT for provision of administration services. Payments made in accordance with this agreement for the year were \$570,280 (2009: \$621,032). During the prior period legal services of \$2,986 were provided by O'Connor Harris and Co. John Harris is a trustee of the fund and is a partner at O'Connor Harris. No legal services were provided in the current financial year.

**NOTE 16: CAPITAL ADEQUACY AND LIABILITY ADEQUACY TEST**

**A. CAPITAL ADEQUACY TEST**

As detailed in Section 17 of the Building (Prudential Standards) Determination 2002 (the Standards) the fund must maintain sufficient capital at all times. Section 28 of the Standards requires the outstanding requests liability and fidelity certificate liabilities of the fund to be calculated in accordance with the prudential standard GPS 310 Issued by the Australian Prudential Regulation Authority. Based on an actuarial report and Certificate of Solvency, dated 4 November 2010 prepared by Robert Buchanan Consulting Pty Limited, in accordance with GPS 310 the fund exceeds the required capital thresholds as at 30 June 2010 by \$2,711,000 as shown below:

	\$
Capital adequacy required as per Section 17 of the Standards	1,000,000
Less: Capital calculated in accordance with GPS310 (approximate)	4,807,000
Capital in excess of requirements	3,807,000

**B. LIABILITY ADEQUACY TEST**

The liability adequacy test has been conducted using the central estimate of the premium liabilities, adjusted as appropriate, together with an appropriate margin. The test is based on prospective information and is also heavily dependent on assumptions and judgements.

Unearned contribution liability (Note 10)	6,186,716
Deferred acquisition costs	(704,021)
	<hr/> 5,482,695
Central estimate of present value of expected future cash flows from future Requests -- in accordance with GPS 310	
- Warranty Requests	962,386
- Insolvency Requests	1,422,946
	<hr/> 2,385,332
Net surplus	<hr/> 3,097,363

## MASTER BUILDERS FIDELITY FUND

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

#### NOTE 17: FINANCIAL RISK MANAGEMENT

##### a. Financial Risk Management

The funds financial instruments consist mainly of deposits with banks, short-term investments, listed equities and accounts receivable and payables.

The trustees' overall risk management strategy seeks to assist the trust in meeting its financial targets, whilst minimising potential adverse effects on financial performance.

Risk management policies are approved and reviewed by the trustees on a regular basis. These include the credit risk policies and future cash flow requirements.

The fund does not have any derivative instruments at 30 June 2010.

##### Financial Risk exposures and management

The main risks the fund is exposed to through its financial instruments are interest rate risk and market rate risk.

##### i. Interest rate and market rate risk

The fund has funds invested in fixed rate term deposits which are exposed to the fluctuations in interest rates and funds invested in listed equities. The trustees review the funds exposure on a regular basis in accordance with the funds investment strategy.

##### ii. Liquidity risk

The fund manages liquidity risk by monitoring forecast cash flows.

##### iii. Credit risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements.

There are no material amounts of collateral held as security at 30 June 2010.

The trust does not have any material credit risk exposure to any single receivable or group of receivables under financial instruments entered into by the trust.

Credit risk is reviewed regularly by the trustees. It arises from exposures to customers as well as through deposits with financial institutions.

##### b. Financial Instrument Composition and Maturity analysis

The table below reflects the undiscounted contractual settlement terms for financial instruments of a fixed period of maturity, as well as management's expectations of the settlement period for all other financial instruments. As such, the amounts may not reconcile to the balance sheet.

MASTER BUILDERS FIDELITY FUND

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2010

NOTE 17: FINANCIAL RISK MANAGEMENT (CONT)

b. Financial Instrument Composition and Maturity analysis (cont)

	Weighted Average Effective Interest Rate		Floating Interest Rate or Fixed for Less than 12 months		Fixed Interest Rate Maturing 1 to 5 Years		Non Interest Bearing		Total	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Financial assets:										
Cash at bank	4.75%	3.45%	6,611,812	1,714,363	-	-	-	-	6,611,812	1,714,363
Investments			-	-	1,308,147	3,847,638	-	-	1,308,147	3,847,638
Receivables			-	-	-	-	53,095	101,148	53,095	101,148
Total financial assets			6,611,812	1,714,363	1,308,147	3,847,638	53,095	101,148	7,973,054	5,665,149

	Weighted Average Effective Interest Rate		Floating Interest Rate		Fixed Interest Rate Maturing 1 to 5 Years		Non Interest Bearing		Total	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Financial liabilities:										
Loan	-	-	-	-	-	-	-	-	-	-
Payables			-	-	-	-	162,762	161,941	-	-
Total Financial Liabilities			-	-	-	-	162,762	161,941	161,942	161,942

Trade and sundry payables are expected to be paid as followed:

Less than 6 months	2010	2009
	\$	\$
	162,762	161,941
	<u>162,762</u>	<u>161,941</u>

c. Net Fair Values

The aggregate net fair values and carrying amounts of financial assets and financial liabilities are disclosed in the balance sheet and in the notes to the financial statements. Carrying amounts approximate net fair values.

**MASTER BUILDERS FIDELITY FUND**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2010**

**NOTE 17: FINANCIAL RISK MANAGEMENT (CONT)**

**d. Sensitivity Analysis**

Sensitivity analysis is performed on the basis that all other variables remain constant.

The fund has performed a sensitivity analysis relating to its exposure to interest rate and market rate risk at balance date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in these risks.

**Interest Rate Sensitivity Analysis:**

At 30 June 2010, the effect on profit and equity as a result of changes in the interest rate, with all other variables remaining constant would be as follows:

Change in profit	2010	2009
	\$	\$
— Increase in interest rate by 1%	66,118	55,500
— Decrease in interest rate by 1%	(66,118)	(55,500)
 Change in Equity		
— Increase in interest rate by 1%	66,118	55,500
— Decrease in interest rate by 1%	(66,118)	(55,500)

The fund has no exposure to fluctuations in foreign currency.

**Market value of listed equities sensitivity analysis**

At 30 June 2010, the effect on profit and equity as a result of changes in the market value of listed equities, with all other variables remaining constant would be as follows:

Change in Profit		
Increase in Market Value at 20%	261,629	244,000
Decrease in Market Value at 20%	(261,629)	(244,000)
Change in Equity		
Increase in Market Value at 20%	261,629	244,000
Decrease in Market Value at 20%	(261,629)	(244,000)

**NOTE 18: CERTIFICATE RISK MANAGEMENT**

Certificate activities primarily involve the underwriting of risks and the management of Requests. A disciplined approach to risk management is adopted. Statistical models that combine historical and protected data are used to calculate premiums and monitor Requests patterns. Management information systems are maintained that provides timely and reliable data on the risks to which the fund is exposed. The fund also undertakes due diligence process for all builders prior to issuing a certificate. The fund has not entered into any reinsurance arrangements.

The fund has not entered into any reinsurance arrangements.

**NOTE 19: EVENTS OCCURRING AFTER BALANCE SHEET DATE**

There were no events after the end of the financial year that would materially affect the financial statements.

**MASTER BUILDERS FIDELITY FUND**

**FINANCIAL REPORT  
FOR THE YEAR ENDED  
30 JUNE 2015**

**MASTER BUILDERS FIDELITY FUND**

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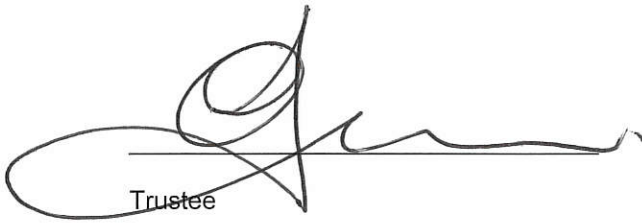
**MASTER BUILDERS FIDELITY FUND**

**TRUSTEES' DECLARATION**

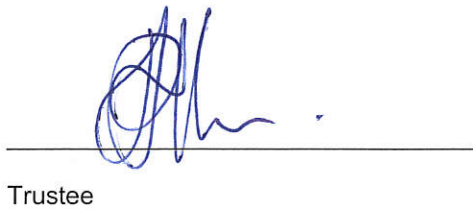
The trustees of the fund declare that:

1. The financial statements and notes, being the Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity, Cash Flow Statement and notes to the financial statements present fairly the financial position as at 30 June 2015 and performance for the year ended 30 June 2015 in accordance with Australian Accounting Standards and other mandatory professional reporting requirements.
2. In the trustees' opinion there are reasonable grounds to believe that the fund will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the trustees.



Trustee



Trustee

Dated this 8<sup>th</sup> day of December 2015

**MASTER BUILDERS FIDELITY FUND**  
**INDEPENDENT AUDIT REPORT**

**MASTER BUILDERS FIDELITY FUND  
INDEPENDENT AUDIT REPORT**

**MASTER BUILDERS FIDELITY FUND**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 30 JUNE 2015**

	NOTE	2015 \$	2014 \$
Direct contribution revenue		1,779,756	2,028,175
Claim expense		(725,898)	(209,575)
Movement in provision for requests incurred but not reported		227,105	(18,489)
Acquisition Costs		(228,537)	(234,022)
<b>Underwriting result</b>		<b>1,052,426</b>	<b>1,566,089</b>
Interest received		197,860	286,214
Dividends received		97,746	52,116
Unrealised gain/(loss) on investments		119,505	260,563
Realised Gain on investments		40,559	-
Other sundry income		12,500	3,295
<b>Total other income</b>		<b>468,170</b>	<b>602,188</b>
Finance cost expense		(21,047)	(18,584)
Administration expense		(547,581)	(812,883)
Other expenses		(196,708)	(125,675)
Amortisation expense		(342)	-
Depreciation expense		(3,367)	(4,518)
Skills Centre Building Fund		(500,000)	(500,000)
<b>Total other expense</b>		<b>(1,269,045)</b>	<b>(1,461,660)</b>
Result before income tax expense		251,551	706,617
Income tax (expense)/benefit	3	(55,976)	(196,842)
<b>Net result after income tax expense</b>		<b>195,575</b>	<b>509,775</b>
Other comprehensive income for the year		-	-
<b>Total comprehensive income for the year</b>		<b>195,575</b>	<b>509,775</b>

The accompanying notes form part of these financial statements.

**MASTER BUILDERS FIDELITY FUND**

**BALANCE SHEET  
AS AT 30 JUNE 2015**

	NOTE	2015 \$	2014 \$
<b>CURRENT ASSETS</b>			
Cash	5	3,002,189	2,576,966
Investments	6	7,306,867	8,470,033
Trade and other receivables	7	54,129	86,765
Deferred acquisition costs	8	381,249	268,956
<b>TOTAL CURRENT ASSETS</b>		<u>10,744,434</u>	<u>11,402,720</u>
<b>NON CURRENT ASSETS</b>			
Deferred acquisition costs	8	564,521	529,126
Property plant & equipment	9	5,898	9,265
Intangible assets	10	5,017	-
Income tax refundable	15	194,314	-
<b>TOTAL NON CURRENT ASSETS</b>		<u>769,570</u>	<u>538,391</u>
<b>TOTAL ASSETS</b>		<u>11,514,184</u>	<u>11,941,111</u>
<b>CURRENT LIABILITIES</b>			
Unearned contributions	11	2,274,851	2,037,292
Payables	12	219,025	725,317
Outstanding Requests	13	704,255	791,778
Tax liability	15	-	5,394
<b>TOTAL CURRENT LIABILITIES</b>		<u>3,198,131</u>	<u>3,559,781</u>
<b>NON CURRENT LIABILITIES</b>			
Unearned contributions	11	3,801,167	3,978,410
Outstanding Requests	13	40,042	179,625
Deferred tax liability	15	106,122	50,148
<b>TOTAL NON CURRENT LIABILITIES</b>		<u>3,947,331</u>	<u>4,208,183</u>
<b>TOTAL LIABILITIES</b>		<u>7,145,462</u>	<u>7,767,964</u>
<b>NET ASSETS</b>		<u>4,368,722</u>	<u>4,173,147</u>
<b>EQUITY</b>			
Retained surplus		4,368,722	4,173,147
<b>TOTAL EQUITY</b>		<u>4,368,722</u>	<u>4,173,147</u>

The accompanying notes form part of these financial statements.

**MASTER BUILDERS FIDELITY FUND**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 30 JUNE 2015**

	<b>Retained Earnings</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>
<b>Balance at 30 June 2013</b>	<b>3,663,372</b>	<b>3,663,372</b>
Result for the year	509,775	509,775
<b>Balance at 30 June 2014</b>	<b>4,173,147</b>	<b>4,173,147</b>
Results for the year	195,575	195,575
<b>Balance at 30 June 2015</b>	<b>4,368,722</b>	<b>4,368,722</b>

The accompanying notes form part of these financial statements.

**MASTER BUILDERS FIDELITY FUND**  
**CASH FLOW STATEMENT**  
**FOR THE YEAR ENDED 30 JUNE 2015**

	NOTE	2015 \$	2014 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Contributions received		2,034,504	2,431,025
Interest received		197,860	286,214
Other		3,020	4,440
Tax Paid		(199,710)	(236,256)
Payments to suppliers		(1,933,425)	(1,621,167)
Requests paid		(725,898)	(209,575)
Acquisition costs paid		(376,225)	(275,135)
<b>Net cash provided by operating activities</b>	<b>14b</b>	<b><u>(999,874)</u></b>	<b><u>379,546</u></b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Payments for property, plant & equipment		(5,359)	(5,150)
Purchase of investments		(5,000,000)	(205,341)
Disposal of investments		6,430,456	-
<b>Net cash provided by/(used) in investing activities</b>		<b><u>1,425,097</u></b>	<b><u>(210,491)</u></b>
Net increase/(decrease) in cash held		425,223	169,055
Cash at the beginning of the period		2,576,966	2,407,911
<b>Cash at the end of the period</b>	<b>14a</b>	<b><u>3,002,189</u></b>	<b><u>2,576,966</u></b>

The accompanying notes form part of these financial statements.

**MASTER BUILDERS FIDELITY FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards and Australian Accounting Interpretations of the Australian Accounting Standards Board.

The financial report covers the fund as an individual entity. The fund is a trust established under a trust deed dated 21 June 2002, pursuant to the Building Act 2004 (ACT).

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

**Basis of Preparation**

*Reporting Basis and Conventions*

The financial report has been prepared on an accruals basis and is based on historical costs modified, where applicable, by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

**a. Cash**

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. Bank overdrafts are shown within short-term borrowings in current liabilities on the balance sheet.

**b. Income Tax**

The charge for current income tax expenses is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the Statement of comprehensive income except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic fund will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

**c. Revenue**

Contribution revenue comprises amounts charged for the issue of warranty certificates. The earned portion of the contribution received and receivable is recognised as revenue. The pattern of recognition over the certificate period is based on the pattern of risk underwritten. The proportion of contributions received and receivable not earned at balance date are recognised in the balance sheet as unearned contributions liability.

**Interest Earnings**

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

All revenue is stated net of the amount of goods and service tax (GST)

**MASTER BUILDERS FIDELITY FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES CONT**

**d. Requests**

Requests incurred expense and liabilities for outstanding requests are recognised in respect to certificates issued. The liability covers incurred but not reported requests and the anticipated direct and indirect costs of settling those requests. Requests outstanding are assessed by reviewing individual claim files and estimating un-notified requests and settlement costs using statistics based on past experience trends.

The liability for outstanding requests is measured as the central estimate of the present value of the expected future payments. The expected future payments are estimated on the basis of the ultimate cost of settling requests. The expected future payments are then discounted to a present value at reporting date using discount rates based on investment opportunities available to the organisation on the amounts of funds sufficient to meet Requests as they become payable. During the year ended 30 June 2015:

Average discount rate – 2.19% per annum

Average inflation rate – 4% per annum

**e. Acquisition Costs**

A portion of acquisition costs relating to the unearned premium revenue is deferred as an asset as it represents future benefits to the fund. Deferred acquisition costs are measured at the lower of cost and the recoverable amount. A write-down to the recoverable amount is recognised where the present value of expected future Requests (including settlement costs) in relation to the business written to the reporting date exceeds related unearned premiums. Deferred acquisition costs are amortised in accordance with the expected pattern of incidence of risk under related contracts.

**f. Property, Plant & Equipment**

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

**Plant and Equipment**

Plant and equipment are measured on the cost basis less depreciation and impairment losses.

The carrying amount of plant and equipment is reviewed annually by the trustees to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the fund and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Statement of comprehensive income during the financial period in which they are incurred.

**Depreciation**

The depreciable amount of all fixed assets is depreciated on a straight line basis over their useful lives to the fund commencing from the time the asset is held ready for use.

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

<b>Class of Fixed Asset</b>	<b>Depreciation Rate</b>
Plant and Equipment	20% - 33.3%

**MASTER BUILDERS FIDELITY FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES CONT**

**g. Intangible Assets**

Intangible assets are initially recognised at cost and are subsequently carried at cost less accumulated amortisation and accumulated impairment losses. These costs are amortised on a straight-line basis over the anticipated effective life of the asset.

The amortisation period and amortisation method of intangible assets are reviewed at each balance sheet date. The effects of any revision are recognised in the profit or loss when the changes arise.

**h. Financial Instruments**

*Initial Recognition and Measurement*

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

Financial instruments are initially at fair value plus transactions costs where the instrument is not classified at fair value through profit or loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below.

*Derecognition*

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

*Classification and Subsequent Measurement*

Financial assets at fair value through profit or loss

The Fund has determined that all financial assets are held to back insurance liabilities. Financial assets are managed by key management personnel on a fair value basis in accordance with a documented risk management/investment strategy, accordingly; financial assets are classified at fair value through profit or loss. Realised and unrealised gains and losses arising from the changes in fair value are included in profit or loss in the period in which they arise.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measure at amortised cost using the effective interest rate method.

Held-to-maturity investments

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

## MASTER BUILDERS FIDELITY FUND

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

#### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES CONT

##### Financial Liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method.

##### *Fair Value*

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

##### *Impairment*

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

#### **i. 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 Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

#### **j. Finance Costs**

Finance costs are recognised in the statement of comprehensive income in the period in which they are incurred.

#### **k. Comparative Figures**

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

#### **l. Impairment of Assets**

At each reporting date, the Fund reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the Statement of comprehensive income.

#### **m. Critical accounting estimates**

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience, external advice and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying value of assets and liabilities estimates. The entity's most significant estimates relate to warranty certificates (see note 12). The key actuarial assumptions are:

##### *Contribution Liability*

Contributions are considered in two parts; insolvency risks and warranty risk. Insolvency risk relates to the constructions phase and ceases once the construction is finalised. Warranty risk covers a period of up to 6 years.

##### *Insolvency Requests*

In respect of insolvency requests, management have assumed requests at completion of 0.1725% of the contract price, plus 1.25% of that amount in each earlier quarter for incomplete certificates allowing for weighted average rates of completion. The observed rates of completion can be variable. The assumed rates are based on observed rates for the successive quarters and a weighted average using all the data but emphasising the most recent. Certificates that are shown as speculative have no exposure to insolvency requests.

**MASTER BUILDERS FIDELITY FUND**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2015**

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES CONT**

*Warranty Requests*

The warranty requests are assumed at 140% of 0.0165% of the contract price at the expiry of the warranty period.

*Economic Assumptions*

The contribution and request liabilities are calculated on a discounted present value basis, using rates appropriate to Commonwealth Government Bonds. The average discount rate is 2.19%. The management have not made an explicit inflation assumption in relation to request payments, which are, however, consistent with inflation at 4% per annum.

**n. New standards and interpretations issued but not yet effective**

At the date of this financial report the following standards and interpretations, which may impact the fund in the period of initial application, have been issued but are not yet effective:

Reference	Title	Summary	Application date (financial years beginning)	Expected Impact
AASB 2015-3	<i>Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality</i>	The Standard completes the AASB's project to remove Australian guidance on materiality from Australian Accounting Standards.	1 July 2015	No expected impact
AASB 2014-4	<i>Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation</i>	This Standard amends AASB 116 and AASB 138 to establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset, and to clarify that revenue is generally presumed to be an inappropriate basis for that purpose.	1 January 2016	Minimal impact
AASB 2015-1	<i>Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle</i>	The Standard makes amendments to various Australian Accounting Standards arising from the IASB's Annual Improvements process, and editorial corrections.	1 January 2016	Minimal impact
AASB 2015-2	<i>Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101</i>	The Standard makes amendments to AASB 101 <i>Presentation of Financial Statements</i> arising from the IASB's Disclosure Initiative project.	1 January 2016	Disclosures Only

AASB 15	<i>Revenue from Contracts with Customers</i>	This Standard establishes principles (including disclosure requirements) for reporting useful information about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.	1 January 2017	Minimal impact
AASB 2014-5	<i>Amendments to Australian Accounting Standards arising from AASB 15</i>	Consequential amendments arising from the issuance of AASB 15.	1 January 2017	Minimal impact
AASB 9	<i>Financial Instruments</i>	This Standard supersedes both AASB 9 (December 2010) and AASB 9 (December 2009) when applied. It introduces a "fair value through other comprehensive income" category for debt instruments, contains requirements for impairment of financial assets, etc.	1 January 2018	Minimal impact
AASB 2014-7	<i>Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)</i>	Consequential amendments arising from the issuance of AASB 9	1 January 2018	Minimal impact

**MASTER BUILDERS FIDELITY FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

	NOTE	2015 \$	2014 \$
<b>NOTE 2: RESULT BEFORE INCOME TAX</b>			
Result before income tax has been determined after:			
Expenses:			
Remuneration of auditor		25,200	24,000
Depreciation		3,367	4,518
Amortisation		342	-
Acquisition costs amortised	8	246,356	269,158

**NOTE 3: INCOME TAX EXPENSE**

The components of tax expense comprise:

Current tax		-	103,964
Deferred tax		50,325	92,878
Under/over provision in respect of prior years		5,651	-
		<b>55,976</b>	<b>196,842</b>

The prima facie tax payable on profit from ordinary activities in reconciled to the income tax expense as follows:

Prima facie tax payable on profit from ordinary activities before income tax at 30% (2014: 30%)		75,465	211,985
Add:			
Tax effect of			
Gross up of fully franked dividends & foreign income		10,775	6,490
Under provision for income tax in prior years		5,649	-
		<b>91,891</b>	<b>218,475</b>
Less:			
Tax effect of:			
Rebate fully franked dividends		(35,915)	(21,633)
Income tax expense/(benefit)		<b>55,976</b>	<b>196,842</b>

**NOTE 4: REMUNERATION AND RETIREMENT BENEFITS**

The trustees do not receive any remuneration from the fund in accordance with the funds trust deed. No amounts were paid into any superannuation fund in connection with the retirement of any trustees.

**NOTE 5: CASH**

Cash at bank		<b>3,002,189</b>	<b>2,576,966</b>
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**NOTE 6: INVESTMENTS**

Term deposits		2,111,490	6,893,146
Shares in listed entities at fair value through profit and loss		-	1,576,887
Public Trustee cash fund		425,872	-
Public Trustee balanced fund at fair value through profit and loss		4,769,505	-
		<b>7,306,867</b>	<b>8,470,033</b>

**NOTE 7: RECEIVABLES**

**CURRENT**

Premium receivables		37,905	41,900
Other debtors		16,224	44,865
		<b>54,129</b>	<b>86,765</b>

**MASTER BUILDERS FIDELITY FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

	NOTE	2015 \$	2014 \$
<b>NOTE 8: DEFERRED ACQUISITION COSTS</b>			
Deferred acquisition costs at beginning of the year		798,082	756,969
Additions		394,044	310,271
Amortisation expense	2	(246,356)	(269,158)
Deferred acquisition costs at end of the year		<u>945,770</u>	<u>798,082</u>
Allocation			
Current		381,249	268,956
Non-Current		564,521	529,126
		<u>945,770</u>	<u>798,082</u>
<b>NOTE 9: PROPERTY, PLANT AND EQUIPMENT</b>			
Plant & Equipment at cost		151,046	151,046
Accumulated depreciation		(145,148)	(141,781)
		<u>5,898</u>	<u>9,265</u>
Balance at the beginning of the year			
		9,265	8,633
Additions		-	5,150
Depreciation expense		(3,367)	(4,518)
Carrying amount at the end of the year		<u>5,898</u>	<u>9,265</u>
<b>NOTE 10: INTANGIBLE ASSETS</b>			
Intangible Assets at cost		5,359	-
Accumulated Amortisation		(342)	-
		<u>5,017</u>	<u>-</u>
Balance at the beginning of the year			
		-	-
Additions		5,359	-
Amortisation expense		(342)	-
Carrying amount at the end of the year		<u>5,017</u>	<u>-</u>
<b>NOTE 11: UNEARNED CONTRIBUTIONS</b>			
Unearned contributions at the beginning of the year		6,015,702	5,756,074
Contributions income deferred		1,840,072	2,287,753
Contributions income recognised		(1,779,756)	(2,028,125)
Unearned contributions at the end of the year		<u>6,076,018</u>	<u>6,015,702</u>
Allocation			
Current		2,274,851	2,037,292
Non-current		3,801,167	3,978,410
		<u>6,076,018</u>	<u>6,015,702</u>
<b>NOTE 12: PAYABLES</b>			
<b>CURRENT</b>			
Creditors		117,042	107,032
Accruals and other payables		101,983	618,285
		<u>219,025</u>	<u>725,317</u>

**MASTER BUILDERS FIDELITY FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

	2015 \$	2014 \$
<b>NOTE 13: OUTSTANDING REQUESTS</b>		
Balance at the beginning of the year	971,403	952,913
Increase/(decrease) in provision	(227,106)	18,490
<b>Balance at the end of the year</b>	<u><b>744,297</b></u>	<u><b>971,403</b></u>

	Current	Non-Current	Total
Reported Request Liabilities	171,930	10,109	182,039
Valuation Margin (Reported)	154,738	9,098	163,835
<b>Reported Request Provision</b>	<b>326,667</b>	<b>19,207</b>	<b>345,874</b>
IBNR Request Liabilities	198,730	10,966	209,696
Valuation Margin (IBNR)	178,857	9,869	188,727
<b>IBNR Request Provision</b>	<b>377,588</b>	<b>20,835</b>	<b>398,423</b>
<b>Request Provision</b>	<u><b>704,255</b></u>	<u><b>40,042</b></u>	<u><b>744,297</b></u>

	Impact of Discounting		
	Undiscounted	Discount	Discounted
Reported Request Liabilities	182,972	(933)	182,039
Valuation Margin (Reported)	164,675	(840)	163,835
<b>Reported Request Provision</b>	<b>347,647</b>	<b>(1,773)</b>	<b>345,874</b>
IBNR Request Liabilities	211,085	(1,389)	209,696
Valuation Margin (IBNR)	188,727	-	188,727
<b>IBNR Request Provision</b>	<b>399,812</b>	<b>(1,389)</b>	<b>398,423</b>
<b>Request Provision</b>	<u><b>747,459</b></u>	<u><b>(3,162)</b></u>	<u><b>744,297</b></u>

	NOTE	2015 \$	2014 \$
<b>NOTE 14: CASH FLOW INFORMATION</b>			
a. Reconciliation of Cash			
Cash at bank	<b>5</b>	<u><b>3,002,189</b></u>	<u><b>2,576,966</b></u>
b. Reconciliation of cash flow from operations with result after income tax			
Result after income tax		195,575	509,775
Non-cash flows in profit:			
Depreciation/Amortisation		3,709	4,519
Other non-cash flows in profit		(267,290)	(311,534)
Changes in assets and liabilities:			
(Increase) / Decrease in receivables		32,636	(41,158)
(Increase) in deferred acquisition costs		(147,688)	(41,113)
(Increase) / Decrease in deferred tax asset		-	42,730
Increase / (Decrease) in payables		(506,292)	20,353
Increase / (Decrease) in outstanding Requests		(227,106)	18,490
Increase / (Decrease) in unearned contributions		60,316	259,628
Increase / (Decrease) in income taxes payable		(199,708)	(132,292)
Increase / (Decrease) in deferred taxes		55,974	50,148
<b>Cash flows from operations</b>		<u><b>(999,874)</b></u>	<u><b>379,546</b></u>

**MASTER BUILDERS FIDELITY FUND**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2015**

**NOTE 14: CASH FLOW INFORMATION (CONT)**

- c. The fund has no credit stand-by or financing facilities in place.  
 d. Non-cash financing activities.  
 There were no non-cash financing activities during the period.

	NOTE	2015 \$	2014 \$
<b>NOTE 15: TAX</b>			
<b>CURRENT</b>			
Income tax payable/(refundable)		(194,314)	5,394
<b>NON CURRENT</b>			
<b>Deferred tax liability/(asset)</b>	<b>Opening Balance</b>	<b>Charged to Income</b>	<b>Closing Balance</b>
Deferred acquisition costs	227,091	12,334	239,425
Investments	92,391	78,177	170,568
Future income tax benefits attributable to tax losses	(194,888)	-	(194,888)
Other	(167,323)	2,366	(164,957)
<b>Balance at 30 June 2014</b>	<b>(42,729)</b>	<b>92,877</b>	<b>50,148</b>
Deferred acquisition costs	239,425	44,306	283,731
Investments	170,568	(143,886)	26,682
Future income tax benefits attributable to tax losses	(194,888)	11,606	(183,282)
Other	(164,957)	143,948	(21,009)
<b>Balance at 30 June 2015</b>	<b>50,148</b>	<b>55,974</b>	<b>106,122</b>

**NOTE 16: RELATED PARTY DISCLOSURES**

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated. The name of the trustees during the period are:

John Harris	John Hailey
Josip Zivko	Robert Terzi
Col Alexander	Ross Barrett

As detailed in Note 4 the trustees do not receive any remuneration.

During the 2003 financial year the fund entered into an agreement with the Master Builders Association of the ACT for provision of administration services. Payments made in accordance with this agreement for the year were \$547,581 (2014: \$812,883).

**NOTE 17: CAPITAL ADEQUACY AND LIABILITY ADEQUACY TEST**

**A. CAPITAL ADEQUACY TEST**

As detailed in Section 17 of the Building (Prudential Standards) Determination 2002 (the Standards) the fund must maintain sufficient capital at all times. Section 28 of the Standards requires the outstanding requests liability and fidelity certificate liabilities of the fund to be calculated in accordance with the prudential standard GPS 320 issued by the Australian Prudential Regulation Authority. Based on an actuarial report and Certificate of Solvency, dated 30 September 2015 prepared by Robert Buchanan Consulting Pty Limited, in accordance with GPS 320 the fund exceeds the required capital thresholds as at 30 June 2015 by \$5,215,353 as shown below:

	\$
Capital adequacy required as per Section 17 of the Standards	1,000,000
Less: Capital calculated in accordance with GPS 320 (approximate)	6,215,353
<b>Capital in excess of requirements</b>	<b>5,215,353</b>

**MASTER BUILDERS FIDELITY FUND-**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

**NOTE 18: CAPITAL ADEQUACY AND LIABILITY ADEQUACY TEST (CONT)**  
**B. LIABILITY ADEQUACY TEST**

The liability adequacy test has been conducted using the central estimate of the premium liabilities, adjusted as appropriate, together with an appropriate margin. The test is based on prospective information and is also heavily dependent on assumptions and judgements.

Unearned contribution liability (Note 11)	6,076,018
Deferred acquisition costs (Note 8)	(945,770)
	5,130,248
Central estimate of present value of expected future cash flows from future requests – in accordance with GPS 320	
- Warranty requests	1,521,646
- Insolvency requests	1,810,791
	3,332,437
<b>Net surplus</b>	<b>1,797,811</b>

**NOTE 19: FINANCIAL RISK MANAGEMENT**

**a. Financial Risk Management**

The funds financial instruments consist mainly of deposits with banks, short-term investments, listed equities and accounts receivable and payables.

The trustees' overall risk management strategy seeks to assist the trust in meeting its financial targets, whilst minimising potential adverse effects on financial performance.

Risk management policies are approved and reviewed by the trustees on a regular basis. These include the credit risk policies and future cash flow requirements.

The fund does not have any derivative instruments at 30 June 2015.

**Financial Risk exposures and management**

The main risks the fund is exposed to through its financial instruments are interest rate risk and market rate risk.

**i. Interest rate and market rate risk**

The fund has funds invested in fixed rate term deposits which are exposed to the fluctuations in interest rates and funds invested in listed equities. The trustees review the funds exposure on a regular basis in accordance with the funds investment strategy.

**ii. Liquidity risk**

The fund manages liquidity risk by monitoring forecast cash flows.

**iii. Credit risk**

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements.

There are no material amounts of collateral held as security at 30 June 2015.

The trust does not have any material credit risk exposure to any single receivable or group of receivables under financial instruments entered into by the trust.

Credit risk is reviewed regularly by the trustees. It arises from exposures to customers as well as through deposits with financial institutions.

**b. Financial Instrument Composition and Maturity analysis**

The table below reflects the undiscounted contractual settlement terms for financial instruments of a fixed period of maturity, as well as management's expectations of the settlement period for all other financial instruments. As such, the amounts may not reconcile to the balance sheet.

**MASTER BUILDERS FIDELITY FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

**NOTE 20: FINANCIAL RISK MANAGEMENT (CONT)**

**b. Financial Instrument Composition and Maturity analysis (cont)**

	Weighted Average Effective Interest Rate		Floating Interest Rate or Fixed for Less than 12 months		Fixed Interest Rate Maturing 1 to 5 Years		Non-Interest Bearing		Total	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Financial assets:										
Cash at bank	1.35%	2.50%	2,503,699	1,871,603	-	-	498,490	705,363	3,002,189	2,576,966
Investments	2.89%	3.60%	2,537,362	6,893,146	-	-	4,769,505	1,576,887	7,306,867	8,470,033
Receivables	-	-	-	-	-	-	54,129	86,765	54,129	86,765
<b>Total financial assets</b>	<b>-</b>	<b>-</b>	<b>5,041,061</b>	<b>8,764,749</b>	<b>-</b>	<b>-</b>	<b>5,322,124</b>	<b>2,369,015</b>	<b>10,363,185</b>	<b>11,133,764</b>

	Weighted Average Effective Interest Rate		Floating Interest Rate		Fixed Interest Rate Maturing 1 to 5 Years		Non-Interest Bearing		Total	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Financial liabilities:										
Payables	-	-	-	-	-	-	219,025	725,317	219,025	725,317
<b>Total Financial Liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>219,025</b>	<b>725,317</b>	<b>219,025</b>	<b>725,317</b>

	2015 \$	2014 \$
Trade and sundry payables are expected to be paid as followed:		
Less than 6 months	219,025	725,317
	<u>219,025</u>	<u>725,317</u>

**c. Net Fair Values**

The aggregate net fair values and carrying amounts of financial assets and financial liabilities are disclosed in the balance sheet and in the notes to the financial statements. Carrying amounts approximate net fair values.

**d. Sensitivity Analysis**

Sensitivity analysis is performed on the basis that all other variables remain constant.

The fund has performed a sensitivity analysis relating to its exposure to interest rate and market rate risk at balance date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in these risks.

*Interest Rate Sensitivity Analysis:*

At 30 June 2015, the effect on profit and equity as a result of changes in the interest rate, with all other variables remaining constant would be as follows:

	2015 \$	2014 \$
Change in profit		
— Increase in interest rate by 1%	50,411	87,649
— Decrease in interest rate by 1%	(50,411)	(87,649)
Change in Equity		
— Increase in interest rate by 1%	50,411	87,649
— Decrease in interest rate by 1%	(50,411)	(87,649)

**MASTER BUILDERS FIDELITY FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

**NOTE 21: FINANCIAL RISK MANAGEMENT (CONT)**

**b. Financial Instrument Composition and Maturity Analysis (cont)**

The fund has no exposure to fluctuations in foreign currency.

**Market value of listed equities sensitivity analysis**

At 30 June 2015, the effect on profit and equity as a result of changes in the market value of listed equities, with all other variables remaining constant would be as follows:

	<b>2015</b>	<b>2014</b>
	<b>(\$)</b>	<b>(\$)</b>
<b>Change in Profit</b>		
Increase in Market Value at 20%	953,901	315,377
Decrease in Market Value at 20%	(953,901)	(315,377)
<b>Change in Equity</b>		
Increase in Market Value at 20%	953,901	315,377
Decrease in Market Value at 20%	(953,901)	(315,377)

**c. Fair Values**

**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 amounts as presented in the statement of financial position.

Refer to Note 23 for detailed disclosures regarding the fair value measurement of the company's financial assets and financial liabilities.

Differences between fair values and carrying amounts 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 company. Most of these instruments, which are carried at amortised cost are to be held until maturity and therefore the fair value figures calculated bear little relevance to the company.

	Note	2015		2014	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
		\$	\$	\$	\$
<b>Financial assets</b>					
Cash on hand	5	3,002,189	3,002,189	2,576,966	2,576,966
Accounts receivable and other debtors	7	54,129	54,129	86,765	86,765
Financial assets at fair value through profit or loss:					
– at fair value:					
– listed investments held for trading	6	4,769,505	4,769,505	1,576,887	1,576,887
Held-to-maturity financial assets:					
– Investment in managed Funds	6	425,872	425,872	-	-
– Term deposits	6	2,111,489	2,111,489	6,893,146	6,893,146
<b>Total financial assets</b>		<b>10,363,185</b>	<b>10,363,185</b>	<b>11,133,764</b>	<b>11,133,764</b>
<b>Financial liabilities</b>					
Accounts payable and other payables	12	219,025	219,025	725,317	725,317
<b>Total financial liabilities</b>		<b>219,025</b>	<b>219,025</b>	<b>725,317</b>	<b>725,317</b>

**MASTER BUILDERS FIDELITY FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

**NOTE 22: FINANCIAL RISK MANAGEMENT (CONT)**

**c. Fair Values (cont)**

(i) Cash on hand, accounts receivable and other debtors, and accounts payable and other payables are short-term instruments in nature whose carrying amount is equivalent to fair value. Trade and other payables exclude amounts provided for annual leave, which is outside the scope of AASB 139.

**NOTE 23: FAIR VALUE MEASUREMENTS**

The company measures and recognises the following assets at fair value on a recurring basis after initial recognition

- financial assets at fair value through profit or loss.

The company does not subsequently measure any liabilities at fair value on a recurring basis, or any assets or liabilities at fair value on a non-recurring basis.

**a. Fair Value Hierarchy**

AASB 13: *Fair Value Measurement* requires the disclosure of fair value information by level of the fair value hierarchy, which categorises fair value measurements into one of three possible levels based on the lowest level that an input that is significant to the measurement can be categorised into as follows:

<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>		
Measurements based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.	Measurements based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.	Measurements based on unobservable inputs for the asset or liability.		

		<b>30 June 2015</b>			
	<b>Note</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
		\$	\$	\$	\$
<b>Recurring fair value measurements</b>					
<i>Financial assets</i>					
Financial assets at fair value through profit or loss					
- shares in Public Trustee balanced Fund	6	4,769,505	-	-	4,769,505
<b>Total financial assets recognised at fair value</b>		<b>4,769,505</b>	<b>-</b>	<b>-</b>	<b>4,769,505</b>

		<b>30 June 2014</b>			
	<b>Note</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
		\$	\$	\$	\$
<b>Recurring fair value measurements</b>					
<i>Financial assets</i>					
Financial assets at fair value through profit or loss					
- shares in listed companies	6	1,576,887	-	-	1,576,887
<b>Total financial assets recognised at fair value</b>		<b>1,576,887</b>	<b>-</b>	<b>-</b>	<b>1,576,887</b>

**MASTER BUILDERS FIDELITY FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

**NOTE 25: CERTIFICATE RISK MANAGEMENT**

Certificate activities primarily involve the underwriting of risks and the management of requests. A disciplined approach to risk management is adopted. Statistical models that combine historical and protected data are used to calculate premiums and monitor requests patterns. Management information systems are maintained that provides timely and reliable data on the risks to which the fund is exposed. The fund also undertakes due diligence process for all builders prior to issuing a certificate. The fund has not entered into any reinsurance arrangements.

**NOTE 26: EVENTS OCCURRING AFTER BALANCE SHEET DATE**

There were no events after the end of the financial year that would materially affect the financial statements.

**MASTER BUILDERS FIDELITY FUND**

**FINANCIAL REPORT  
FOR THE YEAR ENDED  
30 JUNE 2016**

**MASTER BUILDERS FIDELITY FUND**

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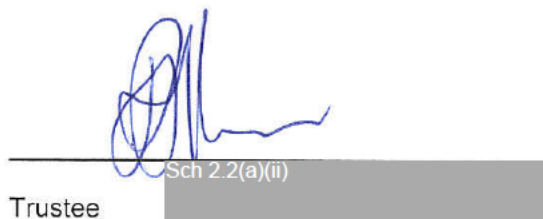
**MASTER BUILDERS FIDELITY FUND  
TRUSTEES' DECLARATION**

The trustees of the fund declare that:

1. The financial statements and notes, being the Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity, Cash Flow Statement and notes to the financial statements present fairly the financial position as at 30 June 2016 and performance for the year ended 30 June 2016 in accordance with Australian Accounting Standards and other mandatory professional reporting requirements.
2. In the trustees' opinion there are reasonable grounds to believe that the fund will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the trustees.

  
\_\_\_\_\_  
Trustee Sch 2.2(b)(ii) [Redacted]

  
\_\_\_\_\_  
Trustee Sch 2.2(a)(ii) [Redacted]

Dated this 15<sup>th</sup> day of December 2016

**RSM Australia Pty Ltd**

Equinox Building 4, Level 2, 70 Kent Street Deakin ACT 2600  
GPO Box 200 Canberra ACT 2601

T +61(0) 2 6217 0300

F +61(0) 2 6217 0401

[www.rsm.com.au](http://www.rsm.com.au)

**INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBERS OF  
MASTER BUILDERS FIDELITY FUND**

We have audited the accompanying financial report of Master Builders Fidelity Fund, which comprises the balance sheet as at 30 June 2016, the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and trustees' declaration.

*Trustee's Responsibility for the Financial Report*

The trustees of the fund are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and the Building (Prudential Standards) Determination 2002 and for such internal control as the trustees determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the trustees, as well as evaluating the overall presentation of the financial report.

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

*Independence*

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

**THE POWER OF BEING UNDERSTOOD**  
AUDIT | TAX | CONSULTING

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

RSM Australia Pty Ltd ACN 009 321 377 atf Birdanco Practice Trust ABN 65 319 382 479 trading as RSM

Liability limited by a scheme approved under Professional Standards Legislation

*Opinion*

In our opinion the financial report presents fairly, in all material respects, the financial position of the Master Builders Fidelity Fund as at 30 June 2016 and their financial performance and cash flows for the year then ended in accordance with Australian Accounting Standards and the Building (Prudential Standards) Determination 2002.

**RSM Australia Pty Ltd**

Sch 2.2(a)(ii)



Canberra, Australian Capital Territory  
Dated: 13<sup>th</sup> December 2016

**RODNEY MILLER**  
Director

**MASTER BUILDERS FIDELITY FUND  
STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 30 JUNE 2016**

	<b>Note</b>	<b>2016</b>	<b>2015</b>
		<b>\$</b>	<b>\$</b>
Direct contribution revenue		1,397,374	1,779,756
Claim expense		(178,306)	(725,898)
Movement in provision for requests incurred but not reported		(2,413,626)	227,105
Acquisition costs		(292,080)	(228,537)
<b>Underwriting results</b>		<b>(1,486,638)</b>	<b>1,052,426</b>
Interest received		386,635	197,860
Dividends received		13,684	97,746
Unrealised gain on investments		32,266	119,504
Realised gain on investments		-	40,559
Other sundry income		1,500	12,500
<b>Total other income</b>		<b>434,085</b>	<b>468,170</b>
Finance cost expense		(22,059)	(21,047)
Administration expense		(500,716)	(547,581)
Other expense		(151,087)	(196,708)
Amortisation expense		(1,785)	(342)
Depreciation expense		(3,388)	(3,367)
Skills Centre Building Fund		-	(500,000)
<b>Total other expense</b>		<b>(679,035)</b>	<b>(1,269,044)</b>
Result before income tax expense		(1,731,588)	251,551
Income tax benefit/(expense)	<b>3</b>	106,122	(55,974)
<b>Net result after income tax expense</b>		<b>(1,625,466)</b>	<b>195,577</b>
Other comprehensive income for the year		-	-
<b>Total comprehensive income for the year</b>		<b>(1,625,466)</b>	<b>195,577</b>

The accompanying notes form part of these financial statements.

**MASTER BUILDERS FIDELITY FUND**  
**BALANCE SHEET**  
**AS AT 30 JUNE 2016**

	Note	2016 \$	2015 \$
<b>CURRENT ASSETS</b>			
Cash	5	1,113,344	3,002,189
Investments	6	10,362,268	7,306,867
Trade and other receivables	7	150,970	54,129
Deferred acquisition costs	8	341,818	381,249
<b>TOTAL CURRENT ASSETS</b>		<b><u>11,968,400</u></b>	<b><u>10,744,434</u></b>
<b>NON CURRENT ASSETS</b>			
Deferred acquisition costs	8	778,283	564,521
Deferred tax asset	15	-	-
Property, plant & equipment	9	2,511	5,898
Intangible assets	10	3,232	5,017
Income tax refundable	15	53,759	194,314
<b>TOTAL NON CURRENT ASSETS</b>		<b><u>837,785</u></b>	<b><u>769,751</u></b>
<b>TOTAL ASSETS</b>		<b><u>12,806,185</u></b>	<b><u>11,514,184</u></b>
<b>CURRENT LIABILITIES</b>			
Unearned contributions	11	2,080,299	2,274,851
Payables	12	172,256	219,025
Outstanding requests	13	3,130,036	704,255
Tax liability	15	-	-
<b>TOTAL CURRENT LIABILITIES</b>		<b><u>5,382,591</u></b>	<b><u>3,198,131</u></b>
<b>NON CURRENT LIABILITIES</b>			
Unearned contributions	11	4,652,452	3,801,167
Outstanding requests	13	27,887	40,042
Deferred tax liability	15	-	106,123
<b>TOTAL NON CURRENT LIABILITIES</b>		<b><u>4,680,339</u></b>	<b><u>3,947,332</u></b>
<b>TOTAL LIABILITIES</b>		<b><u>10,062,930</u></b>	<b><u>7,145,463</u></b>
<b>NET ASSETS</b>		<b><u>2,743,255</u></b>	<b><u>4,368,722</u></b>
<b>EQUITY</b>			
Retained surplus		2,743,255	4,368,722
<b>TOTAL EQUITY</b>		<b><u>2,743,255</u></b>	<b><u>4,368,722</u></b>

The accompanying notes form part of these financial statements.

**MASTER BUILDERS FIDELITY FUND  
STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30 JUNE 2016**

	<b>Retained Earnings</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>
<b>Balance at 30 June 2014</b>	<b>4,173,147</b>	<b>4,173,147</b>
Result for the year	195,577	195,577
<b>Balance at 30 June 2015</b>	<b>4,368,724</b>	<b>4,368,724</b>
Result for the year	(1,625,466)	(1,625,466)
<b>Balance at 30 June 2016</b>	<b><u>2,743,258</u></b>	<b><u>2,743,258</u></b>

The accompanying notes form part of these financial statements.

**MASTER BUILDERS FIDELITY FUND  
CASH FLOW STATEMENT  
FOR THE YEAR ENDED 30 JUNE 2016**

	<b>Note</b>	<b>2016</b>	<b>2015</b>
		<b>\$</b>	<b>\$</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Contributions received		2,162,677	2,034,504
Interest received		386,635	197,860
Other receipts		15,184	3,020
Tax paid		140,555	(199,710)
Payments to suppliers		(1,100,375)	(1,933,425)
Requests paid		(178,306)	(725,898)
Acquisition costs paid		(292,080)	(376,225)
<b>Net cash provided by operating activities</b>	<b>14</b>	<u><b>1,134,291</b></u>	<u><b>(999,874)</b></u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Payments for property, plant & equipment		-	(5,359)
Purchase of investments		(3,023,135)	(5,000,000)
Disposal of investments		-	6,430,456
<b>Net cash provided by/(used) in investing activities</b>		<u><b>(3,023,135)</b></u>	<u><b>1,425,097</b></u>
Net increase/(decrease) in cash held		(1,888,844)	425,223
Cash at the beginning of the period		3,002,189	2,576,966
<b>Cash at the end of the period</b>	<b>14</b>	<u><u><b>1,113,345</b></u></u>	<u><u><b>3,002,189</b></u></u>

The accompanying notes form part of these financial statements.

**MASTER BUILDERS FIDELITY FUND  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2016**

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards and Australian Accounting Interpretations of the Australian Accounting Standards Board.

The financial report covers the fund as an individual entity. The fund is a trust established under a trust deed dated 21 June 2002, pursuant to the Building Act 2004 (ACT).

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

**Basis of Preparation**

*Reporting Basis and Conventions*

The financial report has been prepared on an accruals basis and is based on historical costs modified, where applicable, by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

**a. Cash**

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. Bank overdrafts are shown within short-term borrowings in current liabilities on the balance sheet.

**b. Income Tax**

The charge for current income tax expenses is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the Statement of comprehensive income except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic fund will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

**c. Revenue**

Contribution revenue comprises amounts charged for the issue of warranty certificates. The earned portion of the contribution received and receivable is recognised as revenue. The pattern of recognition over the certificate period is based on the pattern of risk underwritten. The proportion of contributions received and receivable not earned at balance date are recognised in the balance sheet as unearned contributions liability.

**MASTER BUILDERS FIDELITY FUND  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2016**

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**d. Requests**

Requests incurred expense and liabilities for outstanding requests are recognised in respect to certificates issued. The liability covers incurred but not reported requests and the anticipated direct and indirect costs of settling those requests. Requests outstanding are assessed by reviewing individual claim files and estimating un-notified requests and settlement costs using statistics based on past experience trends.

The liability for outstanding requests is measured as the central estimate of the present value of the expected future payments. The expected future payments are estimated on the basis of the ultimate cost of settling requests. The expected future payments are then discounted to a present value at reporting date using discount rates based on investment opportunities available to the organisation on the amounts of funds sufficient to meet Requests as they become payable. During the year ended 30 June 2016:

- Average discount rate – 1.73% per annum

**e. Acquisition Costs**

A portion of acquisition costs relating to the unearned premium revenue is deferred as an asset as it represents future benefits to the fund. Deferred acquisition costs are measured at the lower of cost and the recoverable amount. A write-down to the recoverable amount is recognised where the present value of expected future Requests (including settlement costs) in relation to the business written to the reporting date exceeds related unearned premiums. Deferred acquisition costs are amortised in accordance with the expected pattern of incidence of risk under related contracts.

**f. Property, Plant and Equipment**

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

**Plant and Equipment**

Plant and equipment are measured on the cost basis less depreciation and impairment losses.

The carrying amount of plant and equipment is reviewed annually by the trustees to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the fund and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Statement of comprehensive income during the financial period in which they are incurred.

**Depreciation**

The depreciable amount of all fixed assets is depreciated on a straight line basis over their useful lives to the fund commencing from the time the asset is held ready for use.

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

<b>Class of Fixed Asset</b>	<b>Depreciation Rate</b>
Plant and equipment	20% - 33.3%

**g. Intangible Assets**

Intangible assets are initially recognised at cost and are subsequently carried at cost less accumulated amortisation and accumulated impairment losses. These costs are amortised on a straight-line basis over the anticipated effective life of the asset.

**MASTER BUILDERS FIDELITY FUND  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2016**

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**h. Financial Instruments**

*Initial Recognition and Measurement*

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

Financial instruments are initially at fair value plus transactions costs where the instrument is not classified at fair value through profit or loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below.

*Derecognition*

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

*Classification and Subsequent Measurement*

- *Financial assets at fair value through profit or loss*

The Fund has determined that all financial assets are held to back insurance liabilities. Financial assets are managed by key management personnel on a fair value basis in accordance with a documented risk management/investment strategy, accordingly; financial assets are classified at fair value through profit or loss. Realised and unrealised gains and losses arising from the changes in fair value are included in profit or loss in the period in which they arise.

- *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measure at amortised cost using the effective interest rate method.

- *Held-to-maturity investments*

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

- *Financial Liabilities*

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method.

*Fair Value*

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

*Impairment*

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

**MASTER BUILDERS FIDELITY FUND  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2016**

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**i. 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 Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

**j. Finance Costs**

Finance costs are recognised in the statement of comprehensive income in the period in which they are incurred.

**k. Comparative Figures**

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

**l. Impairment of Assets**

At each reporting date, the Fund reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the Statement of comprehensive income.

**m. Critical accounting estimates**

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience, external advice and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying value of assets and liabilities estimates. The entity's most significant estimates relate to warranty certificates (see note 12). The key actuarial assumptions are:

- *Contribution Liability*  
Contributions are considered in two parts; insolvency risks and warranty risk. Insolvency risk relates to the constructions phase and ceases once the construction is finalised. Warranty risk covers a period of up to 6 years.
- *Insolvency Requests*  
In respect of insolvency requests, management have assumed requests at completion of 0.165% of the contract price, plus 1.25% of that amount in each earlier quarter for incomplete certificates allowing for weighted average rates of completion. The observed rates of completion can be variable. The assumed rates are based on observed rates for the successive quarters and a weighted average using all the data but emphasising the most recent. Certificates that are shown as speculative have no exposure to insolvency requests.
- *Warranty Requests*  
The warranty requests are assumed at 140% of 0.015% of the contract price at the expiry of the warranty period.
- *Economic Assumptions*  
The contribution and request liabilities are calculated on a discounted present value basis, using rates appropriate to Commonwealth Government Bonds. The average discount rate is 1.65%. The management have not made an explicit inflation assumption in relation to request payments, which are, however, consistent with inflation at 4% per annum.

**MASTER BUILDERS FIDELITY FUND  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2016**

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

n. New standards and interpretations issued but not yet effective

At the date of this financial report the following standards and interpretations, which may impact the fund in the period of initial application, have been issued but are not yet effective:

<b>Reference</b>	<b>Title</b>	<b>Summary</b>	<b>Application date (financial years beginning)</b>	<b>Expected Impact</b>
AASB 15	<i>Revenue from Contracts with Customers</i>	This Standard establishes principles (including disclosure requirements) for reporting useful information about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.	1 January 2017	Minimal impact
AASB 9	<i>Financial Instruments</i>	This Standard supersedes both AASB 9 (December 2010) and AASB 9 (December 2009) when applied. It introduces a "fair value through other comprehensive income" category for debt instruments, contains requirements for impairment of financial assets, etc.	1 January 2018	Minimal impact

**MASTER BUILDERS FIDELITY FUND  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2016**

**NOTE 2. RESULT BEFORE INCOME TAX**

	Note	2016 \$	2015 \$
Result before income tax has been determined after:			
Expenses:			
Remuneration of auditor		26,500	25,200
Depreciation		3,388	3,367
Amortisation		1,785	342
Acquisition costs amortised	8	<u>233,355</u>	<u>246,356</u>
		<u><b>265,028</b></u>	<u><b>275,265</b></u>

**NOTE 3. INCOME TAX EXPENSE**

The components of tax expense comprise:

Current tax		-	-
Deferred tax		(106,122)	50,325
Under/over provision in respect of prior years		-	5,649
		<u><b>(106,122)</b></u>	<u><b>55,974</b></u>

The prima facie tax payable on profit from ordinary activities is reconciled to the income tax expense as follows:

Prima facie tax payable on profit from ordinary activities before income tax at 30% (2015: 30%)		(519,476)	75,465
<b>Add</b>			
Tax effect of:			
Gross up of fully franked dividends		7,176	10,775
Under provision for income tax in prior years		1,619	5,649
Derecognition of deferred tax asset		432,585	-
		<u><b>(78,096)</b></u>	<u><b>91,889</b></u>
<b>Less</b>			
Tax effect of:			
Rebate fully franked dividends		23,921	(35,915)
Over provision for income tax in prior years		4,105	-
Income tax expense/ (benefit)		<u><b>(106,122)</b></u>	<u><b>55,974</b></u>

**NOTE 4. REMUNERATION AND RETIREMENT BENEFITS**

The trustees do not receive any remuneration from the fund in accordance with the funds trust deed. No amounts were paid into any superannuation fund in connection with the retirement of any trustees.

**NOTE 5. CASH AND CASH EQUIVALENTS**

Cash at bank		<u>1,113,344</u>	<u>3,002,189</u>
		<u><b>1,113,344</b></u>	<u><b>3,002,189</b></u>

**NOTE 6. INVESTMENTS**

Term deposits		5,000,000	2,111,490
Public Trustee cash fund		373,497	425,873
Public Trustee balanced fund - at market value		<u>4,988,771</u>	<u>4,769,505</u>
		<u><b>10,362,268</b></u>	<u><b>7,306,867</b></u>

**MASTER BUILDERS FIDELITY FUND  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2016**

**NOTE 7. RECEIVABLES**

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Premium receivables	19,131	37,905
Other debtors	131,839	16,224
	<b>150,970</b>	<b>54,129</b>

**NOTE 8. DEFERRED ACQUISITION COSTS**

Deferred acquisition costs at beginning of the year	945,770	798,082
Additions	407,686	394,044
Amortisation expense	(233,355)	(246,356)
Deferred acquisition costs at end of year	<b>1,120,101</b>	<b>945,770</b>

Allocation		
Current	341,818	381,249
Non-current	778,283	564,521
	<b>1,120,101</b>	<b>945,770</b>

**NOTE 9. PROPERTY, PLANT AND EQUIPMENT**

Plant & Equipment at cost	151,046	151,046
Accumulated depreciation	(148,535)	(145,148)
	<b>2,511</b>	<b>5,898</b>

Balance at beginning of year	5,898	9,265
Additions	-	-
Depreciation expense	(3,387)	(3,367)
Carrying amount at end of year	<b>2,511</b>	<b>5,898</b>

**NOTE 10. INTANGIBLE ASSETS**

Intangible assets at cost	5,359	5,359
Accumulated amortisation	(2,127)	(342)
	<b>3,232</b>	<b>5,017</b>

Balance at beginning of year	5,017	-
Additions	-	5,359
Amortisation expense	(1,785)	(342)
Carrying amount at end of year	<b>3,232</b>	<b>5,017</b>

**MASTER BUILDERS FIDELITY FUND**  
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**NOTE 11. UNEARNED CONTRIBUTIONS**

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Unearned contributions at the beginning of the year	6,076,018	6,015,702
Contributions income deferred	2,054,107	1,840,072
Contributions income recognised	(1,397,374)	(1,779,756)
Unearned contributions at the end of the year	<u><b>6,732,751</b></u>	<u><b>6,076,018</b></u>
Allocation		
Current	2,080,299	2,274,851
Non- current	4,652,452	3,801,167
	<u><b>6,732,751</b></u>	<u><b>6,076,018</b></u>

**NOTE 12. PAYABLES**

Creditors	64,670	117,042
Accruals and other payables	107,585	101,983
	<u><b>172,255</b></u>	<u><b>219,025</b></u>

**NOTE 13. OUTSTANDING REQUESTS**

Balance at the beginning of the year	744,298	971,403
Increase/(decrease) in provision	2,413,626	(227,105)
<b>Balance at the end of the year</b>	<u><b>3,157,924</b></u>	<u><b>744,298</b></u>

	<b>Current</b>	<b>Non- Current</b>	<b>Total</b>
Reported Request Liabilities	1,408,426	1,769	1,410,195
Valuation Margin (Reported)	1,267,583	1,592	1,269,175
<b>Reported Request Provision</b>	<u><b>2,676,009</b></u>	<u><b>3,361</b></u>	<u><b>2,679,370</b></u>
IBNR Request Liabilities	238,962	12,908	251,870
Valuation Margin (IBNR)	215,066	11,617	226,683
<b>IBNR Request Provision</b>	<u><b>454,028</b></u>	<u><b>24,525</b></u>	<u><b>478,553</b></u>
<b>Request Provision</b>	<u><b>3,130,036</b></u>	<u><b>27,887</b></u>	<u><b>3,157,923</b></u>

**MASTER BUILDERS FIDELITY FUND  
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**NOTE 13. OUTSTANDING REQUESTS (CONTINUED)**

	<b>Impact of Discounting</b>		
	<b>Undiscounted</b>	<b>Discount</b>	<b>Discounted</b>
Reported Request Liabilities	1,413,330	(3,135)	1,410,195
Valuation Margin (Reported)	1,269,175	-	1,269,175
<b>Reported Request Provision</b>	<b>2,682,505</b>	<b>(3,135)</b>	<b>2,679,370</b>
IBNR Request Liabilities	253,442	(1,572)	251,870
Valuation Margin (IBNR)	226,683	-	226,683
<b>IBNR Request Provision</b>	<b>480,125</b>	<b>(1,572)</b>	<b>478,553</b>
<b>Request Provision</b>	<b>3,162,630</b>	<b>(4,707)</b>	<b>3,157,923</b>

**NOTE 14. CASH FLOW INFORMATION**

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
a. Reconciliation of Cash		
Cash at bank	1,113,344	3,002,189
b. Reconciliation of cash flow from operations with result after income tax		
Result after income tax	(1,625,466)	195,577
Non-cash flows in profit:		
Depreciation	5,172	3,709
Unrealised gain on investments (net)	(32,266)	(267,290)
Changes in assets and liabilities:		
(Increase)/ Decrease in receivables	(96,841)	32,636
(Increase)/ Decrease in deferred acquisition costs	(174,331)	(147,688)
(Increase)/ Decrease in deferred tax asset	-	-
(Increase)/ Decrease in payables	(46,769)	(506,292)
(Increase)/ Decrease in outstanding requests	2,413,626	(227,106)
(Increase)/ Decrease in unearned contributions	656,733	60,316
(Increase)/ Decrease in income taxes payable	140,555	(199,708)
(Increase)/ Decrease in deferred taxes	(106,123)	55,974
<b>Cash flows from operations</b>	<b>1,134,291</b>	<b>(999,872)</b>

c. The fund has no credit stand-by or financing facilities in place.

d. Non-cash financing activities.

There were no non-cash financing activities during the period.

**MASTER BUILDERS FIDELITY FUND  
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**NOTE 15. TAX**

	2016	2015
	\$	\$
Income tax liability/(asset)	-	106,123
	-	<b>106,123</b>
	-	<b>106,123</b>

	Opening Balance	Charged to Income	Closing Balance
<b>Deferred tax liability/(asset)</b>			
Deferred acquisition costs	283,731	(283,731)	-
Investments	26,682	(26,682)	-
Future income tax benefits attributable to tax losses	(183,282)	183,282	-
Other	(21,008)	21,008	-
<b>Balance at 30 June 2016</b>	<b>106,123</b>	<b>(106,123)</b>	-
	106,123	(106,123)	-
Deferred acquisition costs	239,425	44,306	283,731
Investments	170,568	(143,886)	26,682
Future income tax benefits attributable to tax losses	(194,888)	11,606	(183,282)
Other	(164,957)	143,949	(21,008)
<b>Balance at 30 June 2015</b>	50,148	55,975	106,123
	50,148	55,975	106,123

Deferred tax assets totalling \$432,585 have not been recognised, as it is not currently considered probable that there will be future taxable profits for these assets to be offset against.

**NOTE 16. RELATED PARTY DISCLOSURES**

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated. The name of the trustees during the period are:

John Harris	John Hailey
Josip Zivko	Robert Terzi
Col Alexander	Ross Barrett

As detailed in Note 4 the trustees do not receive any remuneration.

During the 2003 financial year the fund entered into an agreement with the Master Builders Association of the ACT for provision of administration services. Payments made in accordance with this agreement for the year were \$500,716 (2015: \$547,581).

**MASTER BUILDERS FIDELITY FUND  
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**NOTE 17. CAPITAL ADEQUACY AND LIABILITY ADEQUACY TEST**

**a. Capital Adequacy Test**

As detailed in Section 17 of the Building (Prudential Standards) Determination 2002 (the Standards) the fund must maintain sufficient capital at all times. Section 28 of the Standards requires the outstanding requests liability and fidelity certificate liabilities of the fund to be calculated in accordance with the prudential standard GPS 320 issued by the Australian Prudential Regulation Authority. Based on an actuarial report and Certificate of Solvency, dated 30 September 2015 prepared by Robert Buchanan Consulting Pty Limited, in accordance with GPS 320 the fund exceeds the required capital thresholds as at 30 June 2016 by \$2,650,708 (2015: \$5,893,164) as shown below:

	\$
Capital adequacy required as per Section 17 of the Standards	1,000,000
Less: Capital calculated in accordance with GPS 320 (approximate)	<u>3,650,708</u>
<b>Capital in excess of requirements</b>	<b><u><u>2,650,708</u></u></b>

**b. Liability Adequacy Test**

The liability adequacy test has been conducted using the central estimate of the premium liabilities, adjusted as appropriate, together with an appropriate margin. The test is based on prospective information and is also heavily dependent on assumptions and judgements.

Unearned contribution liability (Note 11)	6,732,751
Deferred acquisition costs (Note 8)	<u>(1,120,101)</u>
	<u>5,612,650</u>
Central estimate of present value of expected future cash flows from future requests – in accordance with GPS 320	
- Warranty requests	2,169,865
- Insolvency requests	<u>1,515,462</u>
	<u>3,685,327</u>
<b>Net surplus</b>	<b><u><u>1,927,323</u></u></b>

**NOTE 19. FINANCIAL RISK MANAGEMENT**

**a. Financial Risk Management**

The funds financial instruments consist mainly of deposits with banks, short-term investments, listed equities and accounts receivable and payables.

The trustees' overall risk management strategy seeks to assist the trust in meeting its financial targets, whilst minimising potential adverse effects on financial performance.

Risk management policies are approved and reviewed by the trustees on a regular basis. These include the credit risk policies and future cash flow requirements.

The fund does not have any derivative instruments at 30 June 2016.

**Financial Risk exposures and management**

The main risks the fund is exposed to through its financial instruments are interest rate risk and market rate risk.



**MASTER BUILDERS FIDELITY FUND  
NOTES TO THE FINANCIAL STATEMENTS  
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**NOTE 19. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**c. Net Fair Values**

The aggregate net fair values and carrying amounts of financial assets and financial liabilities are disclosed in the balance sheet and in the notes to the financial statements. Carrying amounts approximate net fair values.

**d. Sensitivity Analysis**

Sensitivity analysis is performed on the basis that all other variables remain constant.

The fund has performed a sensitivity analysis relating to its exposure to interest rate and market rate risk at balance date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in these risks.

*Interest Rate Sensitivity Analysis*

At 30 June 2016, the effect on profit and equity as a result of changes in the interest rate, with all other variables remaining constant would be as follows:

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Change in profit		
— Increase in interest rate by 1%	59,735	50,411
— Decrease in interest rate by 1%	(59,735)	(50,411)
Change in Equity		
— Increase in interest rate by 1%	59,735	50,411
— Decrease in interest rate by 1%	(59,735)	(50,411)

The fund has no exposure to fluctuations in foreign currency.

**Market value of listed equities sensitivity analysis**

At 30 June 2016, the effect on profit and equity as a result of changes in the market value of listed equities, with all other variables remaining constant would be as follows:

<b>Change in Profit</b>		
Increase in Market Value at 10%	498,877	953,901
Decrease in Market Value at 10%	(498,877)	(953,901)
<b>Change in Equity</b>		
Increase in Market Value at 10%	498,877	953,901
Decrease in Market Value at 10%	(498,877)	(953,901)

**MASTER BUILDERS FIDELITY FUND  
NOTES TO THE FINANCIAL STATEMENTS  
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**NOTE 19. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**e. Fair Values**

**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 amounts as presented in the statement of financial position.

Refer to Note 18 for detailed disclosures regarding the fair value measurement of the company's financial assets and financial liabilities.

Differences between fair values and carrying amounts 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 company. Most of these instruments, which are carried at amortised cost are to be held until maturity and therefore the fair value figures calculated bear little relevance to the company.

	Note	2016		2015	
		Carrying Amount \$	Fair Value \$	Carrying Amount \$	Fair Value \$
<b>Financial assets</b>					
Cash on hand	5	1,113,344	1,113,344	3,002,189	3,002,189
Accounts receivable and other debtors	7	150,970	150,970	54,129	54,129
Financial assets at fair value through profit or loss					
- at fair value					
- listed investments held for trading	6	4,988,771	4,988,771	4,769,505	4,769,505
Held-to-maturity financial assets					
- Investment in managed funds	6	373,497	373,497	425,873	425,873
- Term deposits	6	5,000,000	5,000,000	2,111,490	2,111,490
<b>Total financial assets</b>		<b>11,626,582</b>	<b>11,626,582</b>	<b>10,363,185</b>	<b>10,363,185</b>
<b>Financial liabilities</b>					
Accounts payable and other payables	12	172,255	172,255	(219,025)	(219,025)
<b>Total financial liabilities</b>		<b>172,255</b>	<b>172,255</b>	<b>(219,025)</b>	<b>(219,025)</b>

Cash on hand, accounts receivable and other debtors, and accounts payable and other payables are short-term instruments in nature whose carrying amount is equivalent to fair value. Trade and other payables exclude amounts provided for annual leave, which is outside the scope of AASB 139.

**MASTER BUILDERS FIDELITY FUND  
NOTES TO THE FINANCIAL STATEMENTS  
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**NOTE 20. FAIR VALUE MEASUREMENTS**

The company measures and recognises the following assets at fair value on a recurring basis after initial recognition:

- Financial assets at fair value through profit or loss.

The company does not subsequently measure any liabilities at fair value on a recurring basis, or any assets or liabilities at fair value on a non-recurring basis.

**a. Fair Value Hierarchy**

AASB 13: *Fair Value Measurement* requires the disclosure of fair value information by level of the fair value hierarchy, which categorises fair value measurements into one of three possible levels based on the lowest level that an input is significant to the measurement can be categorised into as follows:

Level 1	Level 2	Level 3
Measurements based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.	Measurements based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.	Measurements based on unobservable inputs for the asset or liability.

30 June 2016					
Recurring fair value measurements	Note	Level 1	Level 2	Level 3	Total
		\$	\$	\$	\$
<i>Financial assets</i>					
Financial assets at fair value through profit or loss					
- shares in listed companies		4,988,771	-	-	4,988,771
<b>Total financial assets recognised at fair value</b>		4,988,771	-	-	4,988,771

30 June 2015					
Recurring fair value measurements	Note	Level 1	Level 2	Level 3	Total
		\$	\$	\$	\$
<i>Financial assets</i>					
Financial assets at fair value through profit or loss					
- shares in listed companies		4,769,505	-	-	4,769,505
<b>Total financial assets recognised at fair value</b>		4,769,505	-	-	4,769,505

**NOTE 21. CERTIFICATE RISK MANAGEMENT**

Certificate activities primarily involve the underwriting of risks and the management of requests. A disciplined approach to risk management is adopted. Statistical models that combine historical and protected data are used to calculate premiums and monitor requests patterns. Management information systems are maintained that provides timely and reliable data on the risks to which the fund is exposed. The fund also undertakes due diligence process for all builders prior to issuing a certificate. The fund has not entered into any reinsurance arrangements.

**NOTE 22. EVENTS OCCURRING AFTER BALANCE SHEET DATE**

After year end, a customer of the Fidelity Fund, Todays Homes and Lifestyle Pty Ltd, entered into voluntary administration. At the time of the signing of the financial statements the quantum of the claim on the Fidelity Fund is unknown. It is likely that this event will result in a significant claim on the Fidelity Fund due to the number of outstanding certificates issued to the builder.