



ROYAL AUSTRALASIAN
COLLEGE OF SURGEONS

ROYAL AUSTRALASIAN COLLEGE OF SURGEONS

A.B.N. 29 004 167 766

FINANCIAL REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

FINANCIAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

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REPORT FROM THE TREASURER TO FELLOWS

The Financial Report for the year ended 31 December 2017 is presented together with the Auditor's Report and the voluntary Code of Conduct report for the Australian Council for International Development (ACFID).

Overall Performance

This year has seen several factors impact on the overall performance of our core operations and also saw considerable resources and time being committed to the accreditation review by the Australian Medical Council (AMC) and New Zealand Medical Board (MCNZ). It was a very pleasing result to see RACS come through this review so strongly.

That said, we have achieved overall revenues of \$68.1M (\$66.6M in 2016) due to a sound return of over 12% from our investments portfolio, which funds our future scholarships, grants and philanthropic work of our Foundation. We also saw strong demand within our events sponsorship and aspects of our training, examinations and assessments operations.

Our expenses for the year were well contained and finished under budget at \$66.8M (\$63.4M in 2016), thanks to controls being applied to travel and other operational areas. Our largest cost increase was in personnel, where we accommodated transition of senior management positions, and catered for annual benchmarking of salaries against an industry benchmark.

We fell just short of our Council agreed strategic surplus goal, achieving \$1.3M (\$3.2M in 2016). This is still a pleasing result as it allows us to invest these funds into our strategic initiatives. This includes our on-going commitment to the *Building Respect, Improving Patient Safety* (BRIPS) action plan and increasing our operational capabilities, especially around examination delivery improvements. To that end in 2017, we funded 109 free Foundation Skills for Surgical Educators courses with 2,075 participants and we have budgeted to deliver around 40 more during 2018.

Key Revenue Streams

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

- Subscriptions and entrance fees of \$16.5M with an additional 246 new Fellows in 2017, being higher than the \$15.4M in 2016;
- Training, examination and assessment fees of \$24.4M, which was lower than the \$25.4M in 2016, primarily due to demand dropping for the early examinations and some courses;
- Project income and management fees from external parties of \$15.0M, which is below the external funding of \$16.0M provided in 2016;
- Lower than expected revenue from conferences registrations at \$2.0M (\$2.3M in 2016); and
- Strong sponsorship of \$3.3M associated with the Annual Scientific Congress (ASC) and donations for the Foundation being above the \$3.0M received in 2016.

Key Expenses

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

- Personnel costs of \$24.9M (\$23.2M in 2016) with increases in salaries managed to an external market benchmark and recognising that \$4.2M was externally funded;
- Externally funded grants of \$7.4M mainly related to hospital training post payments funded under the Specialist Training Program (STP) (down from \$8.1M in 2016);
- Travel and accommodation of \$6.1M (\$5.4M in 2016), which was under budget and caters primarily for revenue generating activities; and
- Specialist Society funding costs of \$4.3M (\$4.2M in 2016) and in line with the partnership agreements and consistent to last year.

Core Operations

The core operational activities of RACS include Fellowship services, education and training, the ASC and other events and the funding of the associated leadership, governance and administrative structures. In 2017, we saw an increase in costs chiefly due to staff transitions and some anticipated lower demand for the early examinations revenue and our Skills courses. On the latter, Council has instigated a strategic review of the Skills courses' curriculum and delivery practices to ensure we remain at the forefront of surgical training in the region.

Foundation for Surgery

The Foundation activities encompass scholarships, fellowships and research grants as well as direct oversight of our philanthropic endeavours. Scholarship commitments of \$1.8M have been maintained during 2017 and are consistent to 2016. As at September 2017, we had helped to fund over 2,788 life changing surgical procedures funded by the Foundation.

Investments Portfolio – Funding the Foundation

An important change was actioned in 2017, where we now report our investments under a new accounting policy, which was a necessary change in preparation for a 2019 mandated requirement. Our investment portfolio showed a positive return of over 12% and revenue of \$4.3M in 2017 plus another \$4M into a reserve for unrealised gains (\$2.0M in 2016). This is a full credit to the Investment Committee, who in 2017 rebalanced the portfolio to achieve returns above market and benchmark expectations. In particular, we must thank Mr Brian Randall OAM and Mr Peter Wetherall, who have both retired as Honorary Advisors during 2017. Both have committed so much of their time over the years to ensuring our philanthropic work has been well funded and supported with suitable investment strategies.

Leading Surgical Performance

Over 2017, Council has continued to support advocacy and investments to ensure we can better serve the Fellowship and the broader community. Activities worth noting are:

1. Recognition of achievements, ASC visitors grants and presentations of awards and prizes have been distributed to the value of \$0.9M (\$1.0M in 2016).
2. An increase in the number of Fellows requesting and being supported with interest free travel loans for overseas studies and research.
3. The on-going investments for delivery of new examination delivery capabilities, including the tablet marking solution that has been deployed for our clinical exams in 2017.
4. Delivering a successful 86th ASC with higher than expected attendance at what is the premium surgical educational event for the region.

Summary of Financial Position

Overall, the funds and reserves have increased to \$80.8M (\$75.2M in 2016), underpinned by the strong performance of our investments portfolio. Current liabilities have increased relating largely due to government grants received in advance now at \$8.2M (\$4.5M in 2016).

The Statement of Cash Flows indicates a net cash inflow provided from operating activities of \$0.9M. This is a result of the combined effects of timely and increasing receipting of annual subscription and training fees using our eCommerce or online payment solutions.

In Closing

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

I should also thank the RACS staff for their ongoing hard work and commitment in 2017. In many ways this will be seen as the start of a period of transition and our next phase of RACS as we have crossed our 90 year anniversary.

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

Associate Professor Julie Mundy – Treasurer

COUNCILLORS' REPORT FOR THE FINANCIAL YEAR

The Councillors as Directors of the Royal Australasian College of Surgeons (RACS) submit herewith the Annual Financial Report of RACS for the year ended 31 December 2017. In order to comply with the requirements of the *Australian Charities and Not-for-profits Commission Act 2012*, the Councillors' report as follows:

Councillors

The names and details of the Office Bearers and the Councillors in office during the financial year and until the date of this report are as follows. Office Bearers and Councillors were in office for this entire period unless otherwise stated. Three Council Meetings and eight Executive Committee of Council Meetings were held in 2017. The number of meetings attended by each Councillor is noted below.

		<u>Number of meetings attended</u>		<u>Number of meetings eligible to attend</u>	
		<u>Council</u>	<u>Executive</u>	<u>Council</u>	<u>Executive</u>
President	John Charles Batten	3	5	3	6
Vice President	Catherine Mary Ferguson	3	6	3	6
Treasurer	Julie Ann Mundy	3	6	3	6
Censor in Chief	Anthony Lloyd Sparnon	3	3	3	4
Chair, Professional Development & Standards Board	Richard Edward Perry	3	4	3	4
Elected Members of Council:					
Adrian Anand Anthony		3		3	
Ruth Caroline Bollard		3	3	3	4
Claire Belinda Campbell	Appointed 11 May 2017	2		2	
Phillip James Carson		3	4	3	4
Jennifer Lee Chambers		3		3	
John Anthony Crozier		3		3	
Kerin Ann Fielding		3		3	
David Rowley Fletcher		3	3	3	4
Mark Frydenberg AM	Appointed 11 May 2017	2		2	
Bruce Ian Hall		3		3	
Andrew Graham Hill		3		3	
Annette Coralie Holian		3		3	
Sally Jane Langley		3	4	3	4
Geoffrey Blake Lyons		2		3	
Lawrence Pietro Malisano		3		3	
Richard Edward Perry		3		3	
Christopher Martin Pyke		3		3	
Jonathan William Serpell		3	4	3	4
Owen Allan Ung	Appointed 11 May 2017	2	1	2	1
Gregory Edwin Witherow		3	2	3	3
Co-Opted Members of Council:					
Rob Knowles AO		3		3	
Garry Wilson KStJ		3		3	
Appointed Member of Council					
Christopher Francis Perry OAM	Appointed 11 May 2017	1		2	
Retired Members of Council:					
Spencer Wynyard Beasley	Retired 11 May 2017	1	3	1	3
Andrew James Brooks	Retired 11 May 2017	1		1	
Ruth Anne Mitchell	Retired 31 Dec 2017	2		3	
Phil Gregory Truskett AM	Retired 11 May 2017	1	3	1	3
Neil Anthony Vallance	Retired 11 May 2017	1		1	

ROYAL AUSTRALASIAN COLLEGE OF SURGEONS

COUNCILLORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

Councillors' and Chief Executive Officer's Qualifications and Current Experience

Mr Adrian Anand Anthony MB BS MSurgEd FRACS

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

Mr John Charles Batten MBBS, FRACS, FAOrthA, GAICD

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

Professor Spencer Wynyard Beasley MBChB, MS, FRACS

Clinical Director, Paediatric Surgery, Canterbury District Health Board; Professor of Paediatric Surgery, University of Otago; Director, Children's Specialist Centre; Director of Child Cancer and Developmental Research Trust; Director, Koru Developments Ltd

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

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

Associate Professor Andrew James Brooks MBBS, FRACS, FAICD

Urologist; Head of Urology, Western Sydney Local Area Health Network; Director City West Day Surgery, AUSCALM Pty Ltd, Quinmark, Western Urology, BFT Holdings

Dr Claire Belinda Campbell MBBS FRACS

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

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

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

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

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

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

Dr Catherine Mary Ferguson, MBChB, FRACS

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

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

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

Ms Annette Coralie Holian MBBS, FRACS, FAOrthA

Orthopaedic Surgeon, Royal Darwin Hospital; Clinical Director Surgery and Perioperative Services, RAAF; Governor, Shrine of Remembrance, Melbourne; Patron, Catalina Flying Boat section, RAAFA

Professor David Rowley Fletcher MBBS, MD, FRACS

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



ROYAL AUSTRALASIAN COLLEGE OF SURGEONS

COUNCILLORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

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

Professor Mark Frydenberg AM, MBBS, FRACS

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

Mr Bruce Ian Hall MBBS, FRACS, CIME

Chairman of Neurosurgery Princess Alexandra Hospital; Director of Neurosurgery Greenslopes Private Hospital; Managing Director Queensland Neurosurgery & Spine Surgery

Professor Andrew Graham Hill MBChB, MD, EdD, FACS, FRACS, GAICD

Assistant Dean and Head of the South Auckland Clinical Campus, University of Auckland; Clinical Lead Research and Evaluation, Ko Awatea Middlemore Hospital, Counties Manukau Health; Member Executive Committee, International Society of Surgeons; Director Ormiston Hospital, Auckland

Hon Rob Knowles AO, MAICD

Director, Silverchain Group of Companies, Drinkwise Australia Ltd, IPG Pty Ltd, Global Health Ltd, St John of God Healthcare; Commissioner with National Mental Health Commission; Chair, Royal Children's Hospital; Director Otway Health; Director Beyondblue Ltd

Dr Sally Jane Langley MBChB, FRACS, GAICD

Plastic and Reconstructive Surgeon, Canterbury District Health Board

Dr Geoffrey Blake Lyons MBBS, FRACS

Council member, Australian Society of Plastic Surgeons; Director, GEL NSW Pty Ltd

Dr Lawrence Pietro Malisano MBBS, FRACS, FAOrthA, GAICD

Orthopaedic surgeon, Director Brisbane Orthopaedic and Sports Medicine Centre; President Australian Orthopaedic Association

Dr Ruth Anne Mitchell BA, BSc, BMBS

Neurosurgery Registrar, The Royal Melbourne Hospital; Board Member ICAN Australia

Associate Professor Julie Ann Mundy MBBS, MBA, FRACS

Cardiothoracic Surgeon; Executive Member, Australian and New Zealand Society of Cardiac and Thoracic Surgeons

Associate Professor Christopher Perry OAM, FRACS

Consultant, Otolaryngology Head & Neck Surgery Department, Princess Alexandra Hospital & Lady Cilento Children's Hospital; Director ASOHNS; Director Brisbane ENT Pty Ltd; Director AMA QLD Foundation; Director Christopher Perry Medical Pty Ltd and Perry Superannuation Fund.

Mr Richard Edward Perry MBChB, Dip Obs(Otago), FRACS, GAICD

General surgeon, Visiting Consultant Surgeon Intus Digestive and Colorectal Care, St Georges Hospital and Southern Cross Hospital, Christchurch; Director, Intus Ltd; Director, Medical Software Corporation Ltd.

Associate Professor Christopher Martin Pyke PhD, FRACS, FACS, GAICD

Senior Visiting Medical Officer and Head of General Surgery Mater Health Services; Chairman Foundation for Breast Cancer Care; Director CM Pyke Pty Ltd.

Professor Jonathan William Serpell MBBS, MD, MEd, FRACS, FACS, FRCSEd (ad hom), GAICD

Professor and Director General Surgery Alfred Hospital; Head Breast Endocrine and General Surgery Unit Alfred Hospital; Head Breast Endocrine and Surgical Oncology Unit Frankston Hospital, Department of Surgery Monash University

ROYAL AUSTRALASIAN COLLEGE OF SURGEONS

COUNCILLORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

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

Mr Anthony Lloyd Sparnon MBBS, FRACS

Paediatric Surgeon; Senior Visiting Surgeon Women's and Children's Hospital, Adelaide; Adjunct Professor of Surgery, National University of Malaysia

Mr Philip Gregory Truskett AM, MBBS, FACS, FRACS, FASGBI (Hon) FAICD

General Surgeon, Senior Staff Specialist, Prince of Wales Hospital Sydney

Professor Owen Allan Ung MBBS FRACS FAICD

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

Mr Neil Anthony Vallance MBBS, FRACS

Otolaryngologist; Head of Department Otolaryngology Head and Neck Surgery, Monash Health

Mr Garry Wilson KStJ, BA, BSc, DPA, FNZIM

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

Dr Gregory Edwin Witherow MBBS, FRACS

Visiting Orthopaedic Surgeon Hollywood Private Hospital; Observer AOA Federal Board

Chief Executive Officer

Ms Mary Harney BSc BA MAICD

Principal Activities

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

Operating and Financial Review

The total comprehensive income of RACS for the year as shown in the Statement of Comprehensive Income and note 5 was \$5,552,965 compared to 2016 total comprehensive income of \$2,778,103. RACS is a company limited by guarantee, which has no share capital and is prohibited by its constitution from paying dividends.

Significant Changes in the State of Affairs

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

Significant events after the Balance Date

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



ROYAL AUSTRALASIAN COLLEGE OF SURGEONS

COUNCILLORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

Indemnification and Insurance of Councillors and Auditors

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

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

Members' Guarantee

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

At 31 December 2017, the number of members was 7,747 (31 December 2016 – 7,575).

DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

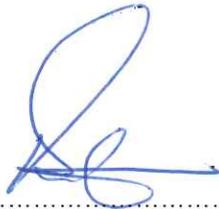
Auditor's Independence Declaration

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

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

On behalf of the Directors.

Mr John Charles Batten



.....
President

Associate Professor Julie Ann Mundy



.....
Treasurer

MELBOURNE
23 MARCH 2018

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

Opinion

We have audited the financial report of Royal Australasian College of Surgeons (the Company) and its statement of financial position as at 31 December 2017, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

- a) giving a true and fair view of the financial position of the Company as at 31 December 2017 and of its financial performance for the year ended on that date; and
- b) complying with Australian Accounting Standards - Reduced Disclosure Requirements and the *Australian Charities and Not-for-Profits Commission Regulation 2013*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Company in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Information Other than the Financial Report and Auditor's Report Thereon

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

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

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

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

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards - Reduced Disclosure Requirements and the *Australian Charities and Not-for-Profits Commission Act 2012* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Report

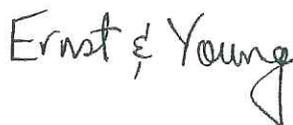
Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Company audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Ernst & Young

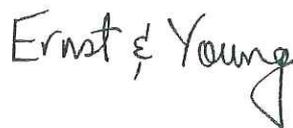


Paul Gower
Partner
Melbourne
23 March 2018

Auditor's Independence Declaration to the Directors of Royal Australasian College of Surgeons

As lead auditor for the audit of Royal Australasian College of Surgeons for the financial year ended 31 December 2017, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* and *Australian Charities and Not-for-Profits Commission Act 2012* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.



Ernst & Young



Paul Gower
Partner
23 March 2018

DIRECTORS' DECLARATION
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

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

The directors declare that in the directors' opinion:

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

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

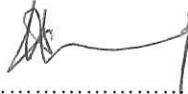
On behalf of the Directors

Mr John Charles Batten



.....
President

Associate Professor Julie Ann Mundy



.....
Treasurer

MELBOURNE
23 MARCH 2018



STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

	<u>Notes</u>	<u>2017</u> \$	<u>2016</u> \$
Revenue from operating activities	4(a)	63,836,927	64,608,682
Income from investments	4(a)	4,311,764	1,994,394
Revenue		<u>68,148,691</u>	<u>66,603,076</u>
Expenditure			
Personnel costs	4(c)	24,873,453	23,245,796
Consultants fees - clinical		1,108,751	890,338
Consultants fees - management		1,692,990	2,041,635
Telephone, teleconference and audio visual costs		1,589,487	999,095
Printing, stationery and photocopying		1,400,063	1,286,353
Postage and courier costs		607,476	677,759
Information system costs		1,413,019	1,287,847
Travel and accommodation	4(b)	6,144,321	5,441,328
Associations and library publications		1,095,053	1,177,728
Audit, legal and professional fees		1,153,882	442,016
Bank fees and merchant charges		610,931	718,995
Rent		1,493,946	1,501,321
Utilities and other property costs		1,118,880	1,012,089
Insurance		424,120	317,049
Project equipment purchases, hire and repairs		612,643	641,175
Training manuals and consumables used in education and field projects		761,023	662,271
Scholarships, fellowships and research grants		1,787,938	1,769,335
Awards, other grants, gifts and prizes		870,402	1,025,500
Grants – funded from external sources		7,364,167	8,083,366
Facilities hire and catering costs	4(b)	3,453,437	3,824,080
Depreciation and amortisation expense		2,244,294	2,138,587
Specialist societies funding costs		4,278,527	4,182,972
Other expenses from operating activities		715,028	33,914
Expenditure		<u>66,813,831</u>	<u>63,400,549</u>
Surplus for the Period		<u>1,334,860</u>	<u>3,202,527</u>
Other Comprehensive Income			
Items not to be reclassified subsequently to profit or loss:			
Net gain / (loss) on revaluation of financial assets	4(d)	4,029,620	-
Foreign currency translation gain / (loss)	4(d)	188,485	(424,424)
Other Comprehensive Income for the Year		<u>4,218,105</u>	<u>(424,424)</u>
TOTAL COMPREHENSIVE INCOME	5	<u>5,552,965</u>	<u>2,778,103</u>

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

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

	<u>Notes</u>	<u>2017</u> \$	<u>2016</u> \$
ASSETS			
Current Assets			
Cash and short-term deposits	6	20,435,179	21,001,523
Trade and other receivables	7	22,018,754	19,064,662
Inventories	8	404,685	218,092
Prepayments		2,361,003	2,154,188
Available for sale financial assets	9	<u>65,575,360</u>	<u>57,336,964</u>
Total Current Assets		<u>110,794,981</u>	<u>99,775,429</u>
Non-Current Assets			
Trade and other receivables	10	734,359	733,886
Property, plant and equipment	11	18,680,716	19,113,924
Intangibles	12	2,622,456	2,785,358
Other non-current assets		<u>-</u>	<u>-</u>
Total Non-Current Assets		<u>22,037,531</u>	<u>22,633,168</u>
TOTAL ASSETS		<u>132,832,512</u>	<u>122,408,597</u>
LIABILITIES			
Current Liabilities			
Trade and other payables	13	3,689,276	3,181,768
Provisions	14	4,106,275	4,109,784
Income in advance	15	26,431,096	26,517,605
Government grants received in advance		8,218,915	4,502,303
Funds held on behalf of others	16	<u>9,229,903</u>	<u>8,509,613</u>
Total Current Liabilities		<u>51,675,465</u>	<u>46,821,073</u>
Non-Current Liabilities			
Provisions	17	<u>387,867</u>	<u>371,309</u>
Total Non-Current Liabilities		<u>387,867</u>	<u>371,309</u>
TOTAL LIABILITIES		<u>52,063,332</u>	<u>47,192,382</u>
NET ASSETS		<u>80,769,180</u>	<u>75,216,215</u>
RACS FUNDS AND RESERVES			
Retained surplus		76,837,740	75,502,880
Available for sale financial assets reserve		4,029,620	-
Foreign currency translation reserve		(98,180)	(286,665)
TOTAL RACS FUNDS AND RESERVES		<u>80,769,180</u>	<u>75,216,215</u>

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

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



STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

	Retained Surplus		Available For Sale Revaluation Reserve	Foreign Currency Translation Reserve	Total RACS Funds and Reserves
	Operating	Investment			
	\$	\$	\$	\$	\$
At 1 January 2016	70,873,328	1,427,025	-	137,759	72,438,112
Surplus for the year	2,908,919	293,608	-	-	3,202,527
Other comprehensive income	-	-	-	(424,424)	(424,424)
At 31 December 2016	73,782,247	1,720,633	-	(286,665)	75,216,215
Surplus for the year	112,358	1,222,502	-	-	1,334,860
Other comprehensive income	-	-	4,029,620	188,485	4,218,105
At 31 December 2017	73,894,605	2,943,135	4,029,620	(98,180)	80,769,180



STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

	<u>Note</u>	<u>2017</u> \$	<u>2016</u> \$
Operating activities			
Subscriptions and entrance fees		14,530,510	15,587,003
Training, examination and assessment fees		23,086,935	24,189,490
Sponsorship and donations		2,932,631	2,979,843
Conference registrations		1,837,097	2,397,763
Property rental and recoveries		938,412	1,087,066
Project income and associated fees		18,896,934	14,850,949
Interest income		156,948	103,497
Other income		1,411,736	3,817,352
Payments to suppliers and employees		<u>(62,898,427)</u>	<u>(61,418,017)</u>
Net cash flows from operating activities	6	<u>892,776</u>	<u>3,594,946</u>
Investing activities			
Net movement from investment securities		365,413	(290,472)
Payments for property, plant and equipment		(1,689,183)	(2,088,575)
Net proceeds from sale – property, plant and equipment		<u>28,691</u>	<u>1,400</u>
Net cash flows used in investing activities		<u>(1,295,079)</u>	<u>(2,377,647)</u>
Net (decrease) / increase in cash and short-term deposits		(402,303)	1,217,299
Net foreign exchange difference		(164,041)	78,993
Cash and short-term deposits at 1 January 2017		21,001,523	19,705,231
Cash and short-term deposits at 31 December 2017		<u>20,435,179</u>	<u>21,001,523</u>

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

1. CORPORATE INFORMATION

The financial report of RACS for the year ended 31 December 2017 was authorised for issue in accordance with a resolution of Council on 23 March 2018.

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

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

Principal Registered Office and Place of Business is:

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

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

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

(b)(i) Statement of Compliance

For the purposes of preparing the financial statements, RACS is a not-for-profit entity. The financial statements were authorised for issue by the directors on 23 March 2018.

(b)(ii) New Accounting Standards and Interpretations

Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The adoption of these amending standards does not have any material impact on the financial statements.

Standard	Title	Description	Application Date
AASB 15-6	Amendments to Australian Accounting Standards – Extending Related Party Disclosures to Not-for-Profit Public Sector Entities (AASB10, AASB 124 & AASB 1049)	This Standard makes amendments to AASB 124 <i>Related Party Disclosures</i> to extend the scope of that Standard to include not-for-profit public sector entities.	1 July 2016
AASB 15-7	Amendments to Australian Accounting Standards – Fair Value Disclosures of Not-for-Profit Public Sector Entities (AASB 13)	This Standard makes amendments to AASB 13 <i>Fair Value Measurement</i> to exempt not-for-profit public sector entities from certain requirements of the Standard.	1 July 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standard	Title	Description	Application Date
AASB 2016-2	Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107	This Standard amends AASB 107 Statement of Cash Flows (August 2015) to require entities preparing financial statements in accordance with Tier 1 reporting requirements to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.	1 January 2017
AASB 2016-4	Amendments to Australian Accounting Standards – Recoverable Amount of Non- Cash-Generating Specialised Assets of Not-for-Profit Entities [AASB 136]	This Standard amends AASB 136 to remove references to depreciated replacement cost as a measure of value in use for not-for-profit entities and clarify that not-for-profit entities holding non-cash-generating specialised assets at fair value in accordance with AASB 13 [under the revaluation model in AASB 116 and AASB 138] no longer need to consider AASB 136. Not-for-profit entities holding such assets at cost will determine recoverable amounts using current replacement cost in AASB 13.	1 January 2017

(c) Financial Assets

Classifications

RACS classifies its financial assets into the following four categories:

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

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

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

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

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

The four categories of financial assets are:

Financial assets at fair value through profit or loss

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Loans and receivables

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

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

Held to maturity investments

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

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

Available-for-sale financial assets (AFS)

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

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

Reclassifications

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

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

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

Impairment of Financial Assets *AFS financial assets*

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

(d) Foreign Currency Translation

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

(i) Foreign Currency Transactions

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

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

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

(ii) Foreign Operations

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

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

(e) Property, Plant and Equipment and Intangibles

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Intangibles

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

Impairment

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

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

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

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

(f) **Inventories**

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

(g) **Employee Benefits**

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

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

(h) **Taxation**

(i) **Income Tax**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(ii) Other Taxes

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

- Where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables are stated with the amount of GST included.

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

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

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

(i) Revenue recognition

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

Subscriptions, Fees and Sponsorship

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

RACS Projects (refer note 2 (k))

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

Rental Income

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

Investment Income

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

(j) Expense recognition

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

(k) Government Grants Received in Advance

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

(l) Income in Advance

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

(m) Contributions of Assets

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

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

(n) Cash and Short-term Deposits

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

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

(o) Trade and Other Receivables

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

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

(p) Operating Leases

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

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

(q) Comparatives

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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

Significant accounting judgements

Impairment of assets

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

Estimation of useful lives of assets

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

Allowance for doubtful debts

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

Long service leave

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


4. REVENUES AND EXPENSES

	<u>2017</u>	<u>2016</u>
	\$	\$
(a) Revenue		
Subscriptions and entrance fees	16,553,370	15,417,396
Training, examination and assessment fees	24,430,916	25,412,776
Sponsorship and donations	3,069,011	2,843,470
Contribution (in kind sponsorship)	225,000	180,000
Conference registrations	1,983,945	2,325,810
Property rental and recoveries	930,478	1,078,089
Project income and management fees	15,052,289	16,029,365
Bank account interest	156,948	103,497
Advertising, royalties and rebates	481,503	462,103
Income (dividends, interest, realised gains) from investments	4,311,764	1,994,394
Other	953,467	756,176
Total	<u>68,148,691</u>	<u>66,603,076</u>
(b) Expenditure		
Travel and accommodation costs		
- Skills training courses	1,167,184	1,239,649
- Examinations	1,413,075	1,214,688
- Externally funded projects – domestic & international	820,542	658,081
- Other	2,743,520	2,328,910
Total	<u>6,144,321</u>	<u>5,441,328</u>
Facilities hire and catering costs		
- Skills training courses	1,238,982	1,253,648
- Annual scientific congress	640,861	990,989
- Other	1,573,594	1,579,443
Total	<u>3,453,437</u>	<u>3,824,080</u>
Annual accounts audit – Ernst & Young	115,270	78,732
Project audits – Ernst & Young	4,635	10,208
Internal audits – Protiviti	120,810	72,561
Increase to provisions for employee entitlements	146,254	375,118
(c) Personnel Costs		
Wages and salaries expense	21,018,697	20,009,400
Workers' compensation costs	86,989	92,526
Superannuation costs	1,862,494	1,775,572
Other staffing costs	1,905,273	1,368,298
Total	<u>24,873,453</u>	<u>23,245,796</u>
(d) Other Comprehensive Income		
Net gain / (loss) on revaluation of financial assets	4,029,620	-
Foreign currency translation gain / (loss)	188,485	(424,424)
Total	<u>4,218,105</u>	<u>(424,424)</u>



5. REVENUE AND EXPENDITURE BY FUNCTION

	<u>2017</u>	<u>2016</u>
	\$	\$
Revenue		
RACS operations	47,200,441	47,217,474
RACS projects	14,716,215	15,565,873
Foundation	<u>6,232,035</u>	<u>3,819,729</u>
Total Revenue	<u>68,148,691</u>	<u>66,603,076</u>
Expenditure		
RACS operations	47,956,215	45,506,465
RACS projects	15,326,765	16,043,099
Foundation	<u>3,530,851</u>	<u>1,850,985</u>
Total Expenditure	<u>66,813,831</u>	<u>63,400,549</u>
Surplus / (Deficit)		
RACS operations	(755,774)	1,711,009
RACS projects	(610,550)	(477,226)
Foundation	<u>2,701,184</u>	<u>1,968,744</u>
Sub-Total	<u>1,334,860</u>	<u>3,202,527</u>
Net gain / (loss) on revaluation of financial assets	4,029,620	-
Foreign currency translation gain / (loss)	<u>188,485</u>	<u>(424,424)</u>
TOTAL COMPREHENSIVE INCOME	<u>5,552,965</u>	<u>2,778,103</u>
Investment Portfolio – included in revenue above		
Income (dividends, interest and realised gains) from investments	<u>4,311,764</u>	<u>1,994,394</u>

6. CASH AND SHORT-TERM DEPOSITS

	<u>2017</u> \$	<u>2016</u> \$
Cash at bank and in hand	10,190,639	7,242,106
Funds at call	<u>10,244,540</u>	<u>13,759,417</u>
	<u>20,435,179</u>	<u>21,001,523</u>

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

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

The fair value of cash and short-term deposits is \$20,435,179 (2016: \$21,001,523)

Reconciliation from the surplus to the net cash flows from operations

Operating Surplus	1,334,860	3,202,527
Adjustments to reconcile surplus to net cash flows:		
Depreciation and amortisation of non-current assets	2,244,294	2,138,587
Net (increase) / decrease in carrying value of investments	(3,853,899)	434,609
Write off - property, plant and equipment	21,500	42
Write off - intangible assets	1,210	11,570
(Gain) / Loss on disposal of property, plant and equipment	(28,691)	(1,400)
Operating leases	(133,205)	71,321
Unrealised foreign exchange (gain) / loss	312,694	(364,111)
Doubtful debts expense	6,234	442
Changes in assets and liabilities:		
(Increase) / decrease in receivables	(2,960,799)	(1,168,763)
(Increase) / decrease in prepayments and other assets	(393,408)	369,641
Increase / (decrease) in trade & other payables	565,629	(461,228)
Increase / (decrease) in provisions	146,254	(32,663)
Increase / (decrease) in income in advance	<u>3,630,103</u>	<u>(605,628)</u>
Net cash flows from operating activities	<u>892,776</u>	<u>3,594,946</u>



7. TRADE AND OTHER RECEIVABLES (CURRENT)

	<u>2017</u> \$	<u>2016</u> \$
Subscriptions, fees and levies	12,344,147	9,533,955
Training, examination and assessment fees	6,825,329	6,138,970
Conference registrations	227,980	144,641
RACS projects – work in progress	594,575	722,608
Other sundry debtors	<u>2,026,723</u>	<u>2,524,488</u>
	<u>22,018,754</u>	<u>19,064,662</u>
Provision for doubtful debts	-	-
Trade and other receivables (current)	<u>22,018,754</u>	<u>19,064,662</u>
Provision for doubtful debts movement		
Provision balance as at beginning of year	-	3,511
Amount provided for during the year	6,234	442
Amount written off during the year	<u>(6,234)</u>	<u>(3,953)</u>
Provision balance as at end of year	<u>-</u>	<u>-</u>

8. INVENTORIES

	<u>2017</u> \$	<u>2016</u> \$
Finished goods at cost	<u>404,685</u>	<u>218,092</u>
Total inventories	<u>404,685</u>	<u>218,092</u>

9. AVAILABLE FOR SALE - FINANCIAL ASSETS

	<u>2017</u> \$	<u>2016</u> \$
At fair value		
Domestic equities	44,404,900	40,046,543
International equities	10,689,092	6,313,088
Domestic fixed interest	<u>10,481,368</u>	<u>10,977,333</u>
	<u>65,575,360</u>	<u>57,336,964</u>

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


10. TRADE AND OTHER RECEIVABLES (NON-CURRENT)

	<u>2017</u>	<u>2016</u>
	\$	\$
Fellowship entrance fees (due 2 to 5 years)	594,359	653,886
Loans to Fellows	<u>140,000</u>	<u>80,000</u>
	<u>734,359</u>	<u>733,886</u>

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

11. PROPERTY, PLANT AND EQUIPMENT

	Freehold Land	Buildings	Plant and Equipment (incl WIP)	Treasures, Gordon Craig Library and Great Mace	Project & Low Value Equipment	TOTAL
	\$	\$	\$	\$	\$	\$
Cost						
At 31 December 2016	4,201,105	18,329,881	10,529,156	326,807	4,744,794	38,131,743
Additions	-	174,950	717,984	-	72,826	965,760
Disposals	-	-	-	-	(62,215)	(62,215)
Write-offs	-	-	(249,696)	-	(270,406)	(520,102)
Exchange differences	-	-	(34,870)	-	(775)	(35,645)
At 31 December 2017	<u>4,201,105</u>	<u>18,504,831</u>	<u>10,962,574</u>	<u>326,807</u>	<u>4,484,224</u>	<u>38,479,541</u>
Depreciation						
At 31 December 2016	-	6,051,533	8,231,424	-	4,734,862	19,017,819
Depreciation charge for the year	-	452,473	827,852	-	72,915	1,353,240
Disposals	-	-	-	-	(62,215)	(62,215)
Write-offs	-	-	(238,183)	-	(260,419)	(498,602)
Exchange differences	-	-	(10,248)	-	(1,169)	(11,417)
At 31 December 2017	<u>-</u>	<u>6,504,006</u>	<u>8,810,845</u>	<u>-</u>	<u>4,483,974</u>	<u>19,798,825</u>
Net Book Value						
At 31 December 2017	<u>4,201,105</u>	<u>12,000,825</u>	<u>2,151,729</u>	<u>326,807</u>	<u>250</u>	<u>18,680,716</u>
At 31 December 2016	<u>4,201,105</u>	<u>12,278,348</u>	<u>2,297,732</u>	<u>326,807</u>	<u>9,932</u>	<u>19,113,924</u>

12. INTANGIBLES

	<u>2017</u>	<u>2016</u>
	\$	\$
Net balance at the beginning of the year	2,785,358	2,646,205
Acquisitions	729,362	1,040,720
Write-offs	(1,210)	(11,570)
Amortisation expense	<u>(891,054)</u>	<u>(889,996)</u>
Net balance at the end of the year	<u>2,622,456</u>	<u>2,785,359</u>

13. TRADE AND OTHER PAYABLES (CURRENT)

	<u>2017</u>	<u>2016</u>
	\$	\$
Trade payables	1,579,669	1,270,353
Other payables	1,165,420	1,167,143
Net external conferences monies held	<u>944,187</u>	<u>744,272</u>
	<u>3,689,276</u>	<u>3,181,768</u>



14. PROVISIONS (CURRENT)

	<u>2017</u> \$	<u>2016</u> \$
Employee Benefits		
Annual leave	1,246,475	1,151,961
Leave in lieu	135,438	138,010
Long service leave	<u>2,323,440</u>	<u>2,285,686</u>
	<u>3,705,353</u>	<u>3,575,657</u>
Operating Leases		
Operating leases	<u>400,922</u>	<u>534,127</u>
	<u>4,106,275</u>	<u>4,109,784</u>

15. INCOME IN ADVANCE

	<u>2017</u> \$	<u>2016</u> \$
Subscriptions billed in advance	15,936,220	15,144,454
Examination entry and annual training fees billed in advance	9,680,463	10,319,144
Annual scientific conference fees billed in advance	749,726	813,235
Other fees billed in advance	<u>64,687</u>	<u>240,772</u>
	<u>26,431,096</u>	<u>26,517,605</u>

16. FUNDS HELD ON BEHALF OF OTHERS

	<u>2017</u> \$	<u>2016</u> \$
Funds held on behalf of other surgical societies and groups	9,229,903	8,509,613

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

Funds deposited with RACS and held on a “long-term” basis are credited with investment income consisting of the actual return from all investment assets held by RACS within the main investment account.

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

Upon written request these funds may be redeemed at any time by the surgical society or group in accordance with the Pooled Investment Service Agreement terms and conditions.

17. PROVISIONS (NON-CURRENT)

	<u>2017</u> \$	<u>2016</u> \$
Employee Benefits		
Long service leave	387,867	371,309

18. COMMITMENTS AND CONTINGENCIES

Operating Lease Commitments

RACS has entered into telecommunications service agreements with Macquarie Telecom and Viatek for a committed service period of 3 years and 5 years respectively. The contract with Macquarie Telecom, which expired in May 2016, was extended for another 3 years until May 2019.

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

(i) Commercial Lease Commitments	<u>2017</u> \$	<u>2016</u> \$
Within one year	487,214	372,278
After one year but not more than five years	153,231	468,041
After more than five years	-	-
Total minimum lease payments	<u>640,445</u>	<u>840,319</u>
(ii) Property Lease Commitments	<u>2017</u> \$	<u>2016</u> \$
Within one year	1,574,284	1,374,644
After one year but not more than five years	5,342,979	5,499,752
After more than five years	<u>1,466,131</u>	<u>1,284,490</u>
Total minimum lease payments	<u>8,383,394</u>	<u>8,158,886</u>

19. EVENTS AFTER BALANCE SHEET DATE

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

20. RELATED PARTY TRANSACTIONS

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

	<u>2017</u> \$	<u>2016</u> \$
International Medical Graduate Assessments		
- Associate Professor A Brooks	4,055	310
- Mr Adrian Anthony	945	-
- Associate Professor Kerin Fielding	1,258	-
Mortality Audit Projects		
- Associate Professor S Tobin	900	600
- Dr Claire Campbell	300	-
	<u>7,458</u>	<u>910</u>

21. COMPENSATION OF KEY MANAGEMENT PERSONNEL

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

	<u>2017</u> \$	<u>2016</u> \$
Total compensation to key management personnel	3,902,146	3,482,476



ACFID CODE OF CONDUCT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

Information to be provided under the ACFID Code of Conduct

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

INCOME STATEMENT

For the year ended 31 December 2017

International Aid and Development Programs

	<u>2017</u>	<u>2016</u>
	\$	\$
REVENUE		
Donations and gifts – monetary	362,939	455,121
Donations and gifts – non-monetary	-	-
Bequests and legacies	-	-
Grants – Australian - Department of Foreign Affairs and Trade	2,800,874	2,506,108
Grants – Other Australian	-	80,279
Grants – Other Overseas	-	-
Investment income	621,648	310,038
Other income – International programs	666,261	522,797
Revenue for international political or religious proselytisation program	-	-
Other income – all other RACS activities	<u>63,696,969</u>	<u>62,728,733</u>
Total Revenue	<u>68,148,691</u>	<u>66,603,076</u>
EXPENDITURE		
International Aid and Development Programs		
International Programs		
Funds to international programs	2,826,471	2,321,829
Program support costs	783,686	569,920
Community education	-	-
Fundraising costs		
Public	-	-
Government, multilateral and private	-	-
Accountability and administration	182,940	206,053
Non-monetary expenditure	-	-
Expenses for international political or religious proselytisation program	-	-
Other expenditure – all other RACS activities	<u>63,020,734</u>	<u>60,302,747</u>
Total Expenditure	<u>66,813,831</u>	<u>63,400,549</u>
Excess of Revenue over Expenditure	1,334,860	3,202,527
Other Comprehensive Income	<u>4,218,105</u>	<u>(424,424)</u>
TOTAL COMPREHENSIVE INCOME	<u>5,552,965</u>	<u>2,778,103</u>

ACFID CODE OF CONDUCT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

RACS international aid, development and humanitarian activities are funded from bequeathed contributions, ongoing grants primarily from the Department of Foreign Affairs and Trade, sponsorship arrangements predominantly associated with the East Timor Lions SightFirst Eye Program and donations received from various sources. The RACS Global Health division responsible for the coordination and delivery of these programs did not directly engage in any specific fundraising activities.

SUMMARY OF CASH MOVEMENTS
For the year ended 31 December 2017

	Cash available at beginning of financial year	Cash raised during the financial year	Cash disbursed during financial year	Cash available at end of financial year
	\$	\$	\$	\$
International Projects	1,202,128	3,991,086	(3,374,645)	1,818,569
International Scholarships provided by RACS from bequest funds	7,135,755	452,237	(132,397)	7,455,595
Foundation – International Projects	3,361,689	1,339,358	(669,822)	4,031,225
Other – Domestic Operations	9,301,951	59,067,282	(61,239,443)	7,129,790
Total	21,001,523	64,849,963	(65,416,307)	20,435,179

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2017

	Retained Surplus		Available For Sale Revaluation Reserve	Foreign Currency Translation Reserve	Total RACS Funds and Reserves
	Operating	Investment			
	\$	\$	\$	\$	\$
At 1 January 2016	70,873,328	1,427,025	-	137,759	72,438,112
Surplus for the year	2,908,919	293,608	-	-	3,202,527
Other comprehensive income	-	-	-	(424,424)	(424,424)
At 31 December 2016	73,782,247	1,720,633	-	(286,665)	75,216,215
Surplus for the year	112,358	1,222,502	-	-	1,334,860
Other comprehensive income	-	-	4,029,620	188,485	4,218,105
At 31 December 2017	73,894,605	2,943,135	4,029,620	(98,180)	80,769,180