



Annual Report

Financial Report 2018-19

Guide to the financial statements

Components of the financial report

The financial report contains three main sections:

- financial statements
- notes to the financial statements
- statements by the directors and auditor.

The financial statements consist of four main statements – Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and Statement of Cash Flows.

The notes to the financial statements detail the Association's accounting policies and set out the detailed values that are carried into the financial statements.

The statements by directors and auditor provide the views of the directors of the MAV and the independent auditor on the financial report.

Financial statements

1. Statement of Comprehensive Income

The Statement of Comprehensive Income shows:

- the MAV's revenue from its various activities
- expenses incurred in running the MAV and its business activities.

These expenses relate only to the business operations and do not include costs associated with the purchase of assets. The expense item 'depreciation' spreads the cost of the assets over the estimated life of the assets. The most important figure is the surplus/deficit for the year. A surplus means that revenues were greater than expenses and a deficit means expenses were greater than revenue.

2. Statement of Financial Position

The Statement of Financial Position shows the assets the Association owns and the liabilities it owes at 30 June. The Statement of Financial Position separates the assets and liabilities into current and non-current. Current means those assets or liabilities that will be either collected or that fall due within the next 12 months.

The components of the Statement of Financial Position are:

2.1 Current and non-current assets

Cash assets include cash held in the bank, petty cash, cash deposits and cash investments. Receivables are monies owed to the Association.

Prepayments are payments made in the current financial year which relate to the next financial year. For example, annual subscriptions, etc.

Property, plant and equipment represents the value of the equipment, furniture and fittings, computers, website and intranet, and motor vehicles owned by the Association.

Intangible assets are trademarks, educational programs and other intellectual property owned by the Association.

2.2 Current and non-current liabilities

Bank overdraft indicates the amount the Association owes its bankers on its daily operating account.

Payables are monies owed by the Association to its suppliers as at 30 June.

Premiums in advance are insurance premiums relating to the next financial year billed to members of the insurance fund before 30 June.

Provision for employee entitlements is the accounting term for annual leave, long service leave and retirement gratuities owed to staff.

Provision for claims outstanding represents insurance claims reported by members, together with an estimate of claims incurred but not yet reported, including an estimate of the costs of settlement for these claims.

2.3 Net assets

This term describes the difference between total assets and total liabilities. It represents the net worth of the Association as at 30 June.

3. Statement of cash flows

The statement of cash flows summarises cash payments and cash receipts for the year. The values may differ from those shown in the income statement because the income statement is prepared on an accrual basis. Cash is derived from, and is used in, two main areas:

3.1 Cash flows from operating activities

Receipts relate to all cash received into the Association's bank account from members and others who owed money to the Association in the form of fees or premiums. Receipts also include interest earned from the Association's cash investments. It does not include receipts from the sale of assets.

Payments relate to all cash paid out of the Association's bank account to staff, creditors and others. It does not include cash paid for the purchase of assets.

3.2 Cash flows from investing activities

This relates to cash receipts and cash payments resulting from either the sale or purchase of property, plant and equipment. The statement of cash flows concludes with cash at end of year, which indicates the cash the Association has at 30 June to meet its debts and liabilities.

Notes to the financial statements

To enable the reader to understand the basis on which the values shown in the statements are established, it is necessary to provide details of the Association's accounting policies. These are described in note 2. Apart from the accounting policies, the notes also give details behind many of the summary figures contained in the statements. The note numbers are shown beside the relevant items in the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Financial Position.

Where the Association wishes to disclose information which cannot be incorporated into the statements, this is shown in the notes. The notes should be read at the same time as the financial statements in order to get a full and clear picture of the financial statements.

Statement by directors

The statement by directors is made by two directors on behalf of the Board of the Municipal Association of Victoria. The statement states that, in the opinion of the Board, the financial statements present a true and fair view of the operations of the Association and that the Association can pay its debts as and when they fall due.

Independent audit report

This report is the independent auditor's opinion on the financial statements. It provides the reader of the financial statements a completely independent opinion of the financial statements of the Association. The opinion covers all statutory and accounting standards compliance requirements, as well as providing a view on the truth and fairness of the financial statements.

Municipal Association of Victoria

Financial Report 2018-19

Statement of Comprehensive Income

For the year ended 30 June 2019

	NOTE	COMBINED		MAV - GENERAL FUND	
		2019	2018	2019	2018
		\$	\$	\$	\$
REVENUE	4	76,575,855	88,639,766	16,477,855	18,095,456
EXPENSES	5(b)	81,578,104	89,667,619	17,352,415	16,579,953
NET SURPLUS/(DEFICIT)	3	(5,002,249)	(1,027,853)	(874,560)	1,515,503
OTHER COMPREHENSIVE INCOME		-	-	-	-
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		(5,002,249)	(1,027,853)	(874,560)	1,515,503

The accompanying notes form an integral part of these statements.

Statement of Financial Position

as at 30 June 2019

	NOTE	COMBINED		MAV - GENERAL FUND	
		2019	2018	2019	2018
		\$	\$	\$	\$
CURRENT ASSETS					
Cash and cash equivalents	9(a)	39,359,961	18,749,371	5,214,896	7,250,376
Investments	2(l)	45,532,165	75,817,841	-	-
Trade and other receivables	10,2(f)	69,243,176	67,137,069	9,404,416	8,064,938
Prepayments		1,881,991	2,197,775	115,397	397,780
TOTAL CURRENT ASSETS		156,017,293	163,902,056	14,734,709	15,713,094
NON-CURRENT ASSETS					
Trade and other receivables	10,2(f)	85,437,592	84,240,954	-	-
Property and equipment	12,2(h)	382,140	441,311	354,210	405,481
Intangibles	13,2(h)	140,267	134,769	140,267	134,769
TOTAL NON-CURRENT ASSETS		85,959,999	84,817,034	494,477	540,250
TOTAL ASSETS		241,977,292	248,719,090	15,229,186	16,253,344
CURRENT LIABILITIES					
Trade and other payables		33,902,065	32,090,282	6,859,442	6,849,797
Premiums in advance	11	26,580,386	38,418,103	-	-
Provision for employee entitlements	23	800,308	955,438	780,068	929,042
Provision for claims outstanding	14(a),2(t),2(u)	36,982,665	30,284,377	-	-
Other current liabilities		765,628	687,953	765,628	687,953
TOTAL CURRENT LIABILITIES		99,031,052	102,436,154	8,405,138	8,466,792
NON-CURRENT LIABILITIES					
Provision for employee entitlements	23	108,906	118,227	106,710	117,194
Provision for claims outstanding	14(a),2(t),2(u)	140,830,109	139,077,774	-	-
Other non-current liabilities		207,051	284,511	207,051	284,511
TOTAL NON-CURRENT LIABILITIES		141,146,066	139,480,512	313,761	401,705
TOTAL LIABILITIES		240,177,118	241,916,666	8,718,899	8,868,497
NET ASSETS		1,800,175	6,802,424	6,510,287	7,384,847
EQUITY		1,800,175	6,802,424	6,510,287	7,384,847

The accompanying notes form an integral part of these statements.

Statement of Changes in Equity

For the year ended 30 June 2019

	COMBINED		MAV - GENERAL FUND	
	2019	2018	2019	2018
	\$	\$	\$	\$
RETAINED EARNINGS				
Balance at beginning of year	6,802,424	7,830,277	7,384,847	5,869,344
Surplus/(deficit) from ordinary activities	(5,002,249)	(1,027,853)	(874,560)	1,515,503
BALANCE AT END OF YEAR	1,800,175	6,802,424	6,510,287	7,384,847

Combined Statement of Cash Flows

for the year ended 30 June 2019

	NOTE	COMBINED		MAV - GENERAL FUND	
		2019	2018	2019	2018
		\$	\$	\$	\$
CASH FLOW FROM OPERATING ACTIVITIES					
RECEIPTS					
Subscriptions, grants and fees		77,425,433	124,500,551	26,603,745	20,744,238
Investment income		795,413	565,593	256,352	238,160
Reinsurance and other recoveries		14,881,021	16,093,156	-	-
PAYMENTS					
Suppliers		(73,329,027)	(47,609,964)	(28,754,766)	(21,736,258)
Claim payments		(29,579,776)	(29,970,131)	-	-
NET CASH (USED IN)/PROVIDED BY OPERATING ACTIVITIES	9(b)	(9,806,936)	63,579,205	(1,894,670)	(753,860)
CASH FLOW FROM INVESTING ACTIVITIES					
Proceeds from redemption of investments (Application of investment funds)		30,559,318	(53,895,000)	-	-
Proceeds from sale of fixed assets		60,857	70,100	60,857	70,100
Payments for fixed assets & intangibles		(202,649)	(407,065)	(201,668)	(368,543)
NET CASH USED IN INVESTING ACTIVITIES		30,417,526	(54,231,965)	(140,811)	(298,443)
NET (DECREASE)/INCREASE IN CASH HELD		20,610,590	9,347,240	(2,035,481)	(1,052,304)
Cash at beginning of year		18,749,371	9,402,131	7,250,377	8,302,680
CASH AT END OF YEAR	9(a)	39,359,961	18,749,371	5,214,896	7,250,376

The accompanying notes form an integral part of these statements.

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2019

1. Corporate information

The combined financial report of Municipal Association of Victoria (MAV) for the year ended 30 June 2019 was authorised for issue in accordance with a resolution of the directors on the date shown on the attached Statement by Directors.

The MAV is an Association incorporated by an Act of the Parliament of Victoria, Australia, known as the Municipal MAV Act 1907.

The nature of the operations and principal activities of MAV are:

- to promote the efficient carrying out of municipal government throughout the State of Victoria and watch over and protect the interests, rights and privileges of municipal corporations
- arranging contracts of insurance
- to arrange fidelity insurance for local government - MAV Insurance
- to provide a public liability insurance scheme for local government - MAV Insurance
- to provide a workers' compensation self-insurance scheme for local government - MAV WorkCare

2. Summary of significant accounting policies

Accounting Standards and Interpretations issued but not yet effective.

<u>Reference</u>	<u>Title Summary</u>	<u>Application Date of Standard</u>	<u>Impact on MAV Financial Report</u>	<u>Application Date for MAV</u>
AASB 9	Financial Instruments	1 January 2019	Preliminary assessment indicates minimal impact arising on the adoption of these standards	1 July 2019
AASB 15	Revenue from Contracts with Customers	1 January 2019		1 July 2019
AASB 16	Leases	1 January 2020		Preliminary assessment indicates minimal impact arising on the adoption of this standard
IFRS 17	Insurance Contracts	1 January 2021	Preliminary assessment indicates minimal impact arising on the adoption of this standard	1 July 2021

(a) Basis of preparation

The financial report is a general purpose financial report which has been drawn up in accordance with Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board.

The principal accounting policies adopted in preparing the financial report are stated to assist in a general understanding of the financial report. Accounting policies have been consistently applied unless otherwise indicated.

The financial report is presented in Australian dollars. The MAV is a not for profit entity.

The accounts have been prepared on the accruals basis using historical costs and, except where stated, do not take into account current valuations of assets.

(b) Statement of compliance

The financial statements and notes comply with the Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board

(c) Principles of the combined entity

The financial report comprises the economic entity of the MAV and its controlled entities the Local Government Mutual Liability Insurance Scheme (trading as Liability Mutual Insurance - LMI) and the Commercial Crime Fund (CCF), referred to jointly as MAV insurance, and the MAV WorkCare Self-Insurance Mutual Scheme (Commenced 1 November 2017), referred to as MAV WorkCare.

A controlled entity is any entity controlled by MAV (Incorporated under the Municipal Association Act 1907). Control exists where MAV has the capacity to dominate the decision-making in relation to the financial and operating policies of another entity so that the other entity operates with MAV to achieve the objectives of MAV.

The effects of all transactions between entities in the combined entity have been eliminated.

The financial statements of all the divisions, including MAV Insurance, and MAV WorkCare are prepared for the same reporting period as the MAV, using consistent accounting policies.

All interdivisional balances and transactions, including unrealised profits arising from intra-divisional transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

The equity in the insurance businesses of MAV Insurance and MAV WorkCare represent the assets of the members of each of the insurance mutual schemes and are not available to the members of the MAV.

(d) Income tax

The MAV is a State and Territory Body (STB) and is exempt from income tax, in accordance with Division 1AB of Part III of the Income Tax Assessment Act

(e) Cash and cash equivalents

Cash and cash equivalents in the Statement of Financial Position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Notes to and forming part of the financial statements (continued)

for the year ended 30 June 2019

(f) Trade and other receivables

Trade receivables, which generally have 30-60 day terms, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment.

Collectability of trade receivables is reviewed on an ongoing basis at an operating unit level. Individual debts that are known to be uncollectible are written off when identified. An impairment provision is recognised when there is objective evidence that the MAV will not be able to collect the receivable. Financial difficulties of the debtor, default payments or debts, other than outstanding reinsurance recoveries, more than 60 days overdue are considered objective evidence of impairment. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate.

(g) Trade and other payables

Trade and other payables are carried at amortised cost and due to their short term nature they are not discounted. They represent liabilities for goods and services provided to the MAV prior to the end of the financial year that are unpaid and arise when the MAV becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

(h) Property, equipment, motor vehicles and intangible assets

Property, equipment, leasehold improvements and motor vehicles are carried at cost less, where applicable, accumulated depreciation. On disposal the difference between the sales proceeds and the carrying amount of the asset is recognised as a gain or loss.

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

The following depreciation and amortisation rates are in use:	Annual Rate
Leasehold Improvements at cost	10%
Furniture and Equipment at cost	20% - 33%
Motor Vehicles at cost	20%
Information Technology Equipment at cost	33%
Website at cost	20%
Educational Programs at cost	20%

The website and educational programs are treated as intangible assets with a finite life and is amortised over the useful life and tested for impairment whenever there is an indication that the intangible assets may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite life is reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, which is a change in the accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in statement of comprehensive income in the expense category "Amortisation". The MAV does not have any intangible assets with indefinite useful lives.

(i) Leases

A distinction is made between finance leases which, effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of the leased property, without transferring the legal ownership, and operating leases under which the lessor effectively retains substantially all the risks and benefits.

Where assets are acquired by means of finance leases, the present value of minimum lease payments is established as an asset at the beginning of the lease term and amortised on a straight line basis over the expected economic life. A corresponding liability is also established and each lease payment is allocated between such liability and interest expense.

Operating lease payments are charged to expense on a basis which is representative of the pattern of benefits derived from the leased property. Lease incentives received under operating leases are recognised as a liability.

Lease incentives received have been recognised as a liability. This liability recognised in respect of the lease incentive will be reduced by allocating lease rental payments between rental expense and reduction of the liability.

(j) Employee Entitlements

The liabilities arising in respect of employee entitlements (note 23) are measured at their nominal amounts: wages and salaries, annual leave and sick leave regardless of whether they are expected to be settled within twelve months of balance date.

Other employee entitlements are expected to be settled within twelve months of balance date.

All other employee entitlements, including long service leave, are measured at the present value of the estimated future cash outflows in respect of services provided up to balance date. Liabilities are determined after taking into consideration estimated future increase in wages and salaries and past experience regarding staff leave. Related on-costs are included.

Contributions made to an employee superannuation fund are charged as expenses when incurred.

(k) Revenue recognition

Grant and Project revenue - Grants are recognised as revenue when the MAV obtains control over the assets comprising the contribution. Control over the grants is normally obtained upon their receipt or upon prior notification that a grant has been secured. Project revenue is recognised on an accrual basis.

Subscriptions - Subscriptions are recognised on an accrual basis.

Sponsorship, management and rental income - Income is recognised on an accrual basis

Brokerage income

Brokerage income comprise amounts received from third parties for the placement of insurance for members.

Management fee income

Management fees are received for managing grants, projects, MAV Insurance and MAV WorkCare activities.

Investment income

Investment income consists of interest which is recognised on a time-proportionate basis that takes into account the effective interest rate on the financial asset and movements in unit values in cash and fixed interest funds which are carried at fair value through the Statement of Comprehensive Income.

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2019

(l) Investments

Investments are valued at fair value at Statement of Financial Position date.

(m) Comparative figures

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

(n) Cash flows

For the purposes of the Statement of Cash Flows, cash includes cash on hand and deposits held at call with banks and investments in cash in fixed interest funds net of outstanding bank overdrafts.

(o) Superannuation

The amount charged to the Statement of Comprehensive Income in respect of superannuation represents contributions made or due by the MAV to the relevant superannuation plans in respect to the services of the MAV's staff (both past and present). Superannuation contributions are made to the plans based on the relevant rules of each plan and any relevant compulsory superannuation requirements that The MAV is required to comply with.

(p) Fair Value Measurement

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the MAV determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. The MAV does not have any level 3 financial assets.

Investments are holdings in managed investment funds that are not traded in a market considered active. The fair value of these assets is regularly revalued by the Investment Manager based on observable inputs or derivable from observable inputs. These are considered level 2 financial assets. The carrying amounts of financial assets and financial liabilities represent their approximate net fair value. All maturity dates are within twelve months. For the purpose of fair value disclosures, the MAV has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

	Level 1	Level 2	Level 3	Total
2019				
Investments	-	45,532,165	-	45,532,165
Total	-	45,532,165	-	45,532,165
2018				
Investments	-	75,817,841	-	75,817,841
Total	-	75,817,841	-	75,817,841

(q) Self-insurance licence - MAV WorkCare Self-Insurance Scheme

Under the Accident Compensation Act 1985 the MAV is specifically named as a body that can apply for a Workers' Compensation Self-Insurance Licence. Since 2015 the MAV has been working to establish the MAV WorkCare Scheme. In that time significant work has been completed on the organisational and financial structure of the Scheme, improving members Occupational Health & Safety systems and providing confidence that members can achieve one hundred percent conformance to the National Audit Tool at the end of the first licence period of three years. On 3 May 2017 WorkSafe Victoria approved the MAV as a self-insurer for a period of three years commencing from 4pm on 1 November 2017. MAV completed all conditions precedent and all pre-commencement action items to the satisfaction of WorkSafe Victoria and as a result commenced operating MAV WorkCare Self-Insurance Mutual Scheme on 1 November 2017. There were thirty-one inaugural members of the Scheme, including the MAV. On commencement of the Scheme WorkSafe Victoria transferred the Net Claims Outstanding Liability as at 31 October 2017 and also transferred the cash equivalent to the valuation of the Net Outstanding Claims Liability. The cost of the Self-insurance licence of \$1,266,590 has been expensed in the 2018 financial year. (Refer Notes 31 & 32)

Summary of accounting policies relating to both MAV Insurance and MAV WorkCare

(r) Premiums

Premiums comprise amounts charged to members of the Schemes for policy cover, net of amounts returned to members as bonuses. The earned portion of premiums received is recognised as revenue. Premiums are treated as earned prorata from date of attachment of risk. The pattern of recognition over the policy is based on time, which is considered to closely approximate the pattern of risks undertaken.

(s) Premiums in advance

During the month of June each year, the Schemes issue premium notices to Scheme Members. The risk attaches to the premiums in the next accounting period and accordingly the revenue is recognised each following year commencing 1 July. Prior to each balance date members have committed to participate in either the Schemes or the Fund for the ensuing year and accordingly the premiums are disclosed in the Statement of Financial Position as "premiums receivable" with an offsetting liability described as "premiums in advance".

Notes to and forming part of the financial statements (continued)

for the year ended 30 June 2019

Summary of accounting policies relating to both MAV Insurance and MAV WorkCare (Continued)

(t) Claims - MAV Insurance

Claims-incurred expense and liability for outstanding claims are recognised in respect of direct business. The liability covers claims incurred but not yet paid, incurred but not yet reported claims, and the anticipated direct and indirect costs of settling those claims. Claims outstanding are assessed by reviewing individual claim files and estimating claims not notified and settlement costs using statistical and actuarial techniques. The liability for outstanding claims is measured as the present value of the expected future payments, reflecting the fact that all the claims do not have to be paid out in the immediate future. The expected future payments are estimated on the basis of the ultimate cost of settling claims, which is affected by factors arising during the period to settlement such as normal inflation and "superimposed inflation". Advice from the MAV's actuary has estimated superimposed inflation to be 1.5% per annum (2018 2.5%) for personal injury non large claims and the discount rate at 1.17% (2018 2.4%).

Superimposed inflation refers to factors such as trends in court awards, for example increases in the level and period of compensation for injury. The expected future payments are then discounted to a present value at the reporting date using discount rates based on the investment opportunities available to the organisation on the amounts of funds sufficient to meet claims as they became payable.

Details of rates applied are disclosed in note 28.

The MAV has purchased retrospective insurance cover on the net amount of all claims incurred up to 30 June 2018. (Refer to Note 35)

(u) Claims - MAV WorkCare

Claims-incurred expense and liability for outstanding claims are recognised in respect of direct business. The liability covers claims incurred but not yet paid, incurred but not yet reported claims, and the anticipated direct and indirect costs of settling those claims. Claims outstanding are assessed by reviewing individual claim files and estimating claims not notified and settlement costs using statistical and actuarial techniques. The liability for outstanding claims is measured as the present value of the expected future payments, reflecting the fact that all the claims do not have to be paid out in the immediate future. The expected future payments are estimated on the basis of the ultimate cost of settling claims, which is affected by factors arising during the period to settlement such as normal inflation and "superimposed inflation". Advice from the MAV's actuary has estimated superimposed inflation for weekly, medical and other payments to be 1.2% per annum and for common law payments to be 3.2% per annum. The discount rate used to value claims liabilities for the 2019 financial year is 1.5%.

Superimposed inflation refers to factors such as trends in court awards, for example increases in the level and period of compensation for injury. The expected future payments are then discounted to a present value at the reporting date using discount rates based on the investment opportunities available to the organisation on the amounts of funds sufficient to meet claims as they became payable.

Details of rates applied are disclosed in note 28.

(v) Reinsurance and other recoveries receivable

Reinsurance and other recoveries receivable on paid claims, reported claims not paid, claims incurred but not reported and unexpired risk liabilities are recognised as revenue. Recoveries receivable are assessed in a manner similar to the assessment of outstanding claims. Recoveries are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims.

(w) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefit will flow to the entity and the revenue can be reliably measured.

The following specific recognition criteria must also be met before revenue is recognised.

- (i) Premiums - recognised in the period the fund is at risk.
- (ii) Future reinsurance and other Recoveries - on an accruals basis.
- (iii) Investment Income - on an accruals basis including adjustments to bring values of cash backed unit trusts to account as investment income.
- (iv) Performance bonus - on an accruals basis when firm evidence is available confirming the amount and indicating payment.

(x) Reinsurance Expense

Reinsurance expense relates to insurance premiums paid to reinsurers in accordance with the established reinsurance strategy of the entity and in order to protect the Insurance businesses from catastrophic and unforeseen claims.

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2019

	NOTE	COMBINED	
		2019	2018
		\$	\$
3. CONTRIBUTION TO OPERATING SURPLUS			
CONTRIBUTIONS FROM INSURANCE & WORKCARE ACTIVITIES			
Premium income		37,936,134	31,513,210
Performance bonus	24	99,845	138,212
Reinsurance expense	2(x)	(16,969,297)	(35,817,330)
NET PREMIUM INCOME		21,066,682	(4,165,908)
Loss on transfer of claims outstanding at scheme commencement	32	-	(1,622,094)
Claims expense	5(a)	(38,030,398)	(25,466,679)
Reinsurance and other recoveries	2(v)	22,630,127	38,164,634
NET CLAIMS EXPENSE	15	(15,400,271)	11,075,861
NET UNDERWRITING RESULT			
Fees received		5,666,411	6,909,953
Investment income		69,898	89,852
Administration and general expenses		377,661	1,636,968
		(10,241,659)	(11,180,129)
INSURANCE ACTIVITY OPERATING SURPLUS		(4,127,689)	(2,543,356)
MAV SURPLUS (DEFICIT)		(874,560)	1,515,503
TOTAL COMPREHENSIVE INCOME(LOSS) FOR THE PERIOD		(5,002,249)	(1,027,853)

	NOTE	COMBINED		MAV - GENERAL FUND	
		2019	2018	2019	2018
		\$	\$	\$	\$
4. REVENUE					
REVENUES FROM OPERATING ACTIVITY					
Subscriptions/premiums		40,819,279	34,561,254	2,952,041	3,075,205
Reinsurance and other recoveries	2(v)	22,630,128	38,164,634	-	-
Performance bonus	30	99,845	138,212	-	-
Brokerage fees		1,257,848	1,248,036	1,257,848	1,248,036
Management fee income		1,637,359	3,412,620	2,514,231	4,294,173
Seminars & sale of publications		922,106	1,155,218	922,106	1,155,218
Sponsorship, membership and tender income		3,709,690	3,706,421	3,709,690	3,706,421
Grant income	25	4,925,536	4,459,299	4,925,536	4,459,299
Investment income		533,721	1,769,141	156,060	132,173
TOTAL REVENUE FROM OPERATING ACTIVITIES		76,535,512	88,614,835	16,437,512	18,070,525
REVENUES FROM NON-OPERATING ACTIVITIES					
Gain on disposal of non-current assets		40,343	24,931	40,343	24,931
TOTAL REVENUE FROM OUTSIDE THE OPERATING ACTIVITIES		40,343	24,931	40,343	24,931
TOTAL REVENUE		76,575,855	88,639,766	16,477,855	18,095,456

5(a). CLAIMS EXPENSES	NOTE	COMBINED	
		2019	2018
		\$	\$
Paid		29,579,775	(37,666,621)
Outstanding claims at end of financial year	14(a)	177,812,774	169,362,151
Less: Outstanding claims at beginning of financial year		(169,362,151)	(106,228,851)
TOTAL CLAIMS EXPENSES	2(t) & 2(u)	38,030,398	25,466,679

Notes to and forming part of the financial statements (continued)

for the year ended 30 June 2019

		COMBINED		MAV - GENERAL FUND	
		2019	2018	2019	2018
	NOTE	\$	\$	\$	\$
5(b). EXPENSES					
The following items have been recognised in the operating surplus:					
Re-insurance expense		16,969,297	35,817,330	-	-
Claims expense	5(a)	38,030,398	25,466,679	-	-
Scheme management fee	8	4,159,301	4,018,374	-	-
Loss on transfer of claims	32	-	1,622,094	-	-
WorkSafe Self Insurer Levy		570,468	606,756	-	-
Administration		4,071,892	3,405,675	3,148,135	2,193,584
ALGA membership		498,443	483,118	498,443	483,118
Amortisation of website and educational programs		39,429	16,686	39,429	16,685
Audit fees	7	341,224	299,929	38,620	30,076
Board of management expenses		418,471	298,932	277,558	263,677
Depreciation of furniture and equipment		34,656	40,794	34,656	28,957
Depreciation of motor vehicles		74,953	83,097	66,988	80,646
Depreciation of information technology equipment		85,248	89,599	84,334	89,358
Depreciation of leasehold improvements		364	21,872	364	2,149
Grants and projects		7,077,555	6,774,555	6,226,612	5,398,419
Legal & actuarial fees		167,600	194,461	-	-
Meetings and seminars		1,184,487	1,292,531	1,165,720	1,290,731
Operating lease rental expense		854,267	839,557	741,560	825,151
Salary and payroll costs		5,814,451	6,702,814	5,029,996	5,877,402
Stamp duty		1,185,600	1,592,767	-	-
TOTAL EXPENDITURE		81,578,104	89,667,619	17,352,415	16,579,953
6. LEASING COMMITMENTS					
Operating lease commitments, being for lease of OCE and OCE colour copiers					
Not later than one year		22,618	25,707	22,618	25,707
Later than one year but not later than five years		25,617	48,235	25,617	48,235
TOTAL LEASE COMMITMENT		48,235	73,942	48,235	73,942
Operating lease commitments, being for lease of leasehold premises:					
Not later than one year		929,996	894,226	929,996	894,226
Later than one year but not later than five years		2,485,881	3,415,877	2,485,881	3,415,877
Later than five years		-	-	-	-
TOTAL LEASE COMMITMENT		3,415,877	4,310,103	3,415,877	4,310,103
7. AUDITORS FEES					
Amounts received or due and receivable for audit services:					
Audit services		341,224	299,929	38,620	30,076
TOTAL AUDITORS FEES		341,224	299,929	38,620	30,076
8. SCHEME MANAGEMENT FEES					
Scheme management fees are paid to the scheme manager for:					
Re-insurance placement - MAV Insurance		2,220,220	2,220,220		
Risk management and administrative services - MAV Insurance		1,198,124	1,307,115		
Occupational Health and Safety - MAV WorkCare		296,382	196,415		
Risk Identification and Prevention- MAV WorkCare		296,382	196,415		
Training and Education - MAV WorkCare		148,192	98,209		
TOTAL SCHEME MANAGEMENT FEES	5(b)	4,159,301	4,018,374		

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2019

9. NOTES TO STATEMENT OF CASH FLOWS

(a) Cash and cash equivalents at balance date as shown in the Statement of Cash Flows are held in S & P rated AA- and A- cash deposits and reconciled to the related items in the Statement of Financial Position as follows:

	NOTE	COMBINED		MAV - GENERAL FUND	
		2019	2018	2019	2018
		\$	\$	\$	\$
Cash and cash equivalents		39,359,961	18,749,371	5,214,896	7,250,376
TOTAL CASH AND CASH EQUIVALENTS		39,359,961	18,749,371	5,214,896	7,250,376

(b) Reconciliation of Net Cash Used In Operating Activities to Operating Profit (Loss)

Surplus (Deficit) for year		(5,002,249)	(1,027,853)	(874,560)	1,515,503
Depreciation		195,223	235,359	186,342	201,101
Amortisation		39,429	16,684	39,429	16,684
(Surplus)/deficit on disposal of assets		(40,343)	(24,931)	(40,343)	(24,931)
Unrealised gains on investments		(273,642)	(636,605)	-	-
Changes in assets and liabilities					
(Increase)/decrease in accounts receivable	2(f)	(1,790,608)	(37,854,238)	(1,418,101)	(3,178,071)
(Increase)/decrease in prepayments		315,791	(1,990,614)	282,383	(191,380)
Increase/(decrease) in accounts payable		(16,502,667)	24,499,935	12,178	883,048
Increase/(decrease) in provision for employee entitlements		(164,454)	(6,131)	(159,458)	(33,561)
Increase/(decrease) in outstanding claims	2(t)	8,450,622	63,133,300	-	-
Increase/(decrease) in premiums in advance		4,888,503	17,176,552	-	-
Increase/(decrease) in other liabilities		77,460	57,747	77,460	57,747
NET CASH (USED IN)/PROVIDED BY OPERATING ACTIVITIES		(9,806,937)	63,579,205	(1,894,670)	(753,860)

10. RECEIVABLES

Future reinsurance and other recoveries receivable	2(u)	118,082,626	114,608,348	-	-
Discount to present value		(3,871,398)	(8,870,325)	-	-
		114,211,228	105,738,023	-	-
Premiums receivable	2(s)	34,845,797	37,632,208	-	-
Other receivables		5,623,743	8,007,792	9,404,416	8,064,938
TOTAL RECEIVABLES		154,680,769	151,378,023	9,404,416	8,064,938
Represented By:					
Current		69,243,176	67,137,069	9,404,416	8,064,938
Non-current		85,437,592	84,240,954	-	-
TOTAL		154,680,768	151,378,023	9,404,416	8,064,938

The ageing analysis of trade receivables excluding future reinsurance and other recoveries receivable are as follows:

	Total	<30 days	31-60 days	61-90 days	>90 days
2019					
Combined	40,469,540	40,073,505	23,580	49,002	323,453
MAV General Fund	9,404,416	9,093,927	23,580	49,002	237,907
2018					
Combined	45,640,000	43,076,701	266,320	854,487	1,442,493
MAV General Fund	8,064,938	5,945,630	266,319	473,129	1,379,861

	NOTE	COMBINED		MAV - GENERAL FUND	
		2019	2018	2019	2018
		\$	\$	\$	\$
11. PREMIUMS IN ADVANCE					
Contributions billed in advance		26,580,386	38,418,103	-	-

Notes to and forming part of the financial statements (continued)

for the year ended 30 June 2019

	NOTE	COMBINED		MAV - GENERAL FUND	
		2019 \$	2018 \$	2019 \$	2018 \$
12. PROPERTY AND EQUIPMENT					
Leasehold Improvements - at cost		717,275	896,716	717,275	717,275
Less accumulated depreciation		(717,250)	(896,327)	(717,250)	(716,886)
		25	389	25	389
Furniture and Equipment - at cost		1,164,824	973,879	887,364	875,860
Less accumulated depreciation		(1,126,914)	(912,818)	(849,454)	(814,799)
		37,910	61,061	37,910	61,061
Motor vehicles - at cost		381,091	407,732	344,323	370,964
Less accumulated depreciation		(145,360)	(167,235)	(134,942)	(164,784)
		235,731	240,497	209,381	206,180
Information technology equipment- at cost		1,002,570	947,537	999,835	945,783
Less accumulated depreciation		(894,096)	(808,173)	(892,941)	(807,932)
		108,474	139,364	106,894	137,851
TOTAL PROPERTY AND EQUIPMENT		382,140	441,311	354,210	405,481
Reconciliations of the carrying amounts of property and equipment at the beginning and end of the financial year.					
LEASEHOLD IMPROVEMENTS					
Movements during the year					
Beginning of year		389	22,264	389	2,539
Additions		-	-	-	-
Disposals		-	-	-	-
Depreciation		(364)	(21,875)	(364)	(2,150)
End of year		25	389	25	389
FURNITURE AND EQUIPMENT					
Movements during the year					
Beginning of year		61,061	53,140	61,061	41,292
Additions		11,505	50,091	11,505	50,091
Disposals		-	-	-	-
Depreciation		(34,656)	(42,170)	(34,656)	(30,322)
End of year		37,910	61,061	37,910	61,061
MOTOR VEHICLES					
Movements during the year					
Beginning of year		240,497	235,118	206,180	235,118
Additions		91,859	138,857	91,859	102,089
Disposals		(21,671)	(50,380)	(21,671)	(50,380)
Depreciation		(74,953)	(83,097)	(66,988)	(80,646)
End of year		235,732	240,497	209,381	206,180
INFORMATION TECHNOLOGY EQUIPMENT					
Movements during the year					
Beginning of year		139,364	144,330	137,851	144,330
Additions		54,358	84,633	53,377	82,879
Disposals		-	-	-	-
Depreciation		(85,248)	(89,599)	(84,334)	(89,358)
End of year		108,474	139,364	106,894	137,851
13. INTANGIBLE ASSETS					
Website, Licences and Educational Programs		1,058,096	1,013,169	920,645	875,718
Less accumulated amortisation		(917,829)	(878,400)	(780,378)	(740,949)
		140,267	134,769	140,267	134,769
Reconciliation of the carrying amounts of intangible assets at the beginning and end of the financial year					
INTANGIBLE ASSETS					
Movement during the year					
Beginning of year		134,769	17,970	134,769	17,970
Additions		44,927	133,485	44,927	133,485
Disposals		-	-	-	-
Amortisation		(39,429)	(16,686)	(39,429)	(16,686)
End of year		140,267	134,769	140,267	134,769

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2019

COMBINED - MAV INSURANCE AND MAV WORKCARE

	NOTE	2019 \$	2018 \$
14 (a). OUTSTANDING CLAIMS			
Central Estimate		184,033,049	184,943,205
Discount to present value		(11,193,320)	(21,533,643)
Excesses and recoveries - discounted to present value		363,549	(111,512)
		173,203,278	163,298,050
Claims handling costs		4,609,496	6,064,101
Risk margin	14(b)	-	-
TOTAL OUTSTANDING CLAIMS		177,812,774	169,362,151
Comprising:			
Current		36,982,665	30,284,377
Non-current		140,830,109	139,077,774
TOTAL CLAIMS PROVISION	2(t)& (u)	177,812,774	169,362,151

14 (b). RISK MARGIN - PROCESS FOR DETERMINING RISK MARGIN

As at 30 June 2019, both the MAV Insurance Board and the MAV WorkCare Board determined that the outstanding claims liability is to be held at the 50% probability of sufficiency on the basis of the non-discretionary mutual structure of LMI and the captive, non-discretionary mutual structure of MAV WorkCare. As a result, a 0% risk margin was applied to the central estimate (2018 0%) to achieve the desired level of sufficiency. Please see Note 28.

14 (c). Reconciliation of movement in discounted outstanding claims liability

	2019			2018		
	Gross \$	Reinsurance \$	Net \$	Gross \$	Reinsurance \$	Net \$
Outstanding claims brought forward	169,362,151	101,693,508	67,668,643	106,228,855	83,382,509	22,846,346
Outstanding claims transferred from WorkSafe	-	-	-	67,143,225	-	67,143,225
Changes in assumptions	15,031,109	14,585,611	445,498	22,166,293	16,111,951	6,054,342
Increase in claims incurred/recoveries anticipated	22,999,290	8,044,517	14,954,773	3,300,386	22,052,686	(18,752,300)
Incurred claims recognised in Statement of Comprehensive Income	38,030,399	22,630,128	15,400,271	25,466,679	38,164,637	(12,697,958)
Claim payments/recoveries during the year	(29,579,775)	(10,112,409)	(19,467,366)	(29,476,608)	(15,954,941)	(13,521,657)
Outstanding claims carried forward	177,812,775	114,211,227	63,601,548	169,362,151	105,592,204	63,769,947
Debtor Excesses and Reinsurance Recoveries on Paid Claims	-	3,514,475	(3,514,475)	-	3,898,696	(3,898,696)
TOTAL NET OUTSTANDING CLAIMS	177,812,775	110,696,752	67,116,023	169,362,151	101,693,508	67,668,643

	2019			2018		
	Current Year \$	Prior Year \$	Total \$	Current Year \$	Prior Year \$	Total \$
15. NET CLAIMS INCURRED						
Gross Claims and related Expenses - undiscounted	40,232,824	(12,722,882)	27,509,942	33,142,504	(8,490,071)	24,652,433
Discount	(2,266,827)	12,787,284	10,520,457	(3,323,495)	4,137,741	814,246
Gross Claims and related expenses – discounted	37,965,998	64,403	38,030,399	29,819,009	(4,352,330)	25,466,679
Reinsurance and other recoveries - undiscounted	(20,682,464)	3,474,167	(17,208,297)	(20,709,468)	(18,326,329)	(39,035,797)
Discount	(1,443,793)	(3,978,038)	(5,421,831)	199,467	671,692	871,159
Reinsurance and other recoveries – discounted	(22,126,257)	(503,871)	(22,630,128)	(20,510,001)	(17,654,637)	(38,164,638)
NET CLAIMS INCURRED	15,839,740	(439,469)	15,400,271	9,309,009	(22,006,968)	(12,697,959)

Notes to and forming part of the financial statements (continued)

for the year ended 30 June 2019

16. CLAIMS DEVELOPMENT TABLE

ACCIDENT YEAR	2015	2016	2017	2018	2019	Total
		\$	\$	\$	\$	\$
GROSS ESTIMATE OF ULTIMATE CLAIMS COST - MAV WORKCARE AND MAV INSURANCE COMBINED						
At end year of accident	22,465,862	22,303,614	20,097,434	37,835,001	37,811,359	
One year later	21,693,885	20,487,169	36,613,268	36,892,630	-	
Two years later	21,462,820	33,114,951	34,637,741	-	-	
Three years later	34,331,619	31,830,100	-	-	-	
Four years later	34,262,988	-	-	-	-	
Current estimate of cumulative claims cost	34,262,988	31,830,100	34,637,741	36,892,630	37,811,359	175,434,817
Cumulative payments	(19,110,568)	(10,588,834)	(7,134,278)	(5,729,591)	(1,968,473)	(44,531,744)
Outstanding claims – undiscounted	15,152,420	21,241,265	27,503,463	31,163,039	35,842,886	130,903,073
Discount						(7,397,823)
Claims handling expense						3,055,132
2014 and prior						51,252,393
COMBINED GROSS OUTSTANDING CLAIMS	14 (c)					177,812,775
ACCIDENT YEAR	2015	2016	2017	2018	2019	Total
	\$	\$	\$	\$	\$	\$
GROSS ESTIMATE OF ULTIMATE CLAIMS COST - MAV WORKCARE AND MAV INSURANCE COMBINED						
At end year of accident	12,238,620	3,710,694	3,367,525	14,316,484	14,383,034.1	
One year later	11,932,830	3,740,554	15,386,774	14,328,012	-	
Two years later	11,973,116	14,648,934	14,633,082	-	-	
Three years later	16,537,393	14,433,607	-	-	-	
Four years later	16,686,121	-	-	-	-	
Current estimate of cumulative claims cost	16,686,121	14,433,607	14,633,082	14,328,012	14,383,034	74,463,857
Cumulative payments	(12,009,472)	(7,472,287)	(5,879,729)	(5,262,011)	(1,930,336)	(32,553,835)
Outstanding claims - undiscounted	4,676,649	6,961,320	8,753,353	9,066,001	12,452,698	41,910,022
Discount						(3,770,274)
Claims handling expense						3,055,132
2014 and prior						22,406,668
NET OUTSTANDING CLAIMS	14(c)					63,601,548
Debtor Excesses and Reinsurance Recoveries on Paid Claims						3,514,475
TOTAL NET OUTSTANDING CLAIMS	14(c)					67,116,023

These tables show the trend in the balance of outstanding claims.

MAV INSURANCE

	NOTE	2019 \$	2018 \$
17 (a). OUTSTANDING CLAIMS			
Central Estimate		113,347,242	109,673,543
Discount to present value		(4,676,653)	(9,549,766)
Excesses and recoveries		363,549	679,448
		109,034,138	100,803,225
Claims handling costs		53,488	1,001,231
Risk margin	20(b)	-	-
TOTAL OUTSTANDING CLAIMS		109,087,626	101,804,456
Comprising:			
Current		25,208,001	18,423,348
Non-current		83,879,625	83,381,108
TOTAL CLAIMS PROVISION	2(t)	109,087,626	101,804,456

17 (b). RISK MARGIN - PROCESS FOR DETERMINING RISK MARGIN

As at 30 June 2019, the MAV Insurance Board determined that the outstanding claims liability is to be held at the 50% probability of sufficiency on the basis of the non-discretionary mutual structure of LMI. As a result, a 0% risk margin was applied to the central estimate (2018 0%) to achieve the desired level of sufficiency. Please see Note 28.

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2019

17 (c). Reconciliation of movement in discounted outstanding claims liability

	2019			2018		
	Gross \$	Reinsurance \$	Net \$	Gross \$	Reinsurance \$	Net \$
Outstanding claims brought forward	101,804,456	104,701,920	(2,897,464)	106,228,851	83,382,505	22,846,346
Changes in assumptions	16,387,032	15,195,360	1,191,672	22,166,293	16,111,951	6,054,342
Increase in claims incurred/recoveries anticipated	7,283,170	6,205,259	1,077,911	(4,424,396)	21,162,403	(25,586,799)
Included claims recognised in Statement of Comprehensive Income	23,670,202	21,400,619	2,269,583	17,741,897	37,274,354	(19,532,457)
Claim payments/recoveries during the year	(16,387,032)	14,781,175	(1,605,857)	(22,166,292)	(15,954,943)	(6,211,349)
Outstanding claims carried forward	109,087,626	111,321,357	(2,233,731)	101,804,456	104,701,916	(2,897,460)
Debtor Excesses and Reinsurance Recoveries on Paid Claims	-	(3,514,475)	3,514,475	-	3,898,691	(3,898,691)
Total net outstanding claims	109,087,626	107,806,882	1,280,744	101,804,456	100,803,224	1,001,232

	2019			2018		
	Current Year \$	Prior Year \$	Total \$	Current Year \$	Prior Year \$	Total \$
18. NET CLAIMS INCURRED						
MAV INSURANCE						
Gross Claims and related Expenses - undiscounted	23,445,320	(4,332,338)	19,112,982	22,362,754	(5,064,199)	17,298,555
Discount	(1,108,451)	5,665,672	4,557,221	(2,088,268)	2,531,610	443,342
Gross Claims and related expenses – discounted	22,336,868	1,333,335	23,670,203	20,274,486	(2,532,589)	17,741,897
Reinsurance and other recoveries - undiscounted	(18,769,120)	2,795,477	(15,973,643)	(19,498,136)	(18,326,326)	(37,824,462)
Discount	(1,684,567)	(3,742,409)	(5,426,976)	(121,584)	671,692	550,108
Reinsurance and other recoveries – discounted	(20,453,687)	(946,932)	(21,400,619)	(19,619,720)	(17,654,634)	(37,274,354)
NET CLAIMS INCURRED	1,883,182	386,402	2,269,584	654,766	(20,187,223)	(19,532,457)

19. CLAIMS DEVELOPMENT TABLE

ACCIDENT YEAR	2015	2016	2017	2018	2019	Total
		\$	\$	\$	\$	\$
GROSS ESTIMATE OF ULTIMATE CLAIMS COST -						
At end year of accident	22,465,862	22,303,614	20,097,434	21,743,945	22,793,891	
One year later	21,693,885	20,487,169	21,295,287	21,194,033		
Two years later	21,462,820	18,332,131	20,143,548			
Three years later	21,059,584	17,579,579				
Four years later	20,988,591					
Current estimate of cumulative claims cost	20,988,591	17,579,579	20,143,548	21,194,033	22,793,891	102,699,641
Cumulative payments	(11,469,363)	(4,063,168)	(2,002,717)	(774,101)	(75,594)	(18,384,942)
Outstanding claims – undiscounted	9,519,228	13,516,411	18,140,831	20,419,932	22,718,297	84,314,699
Discount						(3,280,158)
Claims handling expense						39,712
2013 and prior						28,013,374
COMBINED GROSS OUTSTANDING CLAIMS	17a) & 17(c)					109,087,627
NET ESTIMATE OF ULTIMATE CLAIMS COST -						
At end year of accident	12,238,620	3,710,694	3,367,525	35,959	1,278,911	
One year later	11,932,830	3,740,554	68,793	47,759		
Two years later	11,973,116	90,797	174,862			
Three years later	3,598,339	335,276				
Four years later	3,693,245					
Current estimate of cumulative claims cost	3,693,245	335,276	174,862	47,759	1,278,910.61	5,530,052
Cumulative payments	(4,649,787)	(1,098,810)	(784,141)	(336,963)	(54,285)	(6,923,986)
Outstanding claims - undiscounted	(956,543)	(763,534)	(609,279)	(289,204)	1,224,626	(1,393,934)
Discount						(47,158)
Claims handling Expense						39,712
2014 and prior						(832,351)
TOTAL NET OUTSTANDING CLAIMS	17(c)					(2,233,731)
Debtor Excesses and Reinsurance Recoveries on Paid Claims						3,514,475
TOTAL NET OUTSTANDING CLAIMS	17(c)					1,280,744

These tables show the trend in the balance of outstanding claims.

Notes to and forming part of the financial statements (continued)

for the year ended 30 June 2019

MAV WORKCARE

	NOTE	2019 \$	2018 \$
20 (a). OUTSTANDING CLAIMS			
Central Estimate		70,685,807	74,478,709
Discount to present value		(6,516,667)	(11,983,877)
		64,169,140	62,494,832
Claims handling costs		4,556,008	5,062,863
Risk margin	20(b)	-	-
TOTAL OUTSTANDING CLAIMS		68,725,148	67,557,695
Comprising:			
Current		11,774,664	11,861,029
Non-current		56,950,484	55,696,666
TOTAL CLAIMS PROVISION	2(u)	68,725,148	67,557,695

20 (b). RISK MARGIN - PROCESS FOR DETERMINING RISK MARGIN

As at 30 June 2019, the MAV WorkCare Board determined that the outstanding claims liability is to be held at the 50% probability of sufficiency on the basis of the captive, non-discretionary mutual structure of MAV WorkCare. As a result, a 0% risk margin was applied to the central estimate to achieve the desired level of sufficiency. Please see Note 28.

20 (c). Reconciliation of movement in discounted outstanding claims liability

	2019			2018		
	Gross \$	Reinsurance \$	Net \$	Gross \$	Reinsurance \$	Net \$
Outstanding claims brought forward	67,557,695	890,281	66,667,414	67,143,225	-	67,143,225
Changes in assumptions	(1,355,924)	609,749	(746,175)	-	-	-
Increase in claims incurred/recoveries anticipated	15,716,120	(1,839,258)	13,876,862	7,724,781	-	-
Incurred claims recognised in Statement of Comprehensive Income	14,360,196	(1,229,509)	13,130,687	7,724,781	890,281	6,834,499
Claim payments/recoveries during the year	(13,192,742)	(770,080)	(13,962,822)	(7,310,311)	-	(7,310,311)
Outstanding claims carried forward	68,725,148	(1,109,307)	65,835,279	67,557,695	890,281	66,667,414

	2019			2018		
	Current Year \$	Prior Year \$	Total \$	Current Year \$	Prior Year \$	Total \$
21. NET CLAIMS INCURRED						
MAV WorkCare						
Gross Claims and related Expenses - undiscounted	16,787,504	(8,390,544)	8,396,960	10,779,750	(3,425,872)	7,353,877
Discount	(1,158,376)	7,121,612	5,963,236	(1,235,220)	1,606,124	370,904
Gross Claims and related expenses – discounted	15,629,128	(1,268,932)	14,360,196	9,544,529	(1,819,749)	7,724,781
Reinsurance and other recoveries - undiscounted	(1,913,344)	678,690	(1,234,654)	(1,211,332)	-	(1,211,332)
Discount	240,774	(235,629)	5,145	321,051	-	321,051
Reinsurance and other recoveries – discounted	(1,672,570)	443,061	(1,229,509)	(890,281)	-	(890,281)
NET CLAIMS INCURRED	13,956,558	(825,871)	13,130,687	8,654,248	(1,819,749)	6,834,499

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2019

22. CLAIMS DEVELOPMENT TABLE

ACCIDENT YEAR	2015	2016	2017	2018	2019	Total
		\$	\$	\$	\$	\$
GROSS ESTIMATE OF ULTIMATE CLAIMS COST						
At end year of accident	-	-	-	16,091,056	15,017,468	
One year later	-	-	15,317,981	15,698,598		
Two years later	-	14,782,820	14,494,192			
Three years later	13,272,035	14,250,521				
Four years later	13,274,397					
Current estimate of cumulative claims cost	13,274,397	14,250,521	14,494,192	15,698,598	15,017,468	72,735,176
Cumulative payments	(7,641,205)	(6,525,667)	(5,131,560)	(4,955,490)	(1,892,879)	(26,146,802)
Outstanding claims – undiscounted	5,633,192	7,724,854	9,362,632	10,743,107	13,124,589	46,588,374
Discount						(4,117,665)
Claims handling expense						3,015,420
2014 and prior						23,239,019
MAV WORKCARE GROSS OUTSTANDING CLAIMS 20c						68,725,148
NET ESTIMATE OF ULTIMATE CLAIMS COST						
At end year of accident	-	-	-	14,280,525	13,104,123	
One year later	-	-	15,194,378	14,280,253		
Two years later	-	14,558,137	14,458,220			
Three years later	12,939,053	14,098,331				
Four years later	12,992,877					
Current estimate of cumulative claims cost	12,992,877	14,098,331	14,458,220	14,280,253	13,104,123	68,933,804
Cumulative payments	(7,359,685)	(6,373,477)	(5,095,588)	(4,925,048)	(1,876,051)	(25,629,849)
Outstanding claims - undiscounted	5,633,192	7,724,854	9,362,632	9,355,205	11,228,072	43,303,956
Discount						(3,723,116)
Claims handling Expense						3,015,420
2014 and prior						23,239,019
MAV WORKCARE NET OUTSTANDING CLAIMS 20c						65,835,279

These tables show the trend in the balance of outstanding claims.

	NOTE	COMBINED		MAV - GENERAL FUND	
		2019	2018	2019	2018
		\$	\$	\$	\$
23. PROVISIONS FOR EMPLOYEE ENTITLEMENTS					
The aggregate amount of employee entitlement liability is comprised of:					
Provisions (current)		800,308	955,438	780,068	929,042
Provisions (non-current)		108,906	118,227	106,710	117,194
TOTAL EMPLOYEE ENTITLEMENTS		909,214	1,073,665	886,778	1,046,236

Reconciliation of the carrying amounts of provision for employee entitlements at the beginning and end of the financial year

EMPLOYEE ENTITLEMENTS

Movement during the year					
Balance at beginning of year		1,073,665	1,079,796	1,046,236	1,079,796
Entitlements Paid		(329,220)	(386,796)	(329,220)	(386,796)
Increase in Provision		164,769	353,236	169,762	353,236
BALANCE AT END OF YEAR		909,214	1,073,665	886,778	1,046,236

24. SUPERANNUATION

The MAV makes the majority of its employer superannuation contributions in respect of its employees to the Local Authorities Superannuation Fund (the Fund). This Fund has two categories of membership, accumulation and defined benefit, each of which is funded differently. The defined benefit section provides lump sum benefits based on years of service and final average salary. The defined contribution section receives fixed contributions from the MAV and the MAV's legal or constructive obligation is limited to these contributions. Obligations for contributions to the Fund are recognised as an expense in the Statement of Comprehensive Income when they are made or due. The amount of superannuation contributions paid by the MAV to the accumulation and defined benefit Fund during the reporting period was \$550,261 (2018 \$544,766).

Notes to and forming part of the financial statements (continued)

for the year ended 30 June 2019

24. SUPERANNUATION (continued)

Accumulation

The Fund's accumulation category, Vision MySuper/Vision Super Saver, receives both employer and employee contributions on a progressive basis. Employer contributions are normally based on a fixed percentage of employee earnings (for the year ended 30 June 2019, this was 9.5% required under the Superannuation Guarantee Legislation). Our commitment to defined contribution plans is limited to making contributions in accordance with our minimum statutory requirements. No further liability accrued to the employer as the superannuation benefits accruing to employees are represented by their share of the net assets of the Fund.

While the Superannuation Guarantee contribution rate increased to 9.5% from 1 July 2014, and was to progressively increase to 12% by 2019, based on the 2014 Federal Budget announcement this progressive increase to 12% will be delayed until 2022.

Defined Benefit

As provided under Paragraph 34 of AASB 119, the MAV does not use defined benefit accounting for its defined benefit obligations under the Fund's Defined Benefit category. This is because the Fund's Defined Benefit category is a multi-employer sponsored plan.

As a multi-employer sponsored plan, the Fund was established as a mutual scheme to allow for the mobility of the workforce between the participating employers without attaching a specific liability to particular employees and their current employer. Therefore, there is no proportional split of the defined benefit liabilities, assets or costs between the participating employers as the defined benefit obligation is a floating obligation between the participating employers and the only time that the aggregate obligation is allocated to specific employers is when a call is made. As a result, the level of participation of the MAV in the Fund cannot be measured as a percentage compared with other participating employers. While there is an agreed methodology to allocate any shortfalls identified by the Fund Actuary for funding purposes, there is no agreed methodology to allocate benefit liabilities, assets and costs between the participating employers for accounting purposes. Therefore, the Actuary is unable to allocate benefit liabilities, assets and costs between employers for the purposes of AASB 119.

Funding arrangements

The MAV makes employer contributions to the defined benefit category of the Fund at rates determined by the Trustee on the advice of the Fund's Actuary. The Fund's employer funding arrangements comprise of three components:

1. Regular contributions - which are ongoing contributions needed to fund the balance of benefits for current members and pensioners;
2. Funding calls - which are contributions in respect of each participating employer's share of any funding shortfalls that arise; and
3. Retrenchment increments - which are additional contributions to cover the increase in liability arising from retrenchments.

The MAV is also required to make additional contributions to cover the contribution tax payable on the contributions referred to above. Employees are also required to make member contributions to the Fund. As such, assets accumulate in the Fund to meet member benefits, as defined in the Trust Deed, as they accrue.

Employer contributions

Regular contributions

On the basis of the results of the most recent full actuarial investigation conducted by the Fund's Actuary as at 30 June 2019, the MAV makes employer contributions to the Fund's Defined Benefit category at rates determined by the Fund's Trustee. For the year ended 30 June 2019, this rate was 9.5% of members' salaries. This rate is expected to increase in line with the required Superannuation Guarantee contribution rate.

In addition, the MAV reimburses the Fund to cover the excess of the benefits paid as a consequence of retrenchment above the funded resignation or retirement benefit (the funded resignation or retirement benefit is calculated as the VBI multiplied by the benefit).

Funding calls

The Fund is required to comply with the superannuation prudential standards. Under the superannuation prudential standard SPS 160, the Fund is required to target full funding of its vested benefits.

There may be circumstances where:

- (a) a fund is in an unsatisfactory financial position at an actuarial investigation (i.e. its vested benefit index (VBI) is less than 100% at the date of the actuarial investigation); or
- (b) a fund's VBI is below its shortfall limit at any time other than at the date of the actuarial investigations.

If either of the above occur, the fund has a shortfall for the purposes of SPS 160 and the fund is required to put a plan in place so that the shortfall is fully funded within three years of the shortfall occurring. There may be circumstances where the Australian Prudential Regulation Authority (APRA) may approve a period longer than three years.

The Fund monitors its VBI on a quarterly basis and the Fund has set its shortfall limit at 97% VBI.

The full actuarial investigation of the Fund's liability for accrued benefits was based on the Fund's position as at 30 June 2019.

This actuarial investigation was completed in September 2018 and confirmed that the Fund's Vested Benefits Index (VBI) was greater than 100% and as a consequence no call on member assets was required.

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2019

25. GRANT INCOME

The MAV receives grant monies from various sources including from various Federal and State Government Departments on behalf of Local Government. Grant monies received have been accounted for as income in accordance with Australian Accounting Standard 1004. At the end of the financial year the MAV had commitments to expend grants totalling \$3,812,931 (2018 \$4,818,095) after deducting an estimate of costs of administration.

	COMBINED		MAV - GENERAL FUND	
	2019	2018	2019	2018
	\$	\$	\$	\$
Recognised in the Statement of Comprehensive Income				
Grant Income	4,925,536	4,459,299	4,925,536	4,459,299

The MAV does not receive any other government assistance.

26. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES

The Group's exposure to interest rate risk and the effective average interest rate for the classes of financial assets is set out below:

	COMBINED		MAV - GENERAL FUND	
	Non-Interest Earning	Floating Interest Rate	Non-Interest Earning	Floating Interest Rate
	2019			
	\$	\$	\$	\$
FINANCIAL ASSETS				
Cash and cash equivalents	-	39,359,961	-	5,214,896
Investments	-	45,532,165	-	-
Trade and other receivables	154,680,768	-	9,404,416	-
TOTAL FINANCIAL ASSETS	154,680,768	84,892,126	9,404,416	5,214,896
Weighted Average Interest Rate		0.6%		2.5%
FINANCIAL LIABILITIES				
Outstanding claims	184,033,049	-	-	-
Unearned premiums/subscriptions	26,580,386	-	-	-
Trade and other payables	33,902,065	-	6,859,442	-
TOTAL FINANCIAL LIABILITIES	244,515,500	-	6,859,442	-
Weighted Average Interest Rate		0%		0%

Investments are considered level 2 financial assets in accordance with AASB 7 (Financial Instruments). The carrying amounts of financial assets and financial liabilities represent their approximate fair value. All maturity dates are within twelve months.

	COMBINED		MAV - GENERAL FUND	
	Non-Interest Earning	Floating Interest Rate	Non-Interest Earning	Floating Interest Rate
	2018			
	\$	\$	\$	\$
FINANCIAL ASSETS				
Cash and cash equivalents	-	18,749,371	-	7,250,376
Investments	-	75,817,841	-	-
Trade and other receivables	151,378,023	-	8,064,938	-
TOTAL FINANCIAL ASSETS	151,378,023	94,567,212	8,064,938	7,250,376
Weighted average interest rate		2.8%		1.7%
FINANCIAL LIABILITIES				
Outstanding claims	184,943,205	-	-	-
Unearned premiums/subscriptions	38,418,103	-	-	-
Trade and other payables	32,090,282	-	6,849,797	-
TOTAL FINANCIAL LIABILITIES	255,451,590	-	6,849,797	-
Weighted average interest rate		0%		0%

Investments are considered level 2 financial assets in accordance with AASB 7 (Financial Instruments). The carrying amounts of financial assets and financial liabilities represent their approximate fair value. All maturity dates are within twelve months.

Notes to and forming part of the financial statements (continued)

for the year ended 30 June 2019

26. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (CONTINUED)

The table below reflects all contractually fixed pay-offs and receivables for settlement, repayments and interest resulting from recognised financial assets and liabilities as at 30 June 2019. Cash flows for financial assets and liabilities without fixed amount or timing are based on conditions existing at 30 June 2019.

The remaining contractual maturities of the financial liabilities are:

NOTE	COMBINED		MAV - GENERAL FUND	
	2019 \$	2018 \$	2019 \$	2018 \$
3 months or less	34,786,594	42,096,471	6,859,442	6,849,798
3-12 months	60,368,859	41,580,455	1,545,696	1,616,995
1-5 years	89,952,935	92,579,765	313,761	401,705
Over 5 years	61,913,601	67,879,815	-	-
	247,021,991	244,136,505	8,718,899	8,868,498

LIQUIDITY RISK

Maturity analysis of financial assets and liabilities based on management's expectation.

The risk implied from the values in the table below, reflects a balanced view of cash inflows and outflows. These liabilities originate from insurance contracts and other financial assets used in the ongoing operations of the business. These assets are considered in the MAV's overall liquidity risk. To monitor existing financial assets and liabilities as well as to enable effective controlling of future risks, the MAV has established a comprehensive risk reporting covering its insurance business that reflects the management of expected settlement of financial assets and liabilities.

Year ended 30 June 2019	<3 months \$	3-12 months \$	1-5 years \$	>5years \$	Total \$
COMBINED FINANCIAL ASSETS					
Cash & cash equivalents	51,059,961	-	-	-	51,059,961
Investments	33,832,165	11,700,000	-	-	45,532,165
Trade and other receivables	47,018,868	20,132,296	59,485,880	31,028,141	157,665,185
	131,910,993	31,832,296	59,485,880	31,028,141	254,257,310
COMBINED FINANCIAL LIABILITIES					
Outstanding claims	9,349,789	27,888,905	89,952,935	61,913,601	189,105,231
Unearned premiums/subscriptions	10,826,652	32,479,954	-	-	43,306,606
Trade and other payables	21,160,828	-	-	-	21,160,828
Other liabilities	-	1,545,696	313,761	-	1,859,457
TOTAL FINANCIAL LIABILITIES	41,337,268	61,914,555	90,266,696	61,913,601	255,432,122
NET MATURITY	90,573,725	(30,082,260)	(30,780,816)	(30,885,460)	(1,174,811)
Year ended 30 June 2018					
COMBINED FINANCIAL ASSETS					
Cash & cash equivalents	30,449,371	-	-	-	30,449,371
Investments	64,117,841	11,700,000	-	-	75,817,841
Trade and other receivables	42,425,743	15,817,032	60,962,688	32,172,585	151,378,048
	136,992,955	27,517,032	60,962,688	32,172,585	257,645,260
COMBINED FINANCIAL LIABILITIES					
Outstanding claims	7,661,783	22,985,348	92,579,765	67,879,815	191,106,710
Unearned premiums/subscriptions	9,604,526	28,813,577	-	-	38,418,102
Trade and other payables	31,931,274	2,383	-	-	31,933,657
Other liabilities	-	1,616,995	401,705	-	2,018,700
TOTAL FINANCIAL LIABILITIES	49,197,582	53,418,302	92,981,470	67,879,815	263,477,169
NET MATURITY	87,795,373	(25,901,271)	(32,018,782)	(35,707,230)	(5,831,909)
Year ended 30 June 2019					
MAV GENERAL FUND FINANCIAL ASSETS					
Cash & cash equivalents	5,214,896	-	-	-	5,214,896
Trade and other receivables	9,404,416	-	-	-	9,404,416
	14,619,312				14,619,312
MAV GENERAL FUND FINANCIAL LIABILITIES					
Trade and other payables	6,859,442	-	-	-	6,859,442
Other liabilities	-	1,545,696	313,761	-	1,859,457
Total Financial Liabilities	6,859,442	1,545,696	313,761		8,718,899
NET MATURITY	7,759,870	(1,545,696)	(313,761)		5,900,413

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2019

26. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (CONTINUED)

Year ended 30 June 2018	<3 months	3-12 months	1-5 years	>5years	Total
	\$	\$	\$	\$	\$
MAV GENERAL FUND					
FINANCIAL ASSETS					
Cash & cash equivalents	7,250,376	-	-	-	7,250,376
Trade and other receivables	8,064,938	-	-	-	8,064,938
	15,315,314	-	-	-	15,315,314
MAV GENERAL FUND					
FINANCIAL LIABILITIES					
Trade and other payables	6,849,798	-	-	-	6,849,798
Other liabilities	-	1,616,995	401,705	-	2,018,700
Total Financial Liabilities	6,849,798	1,616,995	401,705	-	8,868,498
NET MATURITY	8,465,516	(1,616,995)	(401,705)	-	6,446,816

INSURANCE RISK - MAV INSURANCE

Risk management objectives and policies for mitigating insurance risk

The MAV's local government mutual liability scheme -trading as Liability Mutual Insurance (LMI) is established by the Municipal Association Act 1907. Membership is available to local government councils and prescribed bodies. LMI operates in Victoria & Tasmania to provide services to members in respect of their potential and actual liabilities. A member may seek indemnity from LMI in respect of a claim.

Actuarial models, using information from LMI's management information systems are used to confirm contributions and monitor claim patterns. Past experience and statistical methods are used as part of the process.

The principal risk is that the frequency and severity of claims is greater than expected. Civil Liability Risk events are, by their nature, random, and the actual number and size of events during any one-year may vary from those estimated using established statistical techniques.

Objectives in managing risk arising from insurance and policies for mitigating those risks

LMI has an objective to control insurance risk thereby reducing the volatility of its operating surplus. In addition to the inherent uncertainty of civil liability risks, which can lead to variability in the loss experience, operating surpluses can also be affected by external factors, such as competition and movements in asset values.

LMI relies on a strong relationship with its members and actively encourages them to adopt practices of risk management that reduce the incidence of claims to LMI.

Reinsurance strategy

LMI adopts a conservative approach towards management of risk and does this by utilising various risk transfer options. The MAV Insurance Board determines the level of risk, which is appropriate for LMI having regard to ordinary concepts of prudence and regulatory constraints. The risk transfer arrangements adopted by LMI include the utilisation of commercial reinsurance / excess arrangements. These arrangements include constant review of both reinsurers' financial strength, and ensuring spread of risk among reinsurers who meet the requirements of the MAV insurance policies. These risk transfer arrangements assist LMI to limit exposures to large single claims and catastrophic events. These programs are reviewed each year to ensure that they continue to meet the risk needs of LMI. In 2018 the Scheme purchased retrospective reinsurance that fully reinsures all claims made against the Scheme up to 30 June 2018. See note 35.

Terms and conditions of membership

Membership of LMI is offered to eligible bodies and renewed annually on 30th June. Payment of the annual contribution confirms continuation of membership. Termination of membership is subject to at least 14 days written notice of intention as laid out by the Rules.

Product features

LMI operates in Victoria & Tasmania. Should a claim be accepted LMI provides indemnity to the member for \$600 million Public / Products Liability and \$600 million for Professional Indemnity insurance, in excess of any self-insured amount, for any claim incurred anywhere throughout the world.

Operating surpluses arise from the total contributions charged to members less the amounts paid to cover claims and the expenses incurred by LMI.

Management of risks

The key insurance risks that affect LMI are contribution risk, and claims experience risk.

Contribution risk is the risk that LMI does not charge contributions appropriate for the indemnity cover it provides. LMI partially manages contribution risk through its proactive approach to risk management that addresses all material risks both financial and non-financial. There are no specific terms and conditions that are expected to have a material impact on the financial statements.

Claims experience risk is managed through the non-financial risk assessment and risk management and reinsurance management process. Claims experience is monitored on an ongoing basis to ensure that any adverse trending is addressed. The Scheme is able to reduce the claims experience risk of severe losses through the reinsurance program, and by managing the concentration of insurance risks. LMI is a non-discretionary mutual fund which, under the Constitution has the ability to obtain contributions from members to pay liabilities and expenses.

Notes to and forming part of the financial statements (continued)

for the year ended 30 June 2019

26. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (CONTINUED)

INSURANCE RISK - MAV WORKCARE

Risk management objectives and policies for mitigating insurance risk

The MAV WorkCare Self-Insurance mutual liability scheme - trading as MAV WorkCare (the Scheme) was established in 2017 and commenced operations on 1 November 2017. Membership is available to local government councils and prescribed bodies. The Scheme operates in Victoria to provide services to members in respect of their potential and actual workers' compensation liabilities.

Actuarial models, using information from the Scheme's management information systems are used to confirm contributions and monitor claim patterns. Past experience and statistical methods are used as part of the process.

The principal risk is that the frequency and severity of claims is greater than expected. Risk events are, by their nature, random, and the actual number and size of events during any one-year may vary from those estimated using established statistical techniques.

Objectives in managing risk arising from insurance and policies for mitigating those risks

The Scheme has an objective to control insurance risk thereby reducing the volatility of its operating surplus. In addition to the inherent uncertainty of workers compensation liability risks, which can lead to variability in the loss experience, operating surpluses can also be affected by external factors, such as competition and movements in asset values.

The Scheme relies on a strong relationship with its members and actively encourages them to adopt practices of risk management that reduce the incidence of claims to the Scheme.

Reinsurance strategy

The Scheme adopts a conservative approach towards management of risk and does this by utilising various risk transfer options. The MAV WorkCare Board determines the level of risk, which is appropriate for the Scheme having regards to ordinary concepts of prudence and regulatory constraints. The risk transfer arrangements adopted by the Scheme include the utilisation of commercial reinsurance / excess arrangements. These arrangements include constant review of both reinsurers' financial strength, and ensuring reinsurers meet the requirements of the MAV WorkCare policies. These risk transfer arrangements assist the Scheme to limit exposures to large single claims and catastrophic events. These programs are reviewed each year to ensure that they continue to meet the risk needs of the Scheme.

Terms and conditions of membership

Membership to the Scheme is for the initial three year period of the self-insurance licence ending on 31 October 2020. Current members will be requested to advise MAV of their intention to renew their membership of the Scheme for the second licence period of either four year or six years by 28 February 2020. Other eligible local government bodies will also be invited to join the Scheme at that time. Termination of membership will be determined if the member does not renew for the second licence period.

Product features

The Scheme operates in Victoria. Should a claim be accepted the Scheme provides an unlimited indemnity to the member. The Scheme purchases excess insurance cover over \$500,000 per claim from a qualified insurer company that meets the financial criteria set down in the operational policies of MAV WorkCare. The financial strength of the insurer is continually assessed to ensure it meets policy guidelines of an S&P rating of A as well as US\$25 million of free cash on its balance sheet.

Operating surpluses arise from the total contributions charged to members less the amounts paid to cover claims and the expenses incurred by the Scheme.

Management of risks

The key insurance risks that affect the Scheme are contribution risk, and claims experience risk.

Contribution risk is the risk that the Scheme does not charge contributions appropriate for the indemnity cover it provides. The Scheme partially manages contribution risk through its proactive approach to risk management that addresses all material risks both financial and non-financial. There are no specific terms and conditions that are expected to have a material impact on the financial statements.

Claims experience risk is managed through the non-financial risk assessment and risk management and reinsurance management process. Claims experience is monitored on an ongoing basis to ensure that any adverse trending is addressed. The Scheme is able to reduce the claims experience risk of severe losses through an active OH&S and risk management program, the reinsurance arrangements, and by managing the concentration of insurance risks. The Scheme is governed by a participation agreement and rules that contain the ability to obtain contributions from members to pay liabilities and expenses and has the power to call on members to cover any future losses that are not recovered by contributions.

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2019

26. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (CONTINUED)

MAV GROUP

Concentration of insurance risks

Insurance risk is managed by taking a long term approach to setting the annual contribution rates that eliminates price fluctuations, through appropriate investment strategy, reinsurance and by maintaining an active state-wide risk management profile. The MAV keeps abreast of changes in the general economic, legal and commercial environment in which it operates. The MAV spreads its risk of reinsurance failure by ensuring reinsurers are of high financial quality and can meet their commitments to the MAV. The MAV maintains policies and strategies and receives advice from an independent actuary on at least an annual basis in order to determine the concentration and amount of risk exposure.

		CREDIT RATING					Not Rated	Total
		AAA	AA	AA-	A	Speculative Grade		
		+/- \$m	+/- \$m	+/- \$m	\$m	\$m		
Reinsurance and other recoveries on outstanding claims	2019	-	-	-	46,024	-	1,021	47,045
	2018	-	-	-	39,221	-	1,175	40,396
Reinsurance and other recoveries on paid claims	2019	-	-	-	1,333	-	-	1,333
	2018	-	-	-	1,289	-	0.04	1,325

PAST DUE BUT NOT IMPAIRED

		Neither past due nor impaired	Less than 3 months	3 to 6 months	6 months to 1 year	Greater than 1 year	Impaired	Total
		\$m	\$m	\$m	\$m	\$m	\$m	\$m
		Reinsurance and other recoveries on paid claims	2019	-	1,333	-	-	-
	2018	-	1,325	-	-	-	-	1,325

CREDIT RISK

The MAV is exposed to credit risk on insurance contracts as a result of exposure to reinsurers. The credit risk of reinsurers is managed through the Reinsurance Management Strategies and policies that includes regularly monitoring both the financial rating of the reinsurers both prior to and during the reinsurance program and the flow of payments coming from the reinsurers. Investments in cash and cash equivalents at balance date as shown in the Statement of Cash Flows are held in S&P rated AA- and A- rated cash deposits.

PRICE RISK

Investments held are not subject to price risk. Investments are cash at bank and fixed interest funds.

INTEREST RATE RISK

MAV Combined is exposed to interest rate risk from its cash and cash equivalents.

Variable	Current Rate	Change variable to +0.5%/-0.5%	Operating surplus (deficit) at 30 June 2019	Total Accumulated Funds after the impact of applying variable
	%	%	\$	\$

IMPACT OF CHANGES IN INTEREST RATE ON FINANCIAL ASSETS

MAV GROUP	Current Rate	Change variable to +0.5%/-0.5%	Operating surplus (deficit) at 30 June 2019	Total Accumulated Funds after the impact of applying variable
	%	%	\$	\$
Base value at 30 June 2019	0.6%		(5,002,249)	1,800,175
Interest Rate p.a.		1.1%	(4,957,384)	1,845,039
		0.1%	(5,047,114)	1,755,310

Notes to and forming part of the financial statements (continued)

for the year ended 30 June 2019

27. ACCOUNTING ESTIMATES AND JUDGEMENTS

The MAV makes estimates and judgements in respect of certain key assets and liabilities. Estimates and judgements are continually reviewed and are based on past experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key areas in which critical estimates and judgements are applied are described below.

a) Estimation of outstanding claims liability

Provision is made at the year-end for the estimated cost of claims incurred but not settled at the Statement of Financial Position date, including the cost of claims incurred but not yet reported ("IBNR"). The MAV take all reasonable steps to ensure that it has appropriate information regarding its claims exposure. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome may be different from the original liability established.

Provisions are calculated gross of all recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers and any third party.

The determination of an appropriate outstanding claims provision for MAV Insurance involves:

- (i) Establishing a case estimate for each reported claim at year-end taking into account legal advice where appropriate on larger claims;
- (ii) Allowance for incurred but not reported claims as confirmed by the actuarial review on 30 June 2019;
- (iii) An allowance of 0% for claim settlement expenses, as assumed by the Actuary;
- (iv) Allowances for wage inflation of 2.64%, as assumed by the Actuary;
- (v) Allowances for discount at 1.17%, as assumed by the Actuary;
- (vi) A risk margin of 0% of net outstanding claims after the effect of reinsurance has been applied, as assumed by the actuary.

Refer to Note 28 b) for details

The determination of an appropriate outstanding claims provision for MAV WorkCare involves:

- (i) Establishing a case estimate for each reported claim at year-end taking into account legal advice where appropriate.
- (ii) Allowance for incurred but not reported claims as confirmed by the actuarial review on 30 June 2019;
- (iii) An allowance for 8% for claim settlement expenses, as assumed by the Actuary;
- (iv) Allowances for wage inflation of 2.5%, as assumed by the Actuary;
- (v) Allowances for discount at 1.5%, as assumed by the Actuary;
- (vi) A risk margin of 0% of net outstanding claims after the effect of reinsurance has been applied, as assumed by the actuary.

Refer to Note 28 b) for details

Details of specific actuarial assumptions used in deriving the outstanding claims liability at year-end are detailed in note 28.

b) Assets arising from reinsurance contracts

Assets arising from reinsurance contracts were estimated for each fund year, from the payments to date and estimated outstanding claims history at 30 June 2019, taking into account the reinsurance terms applying to that fund year.

28. ACTUARIAL ASSUMPTIONS AND METHODS

Actuarial Assumptions

MAV INSURANCE

The following assumptions have been made in determining the outstanding claims liabilities:

	2019	2018
Key Actuarial Assumptions		
Wage inflation	2.64%	2.70%
MAV Claim administration expense	0.00%	1.00%
Discount rate	1.17%	2.40%
Risk margin	0.00%	0.00%
Superimposed inflation	1.50%	2.50%

Process used to determine actuarial assumptions

A description of the processes used to determine the above key actuarial assumptions is provided below:

LMI has provided public and professional indemnity insurance to local government bodies in Victoria and Tasmania and other bodies constituted under any Act for any public or local governing purpose since 30/9/1993. The Actuary was supplied with details of all transactions (payments, recoveries, changes of estimates) from 30 September 1993 to 30 June 2018. The individual claim payments and case estimates reconciled closely with totals in LMI's financial statements for each year of cover. The actuary subdivided the claims data into three claim types (Public Liability, Professional Indemnity and the 2009 Bushfire claims) and made separate estimates of the gross outstanding claims liabilities for each of these claim types. The actuary estimated the gross outstanding claims liabilities for each claim type using 5 different actuarial methods. Large claims (claims above \$250,000) were estimated based on a numbers times average size method and non-large claims were estimated using 4 different actuarial methods- payments per claim incurred, payments per claim finalised, incurred cost development and projection of case estimates. The actuary selected a combination of these methods for estimating the outstanding claims. Payments were projected with a payment pattern, based on past experience. Estimates of outstanding excesses were based on a numbers times average size method and estimates of non reinsurance recoveries were made by a recoveries per claim method.

Estimates of reinsurance recoveries were made from projected gross payments, excesses and non reinsurance recoveries, allowing for the different insurance treaties applying to each year. Based on Access Economics June 2019 forecasts for Victorian average weekly claims inflation was assumed to be 2.7%. The discount rate was assumed to be 2.4% pa, derived from the yields on Commonwealth government bonds.

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2019

28. ACTUARIAL ASSUMPTIONS AND METHODS (CONTINUED)

MAV WORKCARE

The following assumptions have been made in determining the outstanding claims liabilities:

	2019	2018
Key Actuarial Assumptions		
Wage inflation	2.50%	3.25%
Claim administration expense	7.40%	8.00%
Discount rate	1.50%	2.70%
Risk margin	0.00%	0.00%
Superimposed inflation	1.78%	1.78%

Process used to determine actuarial assumptions

A description of the processes used to determine the above key actuarial assumptions is provided below:

MAV WorkCare commenced business operations on 1 November 2017. It provides workers compensation insurance for thirty Local Government Authorities and the Municipal Association of Victoria. The Actuary was supplied with details of all transactions (payments, recoveries, estimates) to 30 June 2019. The individual claim payments and case estimates reconciled closely with totals in MAV WorkCare's financial statements for the year of cover. The actuary subdivided the claims data into 2 groups (Above Excess and Below Excess) and made separate estimates of the gross outstanding claims liabilities for each claim type. The actuary estimated the gross outstanding claims liabilities for Above Excess (Standard) claims by splitting the payments on Above Excess claims into 5 different sub-groups and modelling each sub-group separately. Above Excess claims were predominantly estimated using a numbers times average size method (PPCI). Below Excess (Minor) claims were modelled separately and utilised a numbers times average size method. Payments were projected with a payment pattern, based on past experience. Estimates of non reinsurance recoveries were made by a recoveries per claim method. Outstanding non reinsurance recoveries for accident periods up to and including 2016/17 were reduced to 0% to allow for the inability of MAV WorkCare to claim recoveries for these accident periods. Reinsurance recoveries for periods post 1 November 2017 were estimated by considering a total payment model and a total payment model where payments are capped at the expected excess of loss limit. The difference between these two models is the implied reinsurance recovery that would have been received if a similar reinsurance contract had been in place for historical periods. There has been no allowance for reinsurance recoveries for periods prior to 1 November 2017.

Based on economic forecasts, market based expectations for longer term CPI expectations and a long term CPI-wage gap, wage inflation was assumed to be 2.50%. The discount rate was assumed to be 1.5% pa., derived from the yields on Commonwealth government bonds.

The Actuary has assumed a risk margin of 0% of the net liabilities to give a probability of 50% that the provisions will prove adequate to meet the relevant liabilities.

MAV GROUP - Interest rate risk

VARIABLE	IMPACT OF MOVEMENT IN VARIABLE
Wage inflation	Expected future payments are inflated to take account of inflationary increases. An increase or decrease in the assumed levels of economic inflation would have a corresponding impact on claims expense, with particular reference to longer tail claims.
Discount Rate	The outstanding claims liability is calculated by reference to expected future payments. These payments are discounted to adjust for the time value of money. An increase or decrease in the assumed discount rate will have an opposing impact on total claims expense.
Case Estimate Development	Case estimates are initially established in accordance with established guidelines and by reference to the known facts. Where new information becomes available the initial case estimate will change. This development movement is applied to open claims and will have a corresponding impact on claims expense.

Wage inflation rate sensitivity

Expected future payments are inflated to take account of inflationary increases. An increase or decrease in the assumed levels of economic inflation would have a corresponding impact on claims expense, with particular reference to longer tail claims.

Variable	Current Rate	Change variable to +0.5%/-0.5%	Operating surplus (deficit) at 30 June 2019	Total Accumulated Funds after the impact of applying variable
	%	%	\$	\$
IMPACT OF CHANGES IN KEY VARIABLES				
MAV GROUP				
Base value at 30 June 2019	2.50%		(5,002,249)	1,800,175
Wage inflation rate p.a.		3.00%	(7,123,249)	(320,825)
		2.00%	(2,981,249)	3,821,175

Notes to and forming part of the financial statements (continued)

for the year ended 30 June 2019

28. ACTUARIAL ASSUMPTIONS AND METHODS (CONTINUED)

MAV GROUP

Interest rate sensitivity

The reinsurance indemnity contracts contain no clauses that expose the Scheme, directly to interest rate risk. The reinsurance contracts are long term arrangements, reviewed and payable annually.

Variable	Current Rate	Change variable to +0.5%/-0.5%	Operating surplus (deficit) at 30 June 2019	Total Accumulated Funds after the impact of applying variable
	%	%	\$	\$

IMPACT OF CHANGES IN DISCOUNT RATES

MAV GROUP

Base value at 30 June 2019	1.50%		(5,002,249)	1,800,175
Discount rate p.a.		2.00%	(2,962,249)	3,840,175
		1.00%	(6,842,249)	(39,825)

Claims handling sensitivity

Future claims handling expenses represent administrative costs relating to the payment of claims incurred to date.

Variable	Current Rate	Change to the Current Rate +2%/-2%	Operating surplus (deficit) at 30 June 2019	Total Accumulated Funds after the impact of applying variable
	%	%	\$	\$

IMPACT OF CHANGES IN CLAIMS ADMINISTRATION EXPENSE

MAV GROUP

Base value at 30 June 2019	1.0%		(5,002,249)	1,800,175
Claim administration expense		3.0%	(7,175,249)	(372,825)
		-1.0%	(2,829,249)	3,973,175

29 CAPITAL MANAGEMENT OBJECTIVES AND ECONOMIC DEPENDENCY

The MAV is specifically excluded from the provisions of the Insurance Act and from APRA regulation. There is no externally imposed capital requirement on MAV Insurance. The MAV has committed to WorkSafe Victoria that MAV WorkCare will maintain a capital position in excess of 85% of its total liabilities. If the capital position of MAV WorkCare should fall below 100% of total liabilities the MAV is to introduce a capital management plan to ensure MAV WorkCare returns to surplus over time. The MAV's capital management philosophy is focused on capital efficiency and effective risk management to support a progressive business model for the benefit of members of both MAV Insurance and MAV WorkCare. The Board of directors and management have in place a strategic plan that is aligned to achieving the MAV's capital management philosophy with an objective of achieving and maintaining a net surplus position within both MAV Insurance and MAV WorkCare businesses. Key elements of this plan include premium setting, risk management, claims management and reinsurance management. The capital management plan includes a review of the investment strategy and establishing increased flexibility in the Scheme cost structures.

The MAV operates LMI as a non-discretionary mutual fund, and under Sections 6.4 and 6.5 of the Constitution the MAV has the ability to obtain contributions from members to meet any shortfall in the Provision set aside in respect of that Insurance Year.

Section 6.4 of the Constitution, states that each Participant (member) will remain liable to make further contributions to the scheme in respect of any insurance year in which it was a participant to the extent of its participant's share of any shortfall in the provision set aside in respect of that insurance year, and such liability will continue whether or not the Participant remains a Participant in future Insurance Years. MAV Insurance issued premiums for the 2020 financial year that have been established with the view to achieving a surplus in the 2020 financial year.

The MAV operates MAV WorkCare as a captive, non-discretionary mutual fund, and under Schedule 1, Part B, Clause 3 of the Participation Agreement the MAV has the ability to obtain contributions from members to meet any shortfall in the Provision set aside in respect of that Insurance Year. Schedule 1, Part B, Clause 7 of the Participation Agreement, provides the ability for MAV to make additional calls on each Participant (member) will remain liable to make further contributions to the scheme in respect of any insurance year in which it was a participant to the extent of its participant's share of any shortfall in the provision set aside in respect of that insurance year, and such liability will continue whether or not the Participant remains a Participant in future Insurance Years.

30. PERFORMANCE BONUS

The Liability Mutual Insurance Scheme, in conjunction with similar Local Government Self Insured Mutual Liability Schemes around Australia has entered into a profit sharing arrangement with its primary reinsurers, based on the National Local Government claims experience. The arrangement enables any surplus for each year over the five-year reinsurance period to be shared between the various schemes and the reinsurers on a proportional basis. Receipts coming out of the agreement will reduce in future years.

Performance bonus totalling \$99,845 (2018 \$138,212) was received during the year.

31. CONTINGENT LIABILITIES

MAV INSURANCE

During the normal course of business, MAV Insurance may be exposed to contingent liabilities from litigation arising from its insurance and reinsurance activities, which if they should crystallise may adversely affect the financial position and performance of MAV. Provisions are made for obligations that are probable and able to be quantified.

In June 2014, MAV Insurance committed to purchasing retrospective stop-loss reinsurance for the 2009 and 2011 financial years.

The policies provide coverage for the first \$1 million in claim costs with a cap of \$5 million in the aggregate in each of the years.

LMI benefits from the 2009 policy when aggregate claim costs below \$1 million reach \$22 million and the 2011

policy provides coverage when aggregate claim costs reach \$20 million. The effect of the policies is to provide additional protection from adverse development for claim costs below \$1 million. The reinsurance policies commenced at the close of business on 30 June 2014.

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2019

31. CONTINGENT LIABILITIES (continued)

MAV WORKCARE

During the normal course of business, the Scheme may be exposed to contingent liabilities from litigation arising from its activities, which if they should crystallise may adversely affect the financial position and performance of MAV WorkCare. Provisions are made for obligations that are probable and able to be quantified.

On 1 November 2017 MAV WorkCare commenced business as a licensed self-insurer under the WIRC Act. WorkSafe granted the licence to MAV WorkCare to commence business as a self-insurer subject to meeting performance and financial conditions. MAV met all the conditions required to be met by WorkSafe prior to commencement. One of the conditions related to the provision of a bank guarantee equivalent to one hundred and fifty per cent (150%) of the net liabilities of the Scheme. The National Australia Bank has provided a bank guarantee on behalf of the MAV to WorkSafe in the amount of \$102.206 million.

In order for the National Australia Bank to provide the Bank Guarantee the following securities were provided by the MAV:

- Letter of set off over a bank deposit amounting to \$11.7 million.
- Security Interest and Charge over the cash and investments of the MAV WorkCare Self-Insurance Scheme.

MAV WorkCare is also subject to Covenants and Undertakings it has provided to the Bank:

- that the market value of the cash and investments held by MAV WorkCare is to be maintained at a minimum of 65% of the Bank Guarantee amount at all times. The National Australia Bank is to be immediately notified should the investment funds fall below this level.
- Where WorkSafe make a claim on the Bank Guarantee and the cash reserves are insufficient to clear the liability the MAV will undertake to make a claim on its members within 30 days.

MAV GENERAL FUND

The MAV has arranged for its banker, the National Australia Bank, to provide a Bank Guarantee for the sum of \$396,316 to the MAV's landlord, the Reserve Bank of Australia, as security for its lease rental obligations at Levels 11 & 12, 60 Collins Street Melbourne, 3000. No other material contingent liabilities have arisen in the year ended 30 June, 2019.

32. MAV WORKCARE - SELF-INSURANCE LICENCE

On the third of May, 2017 the MAV was awarded a workers' compensation self-insurance licence under the Accident Compensation Act 1985. The MAV WorkCare Self-Insurance Scheme was established in accordance with the licence and commenced business on 1 November 2017. The cost of acquiring the workers' compensation self-insurance licence of \$1,266,590 has been identified and has been expensed during the year. The self insurance licence is for a three year period and MAV WorkCare requires the self-insurance licence in order to conduct its business and earn both current and future revenue. On commencement of the Scheme WorkSafe paid to MAV WorkCare the sum of \$65,856,545 which was the Statistical Case Estimate (SCE) of claims outstanding for the thirty-one inaugural members of the Scheme. The independent actuary to the Scheme estimated the value of the claims outstanding, including claims handling expenses, for the thirty-one inaugural members of the Scheme that were transferred by WorkSafe to the Scheme, net of recoveries, at \$67,478,639. This resulted in a deficit of \$1,622,094 at commencement.

33. SPECIAL PURPOSE VEHICLE

In October 2014, the MAV established a special purpose vehicle, Local Government Funding Vehicle (LGFV), to facilitate the issuing of debt instruments for and on behalf of its members. The MAV considers itself the sponsor of this SPV as it was involved in establishment of the pooled borrowing vehicle. The LGFV is designed to aggregate a portfolio of non-amortising fixed rate council loans and issue loan backed bonds with matching maturities arranged by financial institutions.

Upon establishment of each Bond Issuance, the MAV incurs costs professional advice in connection with the transaction. These costs are recovered from the SPV so that that MAV bears no net costs. The MAV is also entitled to earn a fixed fee of up to \$24,000 per annum for the management of the SPV.

The MAV has no interest in the SPV at the reporting date, nor has it transferred any assets to the SPV during the reporting period. In the event of a default by participating councils, the MAV is not exposed to any loss.

The Directors have determined that the MAV does not have control over the SPV under IFRS 10 Consolidated Financial Statements, and as such, the assets and liabilities of the SPV are not included in the financial statements of the MAV.

34. GENERAL INSURANCE AGREEMENT

The MAV signed the "General Insurance Agreement" (the Agreement) dated 30 June 2016 with Jardine Lloyd Thompson (JLT). The agreement is a replacement of the agreement dated 17 July 1987 (Existing Agreement). For the 15 year term of the Agreement, the MAV agrees to not directly or indirectly provide insurance broking services to local government bodies in Victoria or to persons who are associated with or employed by local government bodies. The agreement provides that JLT pay an annual licence fee to the MAV consistent with the Existing Agreement. The annual licence fee received by the MAV for the year ended 30 June 2019 was \$1.257 million.

35. PURCHASE OF RETROSPECTIVE INSURANCE COVER - LIABILITY MUTUAL INSURANCE SCHEME

The MAV has purchased retrospective reinsurance cover on the net amount of all MAV Insurance outstanding net claims liabilities from 30 June 2018 for the 2008/2009 to 2017/2018 accident years incurred up to 30 June 2018. The coverage has a retrospective date of 30 June 2018. The MAV authorised management to negotiate the retrospective coverage on 8 June 2018. Subsequent to this, MAV received an offer to purchase retrospective coverage on 30 August 2018. The MAV Board endorsed the purchase of coverage on 14 September 2018 and a contract was signed on 18 September 2018. The discounted net amount of claims reinsured was \$21.7 million. A premium of \$20 million has been agreed with a single reinsurer which has an S&P credit rating of A+. The premium amount is to be paid quarterly on 1 October, 2018, 1 January 2019, 1 April 2019 and 1 July 2019. The agreement to purchase the retrospective reinsurance cover has enabled LMI to realise a surplus of approximately \$1.5 million after costs. This subsequent event been adjusted for in the 2018 financial statements. The arrangement has had the following effect on the financial statements for the year ended 30 June 2018 - an increase in reinsurance recovery assets of \$21.7 million and an increase in trade and other payable liabilities of \$20.2m. The surplus has been brought to account in the 2018 financial year.

Notes to and forming part of the financial statements (continued)

for the year ended 30 June 2019

36. REMUNERATION OF KEY MANAGEMENT PERSONNEL

MAV Board Members receive an annual allowance. There are twelve Board members, including two Deputy Presidents, plus the President. They also receive reimbursement of travel costs and a data allowance. All benefits paid have been included in the tables below. The key management person is the Chief Executive Officer of the MAV.

	Annual Allowance	Data allowance		
	\$	\$		
President	66,888	400		
Deputy Presidents	13,790	400		
Board Members	9,389	400		
			COMBINED	MAV - GENERAL FUND
			2019	2018
			\$	\$
				2019
				2018
			\$	\$
MAV Board Members				
Short term employment benefits	277,558	291,015	277,558	291,015
Post employment benefits	-	-	-	-
MAV WorkCare Board Members				
Short term employment benefits	88,175	19,847	-	-
Post employment benefits	-	-	-	-
MAV Insurance Board Members				
Short term employment benefits	52,738	46,667	-	-
Post employment benefits	-	-	-	-
Key Management Personnel				
Short term employment benefits	621,959	374,296	621,959	374,296
Post employment benefits	29,535	30,005	29,535	30,005
Total				
Short term employment benefits	1,040,430	685,158	899,517	665,311
Post employment benefits	29,535	30,005	29,535	30,005

Details of the total remuneration paid to each Director

Board Member	Annual Allowance	Data Allowance	Expenses	TOTAL
David Clark	9,416.09	273.13	5,861.17	15,550.39
Gary Norton	6,411.43	273.13	7,524.54	14,209.10
Geoff Lake	4,788.62	204.00	1,177.27	6,169.89
Jami Klisaris	14,065.53	408.00	514.25	14,987.78
Josh Gilligan	9,577.25	408.00	1,550.57	11,535.82
Malcolm Hole	9,577.25	408.00	6,611.36	16,596.61
Mary Lalios	45,666.89	273.13	10,549.65	56,489.67
Peter Perkins	9,577.25	408.00	1,758.52	11,743.77
Rod Fyffe	6,411.43	273.13	5,375.24	12,059.80
Rohan Leppert	9,577.25	408.00	1,495.45	11,480.70
Ron Janas	9,577.25	408.00	5,261.96	15,247.21
Ruth Gstrein	11,073.34	408.00	13,845.81	25,327.15
Tom Melican	6,411.43	273.13	2,814.91	9,499.47
Coral Ross	22,741.75	136.00	5,183.17	28,060.92
Michael Symon	3,192.42	136.00	78.60	3,407.02
Murray Emerson	3,192.42	136.00	4,338.58	7,667.00
Sean O'Reilly	5,152.98	219.52	323.09	5,695.59
Nathan Hansford	3,192.42	136.00	4,316.32	7,644.74
Total	\$ 192,795.42	\$ 5,325.17	\$ 79,437.52	\$ 277,558.11

Loans to Directors

The MAV has a strict policy of not providing loans to Directors. No loans were made to or are payable by Directors during the year.

Other Transactions

The motor vehicle that was included in the remuneration package of the former CEO was purchased by the former CEO at an arms length price as part of the departure process. There were no other material transactions with either Key management personnel or Directors.

Insurance

The activities of the MAV board members are covered by the MAV directors' and officers' indemnity insurance policy effected by the MAV

37. SUBSEQUENT EVENTS

Other than the transaction referred to in Note 35 there were no other material events subsequent to the year end that require reporting.

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2019

38. RELATED PARTIES

The MAV is a body corporate established under the Municipal Association Act of 1907 to provide services for and represent Local Government authorities in Victoria. The Board of the MAV is elected from its members. The MAV and its wholly owned and controlled entities trade with each other and with its members in the normal course of business and on an arm's length basis. The Liability Mutual Insurance Scheme was formed by a Deed of Establishment which provides for the MAV to appoint a Committee of Management (MAV Insurance Board) to be responsible for the administration of the Scheme. Total expenses of \$500,000 (2018 \$505,043) were payable to the MAV from the Liability Mutual Insurance Scheme being payment for administrative support, and overseeing the management of the insurance activities, including the conduct of bi-monthly Board meeting. In accordance with the Municipal Association Act 1907 the MAV is required to establish a Fidelity Fund to provide commercial crime insurance for its members. The MAV pays insurance premiums to the Liability Mutual Insurance Scheme \$22,036 (2018 \$17,636) and to the Commercial Crime Fund \$10,764 (2018 \$9,526).

The MAV WorkCare Self-Insurance Scheme was formed by a Deed of Participation which provides for the MAV to appoint the MAV WorkCare Board to be responsible for the administration of the Scheme. Total expenses of \$Nil (2018 \$Nil) were payable to the MAV from MAV WorkCare being payment for administrative support, and overseeing the management of the workcare activities, including the conduct of bi-monthly Board meeting. MAV WorkCare will reimburse the \$1.266 million cost to establish the Workers' compensation self insurance licence over the three year period of the licence. The MAV pays workers compensation premium to MAV WorkCare \$36,096 (2018 \$29,889).

The MAV pays superannuation contributions to Vision Super Pty Ltd as per Note 18. Mr. Geoff Lake, a MAV Board member during the year and Mr. Rob Spence the MAV former CEO of the MAV are both Directors of Vision Super Pty Ltd and received Directors fees. The Directors fees for Mr. Spence were deducted from his salary paid by the MAV.

39. ISSUE OF AUDIT OPINIONS BY THE VICTORIAN AUDITOR GENERAL

Due to changes to the Audit Act the Victorian Auditor General's Office has indicated that they would be issuing an audit opinion on top of our auditor Ernst & Young's opinion on the combined financial statements for the year ended 30 June 2019, of the Municipal Association of Victoria under the *Audit Act of 1994*, which is expected to be similar in form and content to Ernst & Young's opinion.

Statement by directors

As at 30 June 2019

In the opinion of directors of The Municipal Association of Victoria:

- (a) the accompanying Statement of Comprehensive Income drawn up so as to present fairly in all material respects the result of the association for the year ended 30 June 2019;
- (b) the accompanying Statement of Financial Position is drawn up so as to present fairly in all material respects the state of affairs of the association as at that date;
- (c) at the date of this statement there are reasonable grounds to believe that the association will be able to pay its debts as and when they fall due; and
- (d) the accompanying Combined Financial Statements present fairly in all material respects the state of affairs of the association as at that date;
- (e) the financial statements and notes comply with the Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board, as disclosed in note 2(b).

The financial statements and combined financial statements have been made out in accordance with applicable Accounting Standards and other mandatory professional reporting requirements.

Signed in accordance with the resolution of directors.



Cr. Coral Ross
President



Cr. Mike Symon
Director



Kerry Thompson
Chief Executive Officer

Melbourne
16/10/2019

OTHER INFORMATION

Legal form

The MAV is an association incorporated by the Municipal Association Act 1907

Domicile:

Melbourne, Australia

Address of registered office and principal place of business:

Level 12, 60 Collins Street, Melbourne, 3000, Victoria, Australia

Nature of the operation and principal activities:

The MAV represents, promotes and supports the interest of Victorian local governments and their communities.

Number of employees

Average number of equivalent full time employees during the year is 45.66 EFT.

Independent auditor's report to the members of the Municipal Association of Victoria

Opinion

We have audited the financial report of Municipal Association of Victoria and its combined entities (the "Association"), which comprises the statement of financial position as at 30 June 2019, 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 statement by directors.

In our opinion, the Municipal Association of Victoria and its combined entities' financial report presents fairly, in all material respects, the financial position of the Association as at 30 June 2019, and its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards.

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 Association 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.

Emphasis of matter - capital management and economic dependency - MAV WorkCare

We draw attention to note 29 of the financial statements which describes the capital management plan of MAV WorkCare with respect to achieve an operating surplus, which has been impacted by poor investment performance in the current year as well as the loss on transfer of liabilities on the commencement of the Scheme as described in note 18 of the financial statements.

We also draw your attention to note 20(b) of the financial statements which details the valuation of the outstanding claims liability as at 30 June 2019, to which a 0% risk margin has been applied to the central case estimates.

Our opinion is not qualified in respect of the above matters.

Emphasis of matter - capital management and economic dependency - MAV Insurance

We draw attention to note 29 of the financial statements which describes the capital management plan of MAV Insurance with respect to the entity's ability to continue in business for the foreseeable future.

We also draw your attention to note 17(b) of the financial statements which details the valuation of the outstanding claims liability as at 30 June 2019, to which a 0% risk margin has been applied to the central case estimates.

Emphasis of matter - Issue of opinions by the Victorian Auditor General

We also draw attention to note 39 of the financial statements which describes the Victorian Auditor General will be issuing an audit opinion, similar in form and content to our opinion, on the financial report of the Association as at 30 June 2019.

Our opinion is not qualified in respect of the above matters.

Responsibilities of the Directors for the Financial Report

The directors of the Association are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and for such internal control as the directors determine is necessary to enable the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Association'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 Association 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 Association'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 Association'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 Association 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.



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.

A handwritten signature in black ink that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in black ink that reads 'Maree Pallisco'.

Maree Pallisco
Partner
Melbourne

16 October 2019

A member firm of Ernst & Young Global Limited
Liability limited by a scheme approved under Professional Standards Legislation

**MAV
INSURANCE
Financial
Report
2018-19**

Legal form

MAV Insurance is the insurance division of the MAV. The MAV is an association incorporated by the Municipal Association of Victoria Act 1907.

Domicile:

Melbourne, Australia

Address of registered office:

Level 12, 60 Collins Street, Melbourne, 3000, Australia

Principal place of business

Level 11, 60 Collins Street, Melbourne, 3000, Australia

Nature of the operation and principal activities:

The MAV has the power provided to it by the Municipal Association of Victoria Act 1907 to establish Liability Mutual Insurance and the Commercial Crime Fund in order to provide public liability, professional indemnity and fidelity insurance to Local Government and Water Authorities.

Number of employees

Nil

Statement of Comprehensive Income

For the year ended 30 June 2019

	NOTE	COMBINED		LIABILITY MUTUAL INSURANCE		COMMERCIAL CRIME	
		2019	2018	2019	2018	2019	2018
		\$	\$	\$	\$	\$	\$
Premium revenue	3	22,634,305	21,421,070	22,634,305	21,421,070	-	-
Performance bonus	18	99,845	138,212	99,845	138,212	-	-
Re-insurance expense	2(s)	(16,011,380)	(35,169,730)	(16,011,380)	(35,169,730)	-	-
NET PREMIUM INCOME		6,722,770	(13,610,448)	6,722,770	(13,610,448)	-	-
Claims expense	4(a)	(23,670,203)	(17,741,899)	(23,670,203)	(17,741,899)	-	-
Reinsurance and other recoveries	3	21,400,619	37,274,353	21,400,619	37,274,353	-	-
NET CLAIMS EXPENSE	12	(2,269,584)	19,532,454	(2,269,584)	19,532,454	-	-
NET UNDERWRITING RESULT		4,453,186	5,922,006	4,453,186	5,922,006	-	-
Management fees	2(i),3	69,893	89,856	-	-	69,893	89,856
Investment income	3	326,008	671,880	321,289	668,037	4,719	3,843
Administration & general expenses	4(b)	(6,699,598)	(6,877,401)	(6,608,925)	(6,786,140)	(90,673)	(91,261)
OPERATING SURPLUS/(DEFICIT)		(1,850,511)	(193,659)	(1,834,450)	(196,097)	(16,061)	2,438
Other comprehensive income		-	-	-	-	-	-
TOTAL COMPREHENSIVE SURPLUS/(DEFICIT) FOR THE YEAR		(1,850,511)	(193,659)	(1,834,450)	(196,097)	(16,061)	2,438

The accompanying notes form an integral part of these statements

Statement of Financial Position as at 30 June 2019

	NOTE	COMBINED		LIABILITY MUTUAL INSURANCE		COMMERCIAL CRIME	
		2019	2018	2019	2018	2019	2018
		\$	\$	\$	\$	\$	\$
CURRENT ASSETS							
Cash and cash equivalents	2(e),8(a)	3,242,187	1,926,466	3,115,258	1,651,643	126,929	274,823
Investments	2(n)	-	17,906,300	-	17,906,300	-	-
Trade and other receivables	9	58,036,544	47,404,067	58,036,112	47,403,272	432	795
TOTAL CURRENT ASSETS		61,278,731	67,236,833	61,151,370	66,961,215	127,361	275,618
NON-CURRENT ASSETS							
Trade and other receivables	9	82,673,428	82,562,279	82,673,428	82,562,279	-	-
TOTAL NON-CURRENT ASSETS		82,673,428	82,562,279	82,673,428	82,562,279	-	-
Total Assets		143,952,159	149,799,112	143,824,798	149,523,494	127,361	275,618
CURRENT LIABILITIES							
Trade and other payables		8,367,381	23,593,074	8,342,947	23,436,444	24,434	156,630
Premiums in advance	10	26,580,386	22,634,305	26,580,386	22,634,305	-	-
Outstanding Claims	11(a)	25,208,001	18,423,348	25,208,001	18,423,348	-	-
TOTAL CURRENT LIABILITIES		60,155,768	64,650,727	60,131,334	64,494,097	24,434	156,630
NON-CURRENT LIABILITY							
Outstanding Claims	11(a)	83,879,625	83,381,108	83,879,625	83,381,108	-	-
TOTAL NON-CURRENT LIABILITY		83,879,625	83,381,108	83,879,625	83,381,108	-	-
TOTAL LIABILITIES		144,035,393	148,031,835	144,010,959	147,875,205	24,434	156,630
NET ASSETS		(83,234)	1,767,277	(186,161)	1,648,289	102,927	118,988
EQUITY		(83,234)	1,767,277	(186,161)	1,648,289	102,927	118,988

The accompanying notes form an integral part of these statements.

1

Statement of Changes in Equity

For the year ended 30 June 2019

	COMBINED		LIABILITY MUTUAL INSURANCE		COMMERCIAL CRIME	
	2019 \$	2018 \$	2019 \$	2018 \$	2019 \$	2018 \$
RETAINED EARNINGS						
Balance at beginning of year	1,767,277	1,960,936	1,648,289	1,844,386	118,988	116,550
Surplus/(Deficit) from ordinary activities	(1,850,511)	(193,659)	(1,834,450)	(196,097)	(16,061)	2,438
BALANCE AT END OF YEAR	(83,234)	1,767,277	(186,161)	1,648,289	102,927	118,988

Statement of Cash Flows for the year ended 30 June 2019

	NOTE	COMBINED		LIABILITY MUTUAL INSURANCE		COMMERCIAL CRIME	
		2019 \$	2018 \$	2019 \$	2018 \$	2019 \$	2018 \$
CASH FLOW FROM OPERATING ACTIVITIES							
RECEIPTS							
Premiums and fees		22,823,017	22,068,722	22,185,423	21,238,967	637,594	829,755
Interest received		54,893	35,250	47,647	31,432	7,246	3,818
Performance bonus		99,845	138,212	99,845	138,212	-	-
Reinsurance and other recoveries		14,781,176	15,954,944	14,781,176	15,954,944	-	-
PAYMENTS							
Trade and other payables		(38,236,120)	(19,203,818)	(37,443,386)	(18,510,234)	(792,734)	(693,584)
Claim payments		(16,387,032)	(22,166,296)	(16,387,032)	(22,166,296)	-	-
NET CASH (USED IN)/PROVIDED BY OPERATING ACTIVITIES	8(b)	(16,864,221)	(3,172,986)	(16,716,327)	(3,312,975)	(147,894)	139,989
CASH FLOW FROM INVESTING ACTIVITY							
Proceeds from redemption of investments		18,179,942	4,000,000	18,179,942	4,000,000	-	-
NET CASH PROVIDED BY INVESTING ACTIVITIES		18,179,942	4,000,000	18,179,942	4,000,000	-	-
NET INCREASE/(DECREASE) IN CASH HELD		1,315,721	827,014	1,463,615	687,025	(147,894)	139,989
Cash at beginning of year		1,926,466	1,099,452	1,651,643	964,618	274,823	134,834
CASH AT END OF YEAR	8(a)	3,242,187	1,926,466	3,115,258	1,651,643	126,929	274,823

The accompanying notes form an integral part of these statements.

Notes to and forming part of the financial statements

For the year ended 30 June 2019

1. CORPORATE INFORMATION

The combined financial report of MAV Insurance (The Group) for the year ended 30 June 2019 was authorised for issue in accordance with a resolution of the directors of the Municipal Association of Victoria (MAV) on the date shown on the attached Statement by Directors.

MAV Insurance is the insurance division of the MAV. The MAV is an association incorporated by an Act of the Parliament of Victoria known as the Municipal Association Act 1907.

The nature of the operations and principal activities of MAV Insurance are the provision of public liability, professional indemnity by the Liability Mutual Insurance Scheme (The "Scheme") and arranging fidelity insurance by the Commercial Crime Fund (The Fund) for its members located in Victoria and Tasmania and community groups within its Council member boundaries.

On 1st July 2010 the Commercial Crime Fund ceased to write insurance business on its own account. From this date the Fund facilitated insurance for its members via a policy issued by Zurich Insurance Australia. The Fund undertook this change in business due to the inability of the Fund to offer the broad terms and conditions currently available in the market. This is due to the restrictions placed on the Fund by the provisions of the Municipal Association Act 1907. From 1 January 2011 the Fund is not at risk for any insurance claim that might be made against it.

The MAV has purchased retrospective insurance cover on the net amount of all claims incurred by the Liability Mutual Insurance Scheme up to 30 June 2019. (Refer to Note 20)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Standards and Interpretations issued but not yet effective.

<u>Reference</u>	<u>Title Summary</u>	<u>Application Date of Standard</u>	<u>Impact on MAV Financial Report</u>	<u>Application</u>
AASB 9	Financial Instruments	1 January 2019	Preliminary assessment indicates minimal impact arising from the adoption of this standard	1 July 2019
AASB 15	Revenue from	1 January 2019		1 July 2019
AASB 16	Leases	1 January 2020		1 July 2020
IFRS 17	Insurance Contracts	1 January 2021	Preliminary assessment indicates minimal impact arising on the adoption of this standard	1 July 2021

(a) Basis of preparation

The financial report is a general purpose financial report which has been drawn up in accordance with Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board.

The principal accounting policies adopted in preparing the financial report are stated to assist in a general understanding of the financial report. Accounting policies have been consistently applied unless otherwise indicated.

The financial report is presented in Australian dollars. MAV Insurance is a Not for Profit entity.

The accounts have been prepared on the accruals basis using historical costs and, except where stated, do not take into account current valuations of assets.

(b) Statement of compliance

The financial statements and notes comply with the Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board

(c) The basis of the combined report

The combined financial report relates to the insurance activities of the MAV being its controlled entities the Local Government Mutual Liability Insurance Scheme (trading as Liability Mutual Insurance, - LMI) "the Scheme", and the Commercial Crime Fund (the "Fund"). The MAV is the only legal entity. Neither insurance entity has control over the other. The effects of all transactions between entities in the combined entity have been eliminated.

The financial statements of the entities are prepared for the same reporting period as the MAV, using consistent accounting policies.

(d) Income tax

The MAV is a State and Territory Body (STB) and is exempt from income tax, in accordance with Division 1AB of Part III of the Income Tax Assessment Act 1997.

(e) Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three 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 equivalents as defined above, net of outstanding bank overdrafts.

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2019

(f) Trade and other receivables

Trade receivables, which generally have 30-60 day terms, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment.

Collectability of trade receivables is reviewed on an ongoing basis at an operating unit level. Individual debts that are known to be uncollectible are written off when identified. An impairment provision is recognised where there is objective evidence that the Group will not be able to collect the receivable. Financial difficulties of the debtor, default payments or debts more than 60 days overdue, other than outstanding reinsurance recoveries, are considered objective evidence of impairment. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate.

(g) Trade and other payables

Trade and other payables are carried at amortised cost and due to their short term nature they are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

(h) Property, furniture, equipment, and website

Property, furniture, equipment and website are carried at cost, less where applicable, accumulated depreciation and impairment.

On disposal of an item of property, furniture, equipment and website the difference between the sales proceeds and the carrying amount of the asset is recognised as a gain or loss.

All fixed assets are depreciated/amortised on a straight line basis over their estimated useful lives to the entity commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The following depreciation and amortisation rates are in use:

	Annual Rate
Leasehold Improvements at cost	10%
Furniture and Equipment	20%
Website at cost	20%

(i) Management fees

Management fees comprise amounts received from members to manage and pay expenses for and on behalf of the Commercial Crime Fund.

(j) Investment income

Investment income consists of interest which is recognised on a time-proportionate basis that takes into account the effective interest rate on the financial asset and movements in unit values in cash and fixed interest funds which are carried at fair value through the Statement of Comprehensive Income.

(k) Premiums

Premiums comprise amounts charged to members of the Schemes for policy cover, net of amounts returned to members as bonuses. The earned portion of premiums received is recognised as revenue. Premiums are treated as earned from date of attachment of risk. The pattern of recognition over the policy is based on time, which is considered to closely approximate the pattern of risks undertaken.

(l) Premiums in advance

During the month of June each year, the Liability Mutual Insurance Scheme issued premium notices to Scheme members. The risk attaches to the premiums in the next accounting period and accordingly the revenue is recognised each following year commencing 1 July. Prior to each balance date members have committed to participate in either the Scheme or the Fund for the ensuing year and accordingly the premiums are disclosed in the Statement of Financial Position as "premiums receivable" with an offsetting liability described as "premiums in advance".

(m) Claims

Claims-incurred expense and liability for outstanding claims are recognised in respect of direct business. The liability covers claims incurred but not yet paid, incurred but not yet reported claims, and the anticipated direct and indirect costs of settling those claims. Claims outstanding are assessed by reviewing individual claim files and estimating claims not notified and settlement costs using statistical and actuarial techniques. The liability for outstanding claims is measured as the present value of the expected future payments, reflecting the fact that all the claims do not have to be paid out in the immediate future. The expected future payments are estimated on the basis of the ultimate cost of settling claims, which is affected by factors arising during the period to settlement such as normal inflation and superimposed inflation. Advice from the MAV's actuary has estimated superimposed inflation to be 1.5% per annum (2018: 2.5%) for personal injury non large claims and the discount rate at 1.17% (2018: 2.4%).

Superimposed inflation refers to factors such as trends in court awards, for example increases in the level and period of compensation for injury.

The expected future payments are then discounted to a present value at the reporting date using discount rates based on the investment opportunities available to the organisation on the amounts of funds sufficient to meet claims as they became payable. MAV includes direct

Details of rates applied are disclosed in note 16.

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2019

(n) Investments

Investments are valued at fair value at balance date. Investment income includes interest received and receivable on investments and changes in fair values of investments in cash and fixed interest funds.

(o) Cash flows

For the purposes of the Statement of Cash Flows, cash includes cash on hand and deposits held at call with banks net of outstanding bank overdrafts.

(p) Reinsurance and other recoveries receivable

Reinsurance and other recoveries receivable on paid claims, reported claims not paid, claims incurred but not reported and unexpired risk liabilities are recognised as revenue. Recoveries receivable are assessed in a manner similar to the assessment of outstanding claims. Recoveries are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims.

(q) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefit will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

- (i) Premiums - recognised in the period the fund is at risk.
- (ii) Future reinsurance and other Recoveries - on an accruals basis.
- (iii) Investment Income - on an accruals basis including adjustments made to account for changes in the value of cash backed unit trusts to account as investment income.
- (iv) Performance bonus - on an accruals basis when firm evidence is available confirming the amount and indicating payment.

(r) Comparative figures

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

(s) Reinsurance Expense

Reinsurance expense relates to insurance premiums paid to reinsurers in accordance with the established reinsurance strategy of the entity and in order to protect the Insurance businesses from catastrophic and unforeseen claims.

(t) Fair Value Measurement

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the MAV determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. MAV does not have any level 3 financial assets.

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2019

	NOTE	COMBINED		LIABILITY MUTUAL INSURANCE		COMMERCIAL CRIME	
		2019	2018	2019	2018	2019	2018
		\$	\$	\$	\$	\$	\$
3. REVENUE FROM ORDINARY ACTIVITIES							
REVENUES FROM OPERATING ACTIVITIES							
Premiums		22,634,305	21,421,070	22,634,305	21,421,070	-	-
Performance bonus	18	99,845	138,212	99,845	138,212	-	-
Reinsurance and other recoveries	2(p)	21,400,619	37,274,353	21,400,619	37,274,353	-	0
Management fees received		69,893	89,856	-	-	69,893	89,856
TOTAL REVENUE FROM OPERATING ACTIVITIES		44,204,662	58,923,491	44,134,769	58,833,636	69,893	89,856
REVENUES FROM NON-OPERATING ACTIVITIES							
Investment income		326,008	671,880	321,289	668,037	4,719	3,843
TOTAL REVENUE FROM OUTSIDE THE OPERATING ACTIVITIES		326,008	671,880	321,289	668,037	4,719	3,843
TOTAL REVENUE FROM ORDINARY ACTIVITIES		44,530,670	59,595,371	44,456,058	59,501,673	74,612	93,699
4(a) CLAIMS EXPENSES							
Paid		16,387,033	22,166,294	16,387,033	22,166,294	-	-
Outstanding claims at end of financial year	11(a) & 2(m)	109,087,626	101,804,456	109,087,626	101,804,456	-	-
Less: Outstanding claims at beginning of financial year		(101,804,456)	(106,228,851)	(101,804,456)	(106,228,851)	-	-
TOTAL CLAIMS EXPENSES		23,670,203	17,741,899	23,670,203	17,741,899	-	-
4(b) ADMINISTRATION & GENERAL EXPENSES							
The following items have been recognised in the operating surplus/(deficit):							
Administration		1,684,839	1,355,276	1,669,966	1,338,767	14,873	16,509
Actuary and legal fees		163,480	135,999	163,480	135,999	-	-
Audit fees	5	206,535	194,457	206,535	186,657	-	7,800
Depreciation of furniture & equipment		-	11,845	-	11,845	-	-
Depreciation of leasehold improvements		-	19,723	-	19,723	-	-
Scheme management fees	6	3,459,144	3,567,335	3,383,344	3,500,383	75,800	66,952
Stamp duty		1,185,600	1,592,766	1,185,600	1,592,766	-	-
TOTAL EXPENDITURE		6,699,598	6,877,401	6,608,925	6,786,140	90,673	91,261
5. AUDIT FEES							
Amounts payable or due and payable for audit services:							
Audit of the entity		206,535	194,457	206,535	186,657	-	7,800
TOTAL AUDIT FEE		206,535	194,457	206,535	186,657	-	7,800
6. SCHEME MANAGEMENT FEES							
Included within administration and general expenses are management fees paid to the service provider for:							
Reinsurance placement		2,220,220	2,220,220	2,220,220	2,220,220	-	-
Risk management and administrative services		1,238,924	1,347,115	1,163,124	1,280,163	75,800	66,952
TOTAL SCHEME MANAGEMENT FEES		3,459,144	3,567,335	3,383,344	3,500,383	75,800	66,952

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2019

NOTE	COMBINED		LIABILITY MUTUAL INSURANCE		COMMERCIAL CRIME	
	2019	2018	2019	2018	2019	2018
	\$	\$	\$	\$	\$	\$
7. PROPERTY, FURNITURE & EQUIPMENT						
Leasehold improvements - at cost	-	179,441	-	179,441	-	-
Less accumulated depreciation	-	(179,441)	-	(179,441)	-	-
	-	-	-	-	-	-
Furniture and equipment - at cost	277,460	98,019	277,460	98,019	-	-
Less accumulated depreciation	(277,460)	(98,019)	(277,460)	(98,019)	-	-
	-	-	-	-	-	-
TOTAL PROPERTY, FURNITURE AND EQUIPMENT	-	-	-	-	-	-
Reconciliations of the carrying amounts of property, furniture and equipment at the beginning and end of the financial year.						
LEASEHOLD IMPROVEMENTS						
Movements during the year						
Beginning of year	-	19,722	-	19,722	-	-
Additions	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Depreciation	-	(19,722)	-	(19,722)	-	-
End of year	-	-	-	-	-	-
PROPERTY, FURNITURE AND EQUIPMENT						
Movements during the year						
Beginning of year	-	11,846	-	11,846	-	-
Additions	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Depreciation	-	(11,846)	-	(11,846)	-	-
End of year	-	-	-	-	-	-

8. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Cash and cash equivalents at balance date as shown in the Statement of Cash Flows are held in NAB cash deposits and are reconciled to the related items in the Statement of Financial Position as follows:

NOTE	COMBINED		LIABILITY MUTUAL INSURANCE		COMMERCIAL CRIME	
	2019	2018	2019	2018	2019	2018
	\$	\$	\$	\$	\$	\$
Cash and Cash Equivalents	3,242,187	1,926,466	3,115,258	1,651,643	126,929	274,823
(b) Reconciliation of Net Cash (Used In)/provided by Operating Activities to Operating Surplus/(Deficit)						
Surplus (deficit) for year	(1,850,511)	(193,659)	(1,834,450)	(196,097)	(16,061)	2,438
<u>Adjustments for:</u>						
Depreciation	-	31,568	-	31,568	-	-
Amortisation	-	-	-	-	-	-
Unrealised gains on investments	(273,642)	(636,605)	(273,642)	(636,605)	-	-
<u>Changes in assets and liabilities:</u>						
(Increase) in trade and other receivables	2(f) (4,124,184)	(18,730,541)	(4,124,545)	(19,373,193)	361	642,652
Increase/(decrease) in trade and other payables	(15,225,692)	20,305,094	(15,093,498)	20,810,195	(132,194)	(505,101)
(Increase) in Provision for Reinsurance Recoveries	(6,619,444)	(917,201)	(6,619,444)	(917,201)	-	-
(Decrease) in premiums in advance	3,946,082	1,392,754	3,946,082	1,392,754	-	-
Increase/(decrease) in outstanding claims	2(m) 7,283,171	(4,424,396)	7,283,171	(4,424,396)	-	-
NET CASH (USED IN) OPERATING ACTIVITIES	(16,864,221)	(3,172,986)	(16,716,327)	(3,312,975)	(147,894)	139,989

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2019

NOTE	COMBINED		LIABILITY MUTUAL INSURANCE		COMMERCIAL CRIME	
	2019	2018	2019	2018	2019	2018
	\$	\$	\$	\$	\$	\$
9. TRADE AND OTHER RECEIVABLES						
Future reinsurance and other recoveries receivable	2(p)	115,587,303	113,572,239	115,587,303	113,572,239	-
Discount to present value		(4,265,946)	(8,870,325)	(4,265,946)	(8,870,325)	-
		111,321,357	104,701,914	111,321,357	104,701,914	-
Premiums receivable		29,238,425	24,843,464	29,238,425	24,843,464	-
Other receivables		150,190	420,968	149,758	420,173	795
		29,388,615	25,264,432	29,388,183	25,263,637	795
TOTAL RECEIVABLES		140,709,972	129,966,346	140,709,540	129,965,551	795
Represented By:						
CURRENT		58,036,544	47,404,067	58,036,112	47,403,272	795
NON-CURRENT		82,673,428	82,562,279	82,673,428	82,562,279	-
TOTAL		140,709,972	129,966,346	140,709,540	129,965,551	795

Reinsurance recoveries are due from reinsurers with S&P ratings of AA-, and A. Other recoveries are due from unrated Local Authorities based in Victoria and Tasmania.

The ageing analysis of premiums receivable and other receivables are as follows:

	Total	<30 days	31 - 60 days	61 - 90 days	>90 days
2019					
Combined	29,388,615	29,388,615	-	-	-
Liability Mutual Insurance	29,388,183	29,388,183	-	-	-
Commercial Crime Fund	432	432	-	-	-
2018					
Combined	25,264,433	25,264,433	-	-	-
Liability Mutual Insurance	25,263,638	25,263,638	-	-	-
Commercial Crime Fund	795	795	-	-	-

All premiums receivable and other receivables are due from Local Authorities based in Victoria and Tasmania.

NOTE	COMBINED		LIABILITY MUTUAL INSURANCE		COMMERCIAL CRIME	
	2019	2018	2019	2018	2019	2018
	\$	\$	\$	\$	\$	\$
10. PREMIUMS IN ADVANCE						
Contributions billed in advance	2(l)	26,580,386	22,634,305	26,580,386	22,634,305	-
11(a) OUTSTANDING CLAIMS						
Central estimate	2(m)	113,347,242	109,673,543	113,347,242	109,673,543	-
Discount to present value		(4,676,653)	(9,549,767)	(4,676,653)	(9,549,767)	-
Excesses and recoveries - Discount to present value		363,549	679,442	363,549	679,442	-
		109,034,138	100,803,218	109,034,138	100,803,218	-
Claims handling costs		53,488	1,001,238	53,488	1,001,238	-
Risk margin	11(b)	-	-	-	-	-
TOTAL OUTSTANDING CLAIMS		109,087,626	101,804,456	109,087,626	101,804,456	-
Comprising:						
CURRENT		25,208,001	18,423,348	25,208,001	18,423,348	-
NON-CURRENT		83,879,625	83,381,108	83,879,625	83,381,108	-
TOTAL OUTSTANDING CLAIMS		109,087,626	101,804,456	109,087,626	101,804,456	-

11(b) RISK MARGIN - PROCESS FOR DETERMINING RISK MARGIN

As at 30 June 2019, the MAV Insurance Board determined that the outstanding claims liability is to be held at the 50% probability of sufficiency on the basis of the non-discretionary mutual structure of the LMI Scheme. As a result, a 0% risk margin was applied to the central estimate (2018: 0%) to achieve the desired level of sufficiency. Please see Note 16.

11(c) COMBINED RECONCILIATION OF MOVEMENT IN DISCOUNTED OUTSTANDING CLAIMS LIABILITY

	2019			2018		
	Gross \$	Reinsurance \$	Net \$	Gross \$	Reinsurance \$	Net \$
Outstanding claims brought forward	101,804,456	104,701,920	(2,897,458)	106,228,851	83,382,505	22,846,346
Changes in assumptions	16,387,032	15,195,360	1,191,672	22,166,293	16,111,951	6,054,342
Increase in claims incurred/recoveries anticipated	7,283,170	6,205,259	1,077,911	(4,424,396)	21,162,404	(25,586,800)
Included claims recognised in income statement	23,670,202	21,400,619	2,269,583	17,741,897	37,274,355	(19,532,458)
Claim payments during the year	(16,387,032)	14,781,175	(1,605,857)	(22,166,292)	(15,954,940)	(6,211,349)
Outstanding claims carried forward	109,087,626	111,321,357	(2,233,731)	101,804,456	104,701,920	(2,897,464)
Debtor Excesses and Reinsurance Recoveries on Paid Claims	-	(3,514,475)	3,514,475	-	3,898,696	3,898,696
TOTAL NET OUTSTANDING CLAIMS	109,087,626	107,806,882	1,280,744	101,804,456	100,803,224	1,001,232

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2019

12. NET CLAIMS INCURRED

	2019			2018		
	Current Year	Prior Year	Total	Current Year	Prior Year	Total
	\$	\$	\$	\$	\$	\$
COMBINED						
Gross claims and related expenses – undiscounted	23,445,320	(4,332,338)	19,112,982	22,362,754	(5,064,199)	17,298,555
Discount	(1,108,451)	5,665,672	4,557,221	(2,088,266)	2,531,610	443,344
Gross Claims and related expenses – discounted	22,336,869	1,333,334	23,670,203	20,274,488	(2,532,589)	17,741,899
Reinsurance and other recoveries – undiscounted	(18,769,120)	2,795,477	(15,973,643)	(19,498,136)	(18,326,329)	(37,824,465)
Discount	(1,684,567)	(3,742,409)	(5,426,976)	(121,584)	671,696	550,112
Reinsurance and other recoveries – discounted	(20,453,687)	(946,932)	(21,400,619)	(19,619,720)	(17,654,633)	(37,274,353)
NET CLAIMS INCURRED	1,883,182	386,402	2,269,584	654,768	(20,187,226)	(19,532,454)
	Current Year	2019 Prior Year	Total	Current Year	2018 Prior Year	Total
	\$	\$	\$	\$	\$	\$
LIABILITY MUTUAL INSURANCE						
Gross claims and related expenses – undiscounted	23,445,320	(4,332,338)	19,112,982	22,362,754	(5,064,199)	17,298,555
Discount	(1,108,451)	5,665,672	4,557,221	(2,088,266)	2,531,610	443,344
Gross Claims and related expenses – discounted	22,336,868	1,333,335	23,670,203	20,274,488	(2,532,589)	17,741,899
Reinsurance and other recoveries – undiscounted	(18,769,120)	2,795,477	(15,973,643)	(19,498,136)	(18,326,329)	(37,824,465)
Discount	(1,684,567)	(3,742,409)	(5,426,976)	(121,584)	671,696	550,112
Reinsurance and other recoveries – discounted	(20,453,687)	(946,932)	(21,400,619)	(19,619,720)	(17,654,633)	(37,274,353)
NET CLAIMS INCURRED	1,883,182	386,402	2,269,584	654,768	(20,187,226)	(19,532,454)
	Current Year	2019 Prior Year	Total	Current Year	2018 Prior Year	Total
	\$	\$	\$	\$	\$	\$
COMMERCIAL CRIME FUND						
Gross claims and related expenses – undiscounted	-	-	-	-	-	-
Discount	-	-	-	-	-	-
Gross Claims and related expenses – discounted	-	-	-	-	-	-
Reinsurance and other recoveries – undiscounted	-	-	-	-	-	-
Discount	-	-	-	-	-	-
Reinsurance and other recoveries – discounted	-	-	-	-	-	-
NET CLAIMS INCURRED	-	-	-	-	-	-

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2019

13. CLAIMS DEVELOPMENT TABLE

ACCIDENT YEAR	2015	2016	2017	2018	2019	Total
	\$	\$	\$	\$	\$	\$
GROSS ESTIMATE OF ULTIMATE CLAIMS COST - LIABILITY MUTUAL INSURANCE						
At end year of accident	22,465,862	22,303,614	20,097,434	21,743,945	22,793,891	
One year later	21,693,885	20,487,169	21,295,287	21,194,033		
Two years later	21,462,820	18,332,131	20,143,548			
Three years later	21,059,584	17,579,579				
Four years later	20,988,591					
Current estimate of cumulative claims cost	20,988,591	17,579,579	20,143,548	21,194,033	22,793,891	102,699,641
Cumulative payments	(11,469,363)	(4,063,168)	(2,002,717)	(774,101)	(75,594)	(18,384,942)
Outstanding claims – undiscounted	9,519,228	13,516,411	18,140,831	20,419,932	22,718,297	84,314,699
Discount						(3,280,158)
Claims handling expense						39,712
2013 and prior						28,013,374
LIABILITY MUTUAL INSURANCE – TOTAL GROSS OUTSTANDING CLAIMS	11(c)					109,087,627
NET ESTIMATE OF ULTIMATE CLAIMS COST - LIABILITY MUTUAL INSURANCE						
At end year of accident	12,238,620	3,710,694	3,367,525	35,959	1,278,911	
One year later	11,932,830	3,740,554	68,793	47,759		
Two years later	11,973,116	90,797	174,862			
Three years later	3,598,339	335,276				
Four years later	3,693,245					
Current estimate of cumulative claims cost	3,693,245	335,276	174,862	47,759	1,278,911	5,530,052
Cumulative payments	(4,649,787)	(1,098,810)	(784,141)	(336,963)	(54,285)	(6,923,986)
Outstanding claims - undiscounted	(956,543)	(763,534)	(609,279)	(289,204)	1,224,626	(1,393,934)
Discount						(47,158)
Claims handling Expense						39,712
2012 and prior						(832,351)
LIABILITY MUTUAL INSURANCE - NET OUTSTANDING CLAIMS	11(c)					(2,233,731)
Debtor Excesses and Reinsurance Recoveries on Paid Claims						3,514,475
TOTAL NET OUTSTANDING CLAIMS	11(c)					1,280,744

These tables show the trend in the balance of outstanding claims.

14. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES

The Group's exposure to interest rate risk and the effective average interest rate for the classes of financial assets is set out below:

		COMBINED		LIABILITY MUTUAL INSURANCE		COMMERCIAL CRIME	
		Non-Interest Earning	Floating Interest Rate	Non-Interest Earning	Floating Interest Rate	Non-Interest Earning	Floating Interest Rate
		\$	\$	\$	\$	\$	\$
2019							
FINANCIAL ASSETS							
Cash and cash equivalents	5	-	3,242,187	-	3,115,258	-	126,929
Investments		-	-	-	-	-	-
Trade and other receivables	9	140,709,972	-	140,709,540	-	432	-
TOTAL FINANCIAL ASSETS		140,709,972	3,242,187	140,709,540	3,115,258	432	126,929
Weighted Average Interest Rate			2.8%		2.8%		2.3%
FINANCIAL LIABILITIES							
Outstanding claims	11(a)	109,087,626	-	109,087,626	-	-	-
Unearned premiums/subscriptions	10	26,580,386	-	26,580,386	-	-	-
Trade and other payables		8,367,381	-	8,342,947	-	24,434	-
TOTAL FINANCIAL LIABILITIES		144,035,393	-	144,010,959	-	24,434	-
Weighted Average Interest Rate			0.0%		0.0%		0.0%

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2019

14. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (CONTINUED)

	COMBINED		LIABILITY MUTUAL INSURANCE		COMMERCIAL CRIME	
	Non-Interest Earning	Floating Interest Rate	Non-Interest Earning	Floating Interest Rate	Non-Interest Earning	Floating Interest Rate
	\$	\$	\$	\$	\$	\$
2018						
FINANCIAL ASSETS						
Cash and cash equivalents	-	1,926,466	-	1,651,643	-	274,823
Investments	-	17,906,300	-	17,906,300	-	-
Trade and other receivables	129,966,346	-	129,965,551	-	795	-
TOTAL FINANCIAL ASSETS	129,966,346	19,832,766	129,965,551	19,557,943	795	274,823
Weighted Average Interest Rate		3.2%		3.2%		1.9%
FINANCIAL LIABILITIES						
Outstanding claims	101,804,456	-	101,804,456	-	-	-
Unearned premiums/subscriptions	22,634,305	-	22,634,305	-	-	-
Trade and other payables	23,593,076	-	23,436,446	-	156,630	-
TOTAL FINANCIAL LIABILITIES	148,031,837	-	147,875,207	-	156,630	-
Weighted Average Interest Rate		0.00%		0.00%		0.00%

Investments are considered level 2 financial assets in accordance with AASB 7 (Financial Instruments). The carrying amounts of financial assets and financial liabilities represent their approximate fair value. All maturity dates are within twelve months.

The table below reflects all contractually fixed pay-offs and receivables for settlement, repayments and interest resulting from recognised financial assets and liabilities as at 30 June 2019. Cash flows for financial assets and liabilities without fixed amounts or timing are based on conditions existing at 30 June 2019.

The remaining contractual maturities of the financial liabilities are:

	COMBINED		LIABILITY MUTUAL INSURANCE		COMMERCIAL CRIME	
	2019	2018	2019	2018	2019	2018
	\$	\$	\$	\$	\$	\$
3 months or less	21,397,044	33,906,029	21,372,610	33,749,399	24,434	156,630
3-12 months	38,928,526	30,948,395	38,928,526	30,948,395	-	-
1-5 years	59,220,604	60,988,860	59,220,604	60,988,860	-	-
Over 5 years	28,802,326	31,058,879	28,802,326	31,058,879	-	-
	148,348,500	156,902,163	148,324,066	156,745,533	24,434	156,630

LIQUIDITY RISK

Maturity analysis of financial assets and liabilities based on management's expectation

The risk implied from the values in the table below, reflects a balanced view of cash inflows and outflows. These liabilities originate from insurance contracts and other financial assets used in the ongoing operations of the business. These assets are considered in the MAV's overall liquidity risk. To monitor existing financial assets and liabilities as well as to enable effective controlling of future risks, the MAV has established a comprehensive risk reporting covering its insurance business that reflects the management of settlement of financial assets and liabilities.

Year ended 30 June 2019	<3 months	3-12 months	1-5 years	>5years	Total
	\$	\$	\$	\$	\$
COMBINED					
FINANCIAL ASSETS					
Cash and cash equivalents	3,242,187	-	-	-	3,242,187
Investments	-	-	-	-	-
Trade and other receivables	37,582,795	20,037,326	58,834,581	28,521,648	144,976,350
	40,824,982	20,037,326	58,834,581	28,521,648	148,218,537
COMBINED					
FINANCIAL LIABILITIES					
Outstanding claims	6,384,567	18,993,236	59,220,604	28,802,326	113,400,733
Unearned premiums/subscriptions	6,645,097	19,935,290	-	-	26,580,387
Trade and other payables	8,342,947	-	-	-	8,342,947
TOTAL FINANCIAL LIABILITIES	21,372,611	38,928,526	59,220,604	28,802,326	148,324,067
NET MATURITY	19,452,371	(18,891,200)	(386,023)	(280,678)	(105,530)

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2019

14. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (CONTINUED)

Year ended 30 June 2018	<3 months \$	3-12 months \$	1-5 years \$	>5years \$	Total \$
COMBINED FINANCIAL ASSETS					
Cash and cash equivalents	1,926,466	-	-	-	1,926,466
Investments	17,906,300	-	-	-	17,906,300
Trade and other receivables	23,047,086	15,704,249	60,437,114	30,777,897	129,966,346
	42,879,852	15,704,249	60,437,114	30,777,897	149,799,112
COMBINED FINANCIAL LIABILITIES					
Outstanding claims	4,656,762	13,970,283	60,988,860	31,058,877	110,674,782
Unearned premiums/subscriptions	5,658,576	16,975,728	-	-	22,634,304
Trade and other payables	23,434,062	2,384	-	-	23,436,446
TOTAL FINANCIAL LIABILITIES	33,749,400	30,948,395	60,988,860	31,058,877	156,745,532
NET MATURITY	9,130,452	(15,244,146)	(551,746)	(280,980)	(6,946,420)

Risk management objectives and policies for mitigating insurance risk

The MAV's local government mutual liability scheme (trading as Liability Mutual Insurance) is established by legislation contained in the Municipal Association Act 1907. Membership is available to local government councils and prescribed bodies. The Scheme operates in Victoria & Tasmania to provide services to members in respect of their potential and actual liabilities. A member may seek indemnity from the Scheme in respect of a claim.

Actuarial models, using information from the Scheme's management information systems are used to confirm contributions and monitor claim patterns. Past experience and statistical methods are used as part of the process.

The principal risk is that the frequency and severity of claims is greater than expected. Civil Liability Risk events are, by their nature, random, and the actual number and size of events during any one-year may vary from those estimated using established statistical techniques.

Objectives in managing risk arising from insurance and policies for mitigating those risks

The Scheme has an objective to control insurance risk thereby reducing the volatility of its operating surplus. In addition to the inherent uncertainty of civil liability risks, which can lead to variability in the loss experience, operating surpluses can also be affected by external factors, such as competition and movements in asset values.

The Scheme relies on a strong relationship with its members and actively encourages them to adopt practices of risk management that reduce the incidence of claims to the Scheme.

Reinsurance strategy

The Scheme adopts a conservative approach towards management of risk and does this by utilising various risk transfer options. The MAV Insurance Board determines the level of risk, which is appropriate for the Scheme having regard to ordinary concepts of prudence and regulatory constraints. The risk transfer arrangements adopted by the Scheme include the utilisation of commercial reinsurance / excess arrangements. These arrangements include constant review of both reinsurers' financial strength, and ensuring spread of risk among reinsurers who meet the requirements of the MAV insurance policies. These risk transfer arrangements assist the Scheme to limit exposures to large single claims and catastrophic events. These programs are reviewed each year to ensure that they continue to meet the risk needs of the Scheme. In 2018 the Scheme purchased retrospective re-insurance that fully reinsures all claims made against the Scheme up to 30 June 2018. Refer Note 20.

Terms and conditions of membership

Membership to the Scheme is offered to eligible bodies and renewed annually on 30th June. Payment of the annual contribution confirms continuation of membership. Termination of membership is subject to at least 14 days written notice of intention as laid out by the Scheme Rules.

Product features

The Scheme operates in Victoria & Tasmania. Should a claim be accepted the Scheme provides indemnity to the member in respect of its civil liabilities for \$600 million Public / Products Liability and \$600 million for Professional Indemnity insurance, in excess of any self-insured amount, for any claim incurred anywhere throughout the world.

Operating surpluses and deficits arise from the total contributions charged to members less the amounts paid to cover claims and the expenses incurred by the Scheme.

Management of risks

The key insurance risks that affect the Scheme are contribution risk, and claims experience risk.

Contribution risk is the risk that the Scheme does not charge contributions appropriate for the indemnity cover it provides. The Scheme manages contribution risk through its proactive approach to risk management that addresses all material risks both financial and non-financial. There are no specific terms and conditions that are expected to have a material impact on the financial statements.

Claims experience risk is managed through the non-financial risk assessment and risk management and reinsurance management process. Claims experience is monitored on an ongoing basis to ensure that any adverse trending is addressed. The Scheme is able to reduce the claims experience risk of severe losses through the reinsurance program, and by managing the concentration of insurance risks. LMI is a non-discretionary mutual fund which, under the Constitution has the ability to obtain contributions from members to pay liabilities and expenses.

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2019

14. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (CONTINUED)

Concentration of insurance risks

Insurance risk is managed by taking a long term approach to setting the annual contribution rates that eliminates price fluctuations, through appropriate investment strategy, reinsurance and by maintaining an active state-wide risk management profile. The Scheme keeps abreast of changes in the general economic, legal and commercial environment in which it operates. The Scheme spreads its risk of reinsurance failure by ensuring reinsurers are of high financial quality and can meet their commitments to the MAV. The MAV maintains policies and strategies and receives advice from an independent actuary on at least an annual basis in order to determine the concentration and amount of risk exposure.

		CREDIT RATING						Total
		AAA +/- \$m	AA +/- \$m	AA- +/- \$m	A \$m	Speculative Grade \$m	Not Rated \$m	
Reinsurance and other recoveries on outstanding claims	2019	-	-	-	43,966	-	189	44,155
	2018	-	-	-	37,439	-	385	37,824
Reinsurance and other recoveries on paid claims	2019	-	-	-	1,333	-	-	1,333
	2018	-	-	-	1,289	-	36	1,325
		PAST DUE BUT NOT IMPAIRED					Total	
		Neither past due nor impaired	Less than 3 months	3 to 6 months	6 months to 1 year	Greater than 1 year		Impaired
		\$m	\$m	\$m	\$m	\$m	\$m	
Reinsurance and other recoveries on paid claims	2019	-	1,333	-	-	-	-	1,333
	2018	-	1,325	-	-	-	-	1,325

Credit risk

The Scheme is exposed to credit risk on insurance contracts as a result of exposure to reinsurers. The credit risk of reinsurers is managed through the Scheme's Reinsurance Management Strategy and policies that includes regularly monitoring both the financial rating of the reinsurers both prior to and during the reinsurance program and the flow of payments coming from the reinsurers. Investments in cash and cash equivalents at balance date as shown in the Statement of Cash Flows are held in S&P rated AA- and A- rated cash deposits.

Price risk

Investments held are not subject to price risk.

Interest rate risk

MAV Insurance is exposed to interest rate risk from its cash, cash equivalents and investments.

Variable	Current Rate	Change variable to +0.5%/-0.5%	Operating surplus (deficit) at 30 June 2019	Total Accumulated Funds after the impact of applying variable
	%	%	\$	\$
IMPACT OF CHANGES IN INTEREST RATE ON FINANCIAL ASSETS				
MAV INSURANCE				
Base value at 30 June 2019	2.8%		(1,850,511)	(83,234)
Interest Rate p.a.		3.3%	(1,844,742)	(77,465)
		2.3%	(1,856,280)	(89,003)

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2019

15. ACCOUNTING ESTIMATES AND JUDGEMENTS

The Scheme makes estimates and judgements in respect of certain key assets and liabilities. Estimates and judgements are continually reviewed and are based on past experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key areas in which critical estimates and judgements are applied are described below.

(a) Estimation of outstanding claims liability

Provision is made at the year-end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported ("IBNR") to the Scheme. The Scheme takes all reasonable steps to ensure that it has appropriate information regarding its claims exposure. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome may be different from the original liability established.

Provisions are calculated gross of all recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers and any third party.

The determination of an appropriate outstanding claims provision involves:

- (i) Establishing a case estimate for each reported claim at year-end taking into account legal advice where appropriate on larger claims;
- (ii) Allowance for incurred but not reported claims as confirmed by the actuarial review on 30 June 2019;
- (iii) An allowance of 1% for claim settlement expenses, as assumed by the Actuary;
- (iv) Allowances for claim inflation of 2.64%, as assumed by the Actuary;
- (v) Allowances for discount at 1.17%, as assumed by the Actuary;
- (vi) A risk margin of 0% of net outstanding claims after the effect of reinsurance has been applied, as assumed by the actuary.

Refer to Note 11 b) for details

Details of specific actuarial assumptions used in deriving the outstanding claims liability at year-end are detailed in note 16.

(b) Assets arising from reinsurance contracts

Assets arising from reinsurance contracts were estimated for each fund year, from the payments to date and estimated outstanding claims history at 30 June 2019, taking into account the reinsurance terms applying to that fund year.

16. ACTUARIAL ASSUMPTIONS AND METHODS

Actuarial assumptions

The following assumptions have been made in determining the outstanding claims liabilities:

	2019	2018
Key actuarial assumptions		
Wage inflation	2.64%	2.70%
Claim administration expense	0.00%	1.00%
Discount rate	1.17%	2.40%
Risk margin	0.00%	0.00%
Superimposed inflation	1.50%	2.50%

Process used to determine actuarial assumptions

A description of the processes used to determine the above key actuarial assumptions is provided below:

Liability Mutual Insurance has provided public and professional indemnity insurance to local government bodies in Victoria and Tasmania and other bodies constituted under any Act for any public or local governing purpose since 30 September 1993. The Actuary was supplied with details of all transactions (payments, recoveries, changes of estimates) from 30 September 1993 to 30 June 2018. The individual claim payments and case estimates reconciled closely with totals in Liability Mutual Insurance financial statements for each year of cover. The actuary subdivided the claims data into three claim types (Public Liability, Professional Indemnity and the 2009 Bushfire claims) and made separate estimates of the gross outstanding claims liabilities for each of these claim types. The actuary estimated the gross outstanding claims liabilities for each claim type using 5 different actuarial methods. Large claims (claims above \$250,000) were estimated based on a numbers times average size method and non-large claims were estimated using 4 different actuarial methods- payments per claim incurred, payments per claim finalised, incurred cost development and projection of case estimates. The actuary selected a combination of these methods for estimating the outstanding claims. Payments were projected with a payment pattern, based on past experience. Estimates of outstanding excesses were based on a numbers times average size method and estimates of non reinsurance recoveries were made by a recoveries per claim method.

Estimates of reinsurance recoveries were made from projected gross payments, excesses and non reinsurance recoveries, allowing for the different insurance treaties applying to each year. Based on Access Economics June 2019 forecasts for Victorian average weekly wage inflation was assumed to be 2.64%. The discount rate was assumed to be 1.17% pa., derived from the yields on Commonwealth government bonds.

The Actuary has assumed a risk margin of 0% of the net liabilities to give a probability of 50% that the provisions will prove adequate to meet the relevant liabilities.

VARIABLE	IMPACT OF MOVEMENT IN VARIABLE
Wage inflation	Expected future payments are inflated to take account of inflationary increases. An increase or decrease in the assumed levels of economic inflation would have a corresponding impact on claims expense, with particular reference to longer tail claims.
Discount rate	The outstanding claims liability is calculated by reference to expected future payments. These payments are discounted to adjust for the time value of money. An increase or decrease in the assumed discount rate will have an opposing impact on total claims expense.
Case estimate development	Case estimates are initially established in accordance with established guidelines and by reference to the known facts. Where new information becomes available the initial case estimate will change. This development movement is applied to open claims and will have a corresponding impact on claims expense.

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2019

16. ACTUARIAL ASSUMPTIONS AND METHODS

Wage Inflation rate sensitivity

Expected future payments are inflated to take account of inflationary increases. An increase or decrease in the assumed levels of economic inflation would have a corresponding impact on claims expense, with particular reference to longer tail claims.

Variable	Current Rate	Change variable to +0.5%/-0.5%	Operating surplus (deficit) at 30 June 2019	Total Accumulated Funds after the impact of applying variable
	%	%	\$	\$
IMPACT OF CHANGES IN KEY VARIABLES				
LIABILITY MUTUAL INSURANCE				
Base value at 30 June 2019	2.64%		(1,834,450)	(186,161)
Wage Inflation rate p.a.		3.20%	(1,855,450)	(207,161)
		2.20%	(1,813,450)	(165,161)

Discount rate sensitivity

The reinsurance indemnity contracts contain no clauses that expose the Scheme, directly to interest rate risk. The reinsurance contracts are long term arrangements, reviewed and payable annually.

Variable	Current Rate	Change variable to +0.5%/-0.5%	Operating surplus (deficit) at 30 June 2019	Total Accumulated Funds after the impact of applying variable
	%	%	\$	\$
IMPACT OF CHANGES IN DISCOUNT RATES				
LIABILITY MUTUAL INSURANCE				
Base value at 30 June 2019	1.17%		(1,834,450)	(186,161)
Discount rate p.a.		1.67%	(1,794,450)	(146,161)
		0.67%	(1,874,450)	(226,161)

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2019

16. ACTUARIAL ASSUMPTIONS AND METHODS (CONTINUED)

Claims handling sensitivity

Future claims handling expenses represent administrative costs relating to the payment of claims incurred to date.

Variable	Current Rate	Change to the Current Rate +2.0%/-2.0%	Operating surplus (deficit) at 30 June 2019	Total Accumulated Funds after the impact of applying variable
	%	%	\$	\$
IMPACT OF CHANGES IN KEY VARIABLES				
LIABILITY MUTUAL INSURANCE				
Base value at 30 June 2019	0.0%		(1,834,450)	(186,161)
Claim administration expense		2.0%	(4,007,450)	(2,359,161)
		-2.0%	338,550	1,986,839

17. CAPITAL MANAGEMENT OBJECTIVES AND ECONOMIC DEPENDENCY

The MAV is specifically excluded from the provisions of the Insurance Act and from APRA regulation. There is no externally imposed capital requirement on the MAV. The MAV's capital management philosophy is focused on capital efficiency and effective risk management to support a progressive business model for the benefit of members of both LMI and the Commercial Crime Fund. The Board of directors and management have in place a strategic plan that is aligned to achieving the MAV's capital management philosophy with an objective remain in surplus. Key elements of this plan include premium setting, risk management, claims management and reinsurance management. Key elements of the capital management plan include a review of the investment strategy and establishing increased flexibility in the scheme cost structures.

The MAV operates LMI which is a non-discretionary mutual fund, and under Sections 6.4 and 6.5 of the Constitution the MAV has the ability to obtain contributions from members to meet any shortfall in the Provision set aside in respect of that Insurance Year.

Section 6.4 of the Constitution, states that each Participant (member) will remain liable to make further contributions to the scheme in respect of any insurance year in which it was a participant to the extent of its participant's share of any shortfall in the provision set aside in respect of that insurance year, and such liability will continue whether or not the Participant remains a Participant in future Insurance Years. MAV Insurance issued premiums for the 2020 financial year that have been established with the view to achieving a surplus in the 2020 financial year.

18. PERFORMANCE BONUS

The Liability Insurance Mutual Scheme, in conjunction with similar Local Government Self Insured Mutual Liability Schemes around Australia has entered into a profit sharing arrangement with its primary reinsurers, based on the National Local Government claims experience. The arrangement enables any surplus of reinsurance premium over the amount of claims paid for each year over the five-year reinsurance period to be shared between the various Schemes and the reinsurers on a proportional basis. Receipts coming out of the agreement will reduce in future years.

Performance bonus totalling \$99,845 (2018 \$138,212) was received during the year.

19. CONTINGENT LIABILITY

During the normal course of business, the Scheme may be exposed to contingent liabilities from litigation arising from its insurance and reinsurance activities, which if they should crystallise may adversely affect the financial position and performance of MAV. Provisions are made for obligations that are probable and able to be quantified.

In June 2014, MAV Insurance committed to purchasing retrospective stop-loss reinsurance for the 2009 and 2011 financial years.

The policies provide coverage for the first \$1 million in claim costs with a cap of \$5 million in the aggregate in each of the years. The Liability Mutual Insurance Scheme benefits from the 2009 policy when aggregate claim costs below \$1 million reach \$22 million and the 2011 policy provides coverage when aggregate claim costs reach \$20 million. The effect of the policies is to provide additional protection to the scheme from adverse development of claim costs below \$1 million. The reinsurance policies commenced at the close of business on 30 June 2014. No other material contingent liabilities have arisen in the year ended 30 June 2019.

20. PURCHASE OF RETROSPECTIVE INSURANCE COVER - LIABILITY MUTUAL INSURANCE SCHEME

The MAV has purchased retrospective reinsurance cover on the net amount of all MAV Insurance outstanding net claims liabilities from 30 June 2018 for the 2008/2009 to 2017/2018 accident years incurred up to 30 June 2018. The coverage has a retrospective date of 30 June 2018. The MAV authorised management to negotiate the retrospective coverage on 8 June 2018. Subsequent to this, MAV received an offer to purchase retrospective coverage on 30 August 2018. The MAV Board endorsed the purchase of coverage on 14 September 2018 and a contract was signed on 18 September 2018. The discounted net amount of claims reinsured was \$21.7 million. A premium of \$20 million has been agreed with a single reinsurer which has an S&P credit rating of A+. The premium amount is to be paid quarterly on 1 October, 2018, 1 January 2019, 1 April 2019 and 1 July 2019. The agreement to purchase the retrospective reinsurance cover has enabled LMI to realise a surplus of approximately \$1.5 million after costs. This subsequent event was adjusted for in the 2018 financial statements. The arrangement has had the following effect on the financial statements for the year ended 30 June 2018 - an increase in reinsurance recovery assets of \$21.7 million and an increase in trade and other payable liabilities of \$20.2m. The surplus has been brought to account in the 2018 financial year.

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2019

21. RELATED PARTIES

The MAV is a body corporate established under the Municipal Association Act of 1907 to provide services for and represent Local Government authorities in Victoria. The MAV and its wholly owned controlled entities trade with its members in the normal course of business and on an arm's length basis. The Deed of Establishment provides for the MAV to appoint a Committee of Management (MAV Insurance Board) to be responsible for the administration of the Scheme. Total expenses of \$500,000 (2018 \$505,043) were payable to the MAV being payment for administrative support, and overseeing the management of the insurance activities, including the conduct of bi-monthly Board meeting. The MAV pays insurance premiums to the Liability Mutual Insurance Scheme \$22,036 (2018 \$17,636) and to the Commercial Crime Fund \$10,764 (2018 \$9,526). Other than this, there were no other related party transactions.

Board members during the year

R. Spence (Independent Chair) Appointed 21 August 2018
 A. Murphy (Independent Chair) Retired 21 August 2018
 Cr. C. Ross (MAV President) Appointed on 15 March 2019
 Cr. M. Lalios (MAV President) Retired 4 March 2019
 M. Guilmartin (Independent)
 J. Bennie (Greater Dandenong City Council - Chief Executive Officer)
 S. Crawcour (Strathbogie City Council - Chief Executive Officer) Retired 27 June 2019
 A. Paul (Clarence City Council - Chief Executive Officer) Retired 7 July 2019
 Dr. K. Stephenson (LGAT - Chief Executive Officer)
 K. Thompson (MAV - Chief Executive Officer) Appointed 21 August 2018
 Cr. R. Fyffe (MAV Board Representative) Retired 4 March 2019
 Cr. M. Emerson (MAV Board Representative) Appointed 15 March 2019

Key management personnel remuneration

Independent Board members receive meeting fees. The key management person is the MAV Chief Executive Officer.

	Annual Meeting Allowance	COMBINED		LIABILITY MUTUAL INSURANCE		COMMERCIAL CRIME	
		2019	2018	2019	2018	2019	2018
Chairperson	\$ 25,000						
Independent Board members	15,000						
Short-term remuneration of MAV Insurance Board and key management personnel (Cost of key management personnel is recovered by the MAV)		144,528	102,190	144,528	102,190	-	-
Post employment benefits		8,720	5,909	8,720	5,909	-	-

Loans to MAV Insurance Board members

No loans were made to or are payable by Insurance Board Members during the year.

Other transactions

There were no other material transactions with Insurance Board Members.

Insurance

The activities of the MAV Insurance Board members are covered by the MAV directors and officers indemnity insurance policy effected by the MAV.

22. SUBSEQUENT EVENTS

There were no material events subsequent to the year end that require reporting.

23. ISSUE OF AUDIT OPINIONS BY THE VICTORIAN AUDITOR GENERAL

Due to changes to the Audit Act the Victorian Auditor General's Office has indicated that they would be issuing an audit opinion on top of our auditor Ernst & Young's opinion on the combined financial statements for the year ended 30 June 2019, of the Municipal Association of Victoria under the *Audit Act of 1994*, which is expected to be similar in form and content to Ernst & Young's opinion.

Statement by the MAV Insurance Board

As at 30 June 2019

In accordance with a resolution of the MAV Insurance Board, we state that:

In the opinion of the members of The MAV Insurance Board:

- (a) the financial statements and notes of the combined entity are drawn up so as to present fairly in all material respects the results of Liability Mutual Insurance and the Commercial Crime Fund for the year ended 30 June 2019;
- (b) the accompanying Statement of Financial Position is drawn up so as to present fairly in all material respects the state of affairs of Liability Mutual Insurance and the Commercial Crime Fund as at that date;
- (c) at the date of this statement there are reasonable grounds to believe that Liability Mutual Insurance and the Commercial Crime Fund will be able to pay its debts as and when they fall due;
- (d) the financial statements and notes comply with the Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board, as disclosed in note 2(b);

The financial statements have been made out in accordance with applicable Accounting Standards and other mandatory professional reporting requirements.

On behalf of the MAV Insurance Board



Rob Spence
MAV Insurance Board Chairman



Kerry Thompson
Chief Executive Officer - Municipal Association of Victoria

Melbourne
2/10/2019

STATEMENT BY DIRECTORS

In accordance with a resolution of the directors of the Municipal Association of Victoria, we state that:

In the opinion of the Directors:

- (a) the accompanying Statement of Comprehensive Income drawn up so as to present fairly in all material respects the result of the association for the year ended 30 June 2019;
- (b) the accompanying Statement of Financial Position is drawn up so as to present fairly in all material respects the state of affairs of the association as at that date;
- (c) at the date of this statement there are reasonable grounds to believe that the association will be able to pay its debts as and when they fall due; and
- (d) the accompanying Combined Financial Statements present fairly in all material respects the state of affairs of the association as at that date;
- (e) the financial statements and notes comply with the Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board, as disclosed in note 2(b).

The financial statements and combined financial statements have been made out in accordance with applicable Accounting Standards and other mandatory professional reporting requirements.

Signed in accordance with the resolution of directors of the Municipal Association of Victoria.



Cr. Coral Ross
President



Cr. Mike Symon
Director



Kerry Thompson
Chief Executive Officer

Melbourne
16/10/2019

Independent auditor's report to the members of MAV Insurance

Opinion

We have audited the financial report of MAV Insurance (the "Scheme"), which comprises the statement of financial position as at 30 June 2019, 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 statement by directors.

In our opinion, the MAV insurance's financial report presents fairly, in all material respects, the financial position of the Scheme as at 30 June 2019, and its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards.

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 Scheme 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.

Emphasis of matter - capital management and economic dependency

We draw attention to note 17 of the financial statements which describes the capital management plan of MAV Insurance with respect to the entity's ability to continue in business for the foreseeable future.

We also draw your attention to note 11(b) of the financial statements which details the valuation of the outstanding claims liability as at 30 June 2019, to which a 0% risk margin has been applied to the central case estimates.

Emphasis of matter - Issue of opinions by the Victorian Auditor General

We also draw attention to note 23 of the financial statements which describes the Victorian Auditor General will be issuing an audit opinion, similar in form and content to our opinion, on the financial report of the Scheme as at 30 June 2019.

Our opinion is not qualified in respect of the above matters.

Responsibilities of the Directors for the Financial Report

The directors of the Scheme are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and for such internal control as the directors determine is necessary to enable the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Scheme'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 Scheme 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 Scheme'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 Scheme'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 Scheme 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.

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

Ernst & Young

Maree Pallisco

Maree Pallisco
Partner
Melbourne

16 October 2019

MAV WorkCare Financial Report 2018-19

Address of registered office:

Level 12, 60 Collins Street, Melbourne, 3000, Australia

Principal place of business

Level 11, 60 Collins Street, Melbourne, 3000, Australia

Nature of the operation and principal activities:

The MAV has been approved by WorkSafe to operate a self-insurance workers compensation scheme for its members and their employees.

Number of employees

Six

Statement of Comprehensive Income

For the year ended 30 June 2019

		2019	2018
		\$	\$
	NOTE		
Premium revenue	3	15,301,829	10,092,139
Re-insurance expense		(957,917)	(647,600)
NET PREMIUM INCOME		14,343,912	9,444,539
Claims expense	4(a)	(14,360,196)	(7,724,781)
Reinsurance and other recoveries	3	1,229,509	890,282
NET CLAIMS EXPENSE		(13,130,687)	(6,834,499)
NET UNDERWRITING RESULT		1,213,225	2,610,040
Net investment income	3	51,653	965,088
Loss on transfer of liabilities at scheme commencement	2(s), 18	-	(1,622,094)
Administration & general expenses	4(b)	(3,542,059)	(4,302,729)
OPERATING (DEFICIT)		(2,277,181)	(2,349,695)
Other comprehensive income		-	-
TOTAL COMPREHENSIVE (DEFICIT) FOR THE YEAR		(2,277,181)	(2,349,695)

The accompanying notes form an integral part of these statements

Statement of Financial Position

For the year ended 30 June 2019

	NOTE	2019 \$	2018 \$
CURRENT ASSETS			
Cash and cash equivalents		30,902,878	9,572,530
Investments		45,532,165	57,911,541
Trade and other receivables	9	5,963,774	13,333,236
Prepayments and deposits		1,766,595	1,799,208
TOTAL CURRENT ASSETS		84,165,412	82,616,515
NON-CURRENT ASSETS			
Trade and other receivables	9	2,764,164	1,678,675
Motor vehicles, furniture and equipment	7	27,930	35,830
TOTAL NON-CURRENT ASSETS		2,792,094	1,714,505
TOTAL ASSETS		86,957,506	84,331,020
CURRENT LIABILITIES			
Trade and other payables		6,110,579	3,311,793
Premiums in advance	10	16,726,219	15,783,798
Provision for employee entitlements		20,240	26,396
Outstanding claims	11(a)	11,774,664	11,861,029
TOTAL CURRENT LIABILITIES		34,631,702	30,983,016
NON-CURRENT LIABILITY			
Provision for employee entitlements		2,196	1,033
Outstanding claims	11(a)	56,950,484	55,696,666
TOTAL NON-CURRENT LIABILITY		56,952,680	55,697,699
TOTAL LIABILITIES		91,584,382	86,680,715
NET LIABILITIES		(4,626,876)	(2,349,695)
EQUITY		(4,626,876)	(2,349,695)

The accompanying notes form an integral part of these statements.

Statement of Changes in Equity

For the year ended 30 June 2019

	2019	2018
	\$	\$
RETAINED EARNINGS		
Balance at the Beginning of the year	(2,349,695)	-
(Deficit) from ordinary activities	(2,277,181)	(2,349,695)
BALANCE AT END OF YEAR	(4,626,876)	(2,349,695)

Statement of Cash Flows for the year ended 30 June 2019

CASH FLOW FROM OPERATING ACTIVITIES

	NOTE	2019	2018
		\$	\$
RECEIPTS			
Premiums and fees		28,178,843	18,131,728
Receipt from WorkSafe on transfer of claims liabilities	2(s), 18	-	65,856,545
Interest received		484,169	292,184
PAYMENTS			
Suppliers		(6,518,315)	(8,970,569)
Claim payments		(13,192,743)	(7,803,837)
NET CASHFLOWS FROM OPERATING ACTIVITIES	8(b)	8,951,954	67,506,051
CASH FLOW FROM INVESTING ACTIVITY			
Proceeds from sale of fixed assets		-	-
Payments for fixed assets & intangibles		(981)	(38,521)
Receipts from (Payments to) investment activities		12,379,376	(57,895,000)
NET CASH FROM (USED) IN INVESTING ACTIVITIES		12,378,395	(57,933,521)
NET INCREASE IN CASH HELD		21,330,349	9,572,530
Cash at beginning of year		9,572,530	-
CASH AT END OF YEAR	8(a)	30,902,878	9,572,530

The accompanying notes form an integral part of these statements.

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2019

1. CORPORATE INFORMATION

The financial report of MAV WorkCare (the Scheme) for the year ended 30 June 2019 was authorised for issue in accordance with a resolution of the directors of the Municipal Association of Victoria (MAV) on the date shown on the attached Statement by Directors.

MAV WorkCare is the workers' compensation insurance division of the MAV. This division commenced business on 1 November 2017. The MAV is an association incorporated by an Act of the Parliament of Victoria known as the Municipal Association Act 1907.

The nature of the operations and principal activities of MAV WorkCare is the provision of workers compensation insurance for its members and other Local Government Authorities. The MAV is specifically named in the Workplace Injury Rehabilitation and Compensation Act 2013 (Vic) (WIRC Act) as an entity that can hold a self-insurance licence for the benefit of its members.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Standards and Interpretations issued but not yet effective.

Reference	Title Summary	Application Date of Standard	Impact on MAV Financial Report	Application Date for MAV
AASB 9	Financial Instruments	1 January 2019	Preliminary assessment indicates minimal impact arising on the adoption of these standards	1 July 2019
AASB 15	Revenue from Contracts with Customers	1 January 2019		1 July 2019
AASB 16	Leases	1 January 2020	No leases. No impact.	1 July 2020
IFRS 17	Insurance Contracts	1 January 2021	Preliminary assessment indicates minimal impact arising on the adoption of this standard.	1 July 2021

(a) Basis of preparation

The financial report is a general purpose financial report which has been drawn up in accordance with Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board.

The principal accounting policies adopted in preparing the financial report are stated to assist in a general understanding of the financial report. Accounting policies have been consistently applied unless otherwise indicated.

The financial report is presented in Australian dollars. MAV WorkCare is a Not for Profit entity.

The accounts have been prepared on the accruals basis using historical costs and, except where stated, do not take into account current valuations of assets.

(b) Statement of compliance

The financial statements and notes comply with the Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board.

(c) Income tax

The MAV is a State and Territory Body (STB) and is exempt from income tax, in accordance with Division 1AB of Part III of the Income Tax Assessment Act 1997.

(d) Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three 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 equivalents as defined above, net of outstanding bank overdrafts.

(e) Trade and other receivables

Trade receivables, which generally have 30-60 day terms, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment.

Collectability of trade receivables is reviewed on an ongoing basis at an operating unit level. Individual debts that are known to be uncollectible are written off when identified. An impairment provision is recognised where there is objective evidence that the Group will not be able to collect the receivable. Financial difficulties of the debtor, default payments or debts more than 60 days overdue, other than outstanding reinsurance recoveries, are considered objective evidence of impairment. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate.

(f) Trade and other payables

Trade and other payables are carried at amortised cost and due to their short term nature they are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

(g) Motor Vehicles, Furniture and Equipment

Motor vehicles, Furniture and Equipment are carried at cost, less where applicable, accumulated depreciation and impairment.

On disposal of an item of motor vehicles, furniture and equipment the difference between the sales proceeds and the carrying amount of the asset is recognised as a gain or loss.

All fixed assets are depreciated/amortised on a straight line basis over their estimated useful lives to the entity commencing from the time the asset is held ready for use.

The following depreciation and amortisation rates are in use:

	Annual Rate
Motor Vehicles	20%
Furniture and Equipment	33%

(h) Investment income

Investment income consists of interest which is recognised on a time-proportionate basis that takes into account the effective interest rate on the financial asset and movements in unit values in cash and fixed interest funds which are carried at fair value through the Statement of Comprehensive Income.

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2019

(i) Premiums

Premiums comprise amounts charged to members of the Scheme for policy cover, net of amounts returned to members as bonuses. The earned portion of premiums received is recognised as revenue. Premiums are treated as earned from date of attachment of risk. The pattern of recognition over the policy is based on time, which is considered to closely approximate the pattern of risks undertaken.

(j) Premiums in advance

During the month of June each year, the Scheme issues premium notices to Scheme members. The risk attaches to the premiums in the next accounting period and accordingly the revenue is recognised each following year commencing 1 July. Members have committed to participate in the Scheme for the three year licence period and accordingly the premiums are disclosed in the Statement of Financial Position as "premiums receivable" with an offsetting liability described as "premiums in advance".

(k) Claims

Claims-incurred expense and liability for outstanding claims are recognised in respect of direct business. The liability covers claims incurred but not yet paid, incurred but not yet reported claims, and the anticipated direct and indirect costs of settling those claims. Claims outstanding are assessed by reviewing individual claim files and estimating claims not notified and settlement costs using statistical and actuarial techniques. The liability for outstanding claims is measured as the present value of the expected future payments, reflecting the fact that all the claims do not have to be paid out in the immediate future. The expected future payments are estimated on the basis of the ultimate cost of settling claims, which is affected by factors arising during the period to settlement such as normal inflation and superimposed inflation. Advice from the MAV's actuary has estimated superimposed inflation for weekly, medical and other payments to be 1.2% per annum and for Common Law payments to be 3.2% per annum. The discount rate has been estimated at 1.5% .

Superimposed inflation refers to factors such as trends in court awards, for example increases in the level and period of compensation for injury. The expected future payments are then discounted to a present value at the reporting date using discount rates based on the investment opportunities available to the organisation on the amounts of funds sufficient to meet claims as they became payable.

Details of rates applied are disclosed in note 16.

(l) Investments

Investments are valued at fair market value at balance date. Investment income includes interest received and receivable on investments and changes in net market values of investments in cash and fixed interest funds.

(m) Cash flows

For the purposes of the Statement of Cash Flows, cash includes cash on hand and deposits held at call with banks.

(n) Reinsurance and other recoveries receivable

Reinsurance and other recoveries receivable on paid claims, reported claims not paid, claims incurred but not reported and unexpired risk liabilities are recognised as revenue. Recoveries receivable are assessed in a manner similar to the assessment of outstanding claims. Recoveries are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims.

(o) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefit will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

- (i) Premiums - recognised in the period the fund is at risk.
- (ii) Future reinsurance and other Recoveries - on an accruals basis.
- (iii) Investment Income - on an accruals basis including adjustments made to account for changes in the value of cash backed unit trusts to account

(p) Comparative figures

As this is the first period of operation there are no comparative figures reflected in the financial statements.

(q) Reinsurance Expense

Reinsurance expense relates to insurance premiums paid to reinsurers in accordance with the established reinsurance strategy of the entity and in order to protect the Insurance businesses from catastrophic and unforeseen claims.

(r) Fair Value Measurement

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the MAV determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. MAV does not have any level 3 financial assets.

Investments represent holdings in managed investment funds that are not traded in a market considered active. The fair value of these assets is regularly revalued by the Investment Manager based on observable inputs or derivable from observable inputs. These are considered level 2 financial assets. The carrying amounts of financial assets and financial liabilities represent their approximate fair value. All maturity dates are within twelve months. For the purpose of fair value disclosures, the MAV has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

2019	Level 1	Level 2	Level 3	Total
Investments	-	45,532,165	-	45,532,165
Total	-	45,532,165	-	45,532,165

2018	Level 1	Level 2	Level 3	Total
Investments	-	57,911,541	-	57,911,541
Total	-	57,911,541	-	57,911,541

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2019

(s) Establishment of the MAV WorkCare Self-Insurance Scheme

Under the Accident Compensation Act 1985 the MAV is specifically named as a body that can apply for a Workers' Compensation Self-Insurance Licence. Since 2015 the MAV has been working to establish the MAV WorkCare Scheme. In that time significant work has been completed on the organisational and financial structure of the Scheme, improving members Occupational Health & Safety systems and providing WorkSafe Victoria with a target for the members to achieve one hundred percent conformance to the National Audit Tool by the end of the first licence period of three years. On 3 May 2017 WorkSafe Victoria approved the MAV as a self-insurer for a period of three years commencing from 4pm on 1 November 2017. MAV completed all conditions precedent and all pre-commencement action items to the satisfaction of WorkSafe Victoria and as a result commenced operating MAV WorkCare Self-Insurance Mutual Scheme on 1 November 2017. There were thirty-one inaugural members of the Scheme, including the MAV. All members of the Scheme are committed to the Scheme for the first licence period of three years in accordance with the Participation Agreement. On commencement of the Scheme WorkSafe Victoria transferred the Net Claims Outstanding Liability as at 31 October 2017, as per the Statistical Case Estimate (SCE), and also transferred the cash equivalent to the valuation of the Net Outstanding Claims Liability. The cost of acquiring the self insurance licence of \$1,266,590 has been expensed.

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2019

	NOTE	2019 \$	2018 \$
3. REVENUE FROM ORDINARY ACTIVITIES			
REVENUES FROM OPERATING ACTIVITIES			
Premiums		15,301,829	10,092,139
Reinsurance and other recoveries		1,229,509	890,281
TOTAL REVENUE FROM OPERATING ACTIVITIES		16,531,338	10,982,420
REVENUES FROM NON-OPERATING ACTIVITIES			
Investment income		1,998,140	965,088
Realised investment loss		(1,946,487)	-
TOTAL REVENUE FROM OUTSIDE THE OPERATING ACTIVITIES		51,653	965,088
TOTAL REVENUE FROM ORDINARY ACTIVITIES		16,582,991	11,947,508
4(a). CLAIMS EXPENSES			
Paid		13,192,743	7,645,725
Outstanding claims at end of financial year		68,725,148	67,557,695
Less: Outstanding claims at beginning		(67,557,695)	(67,478,639)
TOTAL CLAIMS EXPENSES		14,360,196	7,724,781
4(b). ADMINISTRATION & GENERAL EXPENSES			
The following items have been recognised in the operating (deficit):			
Administration		900,947	497,987
Audit fees	5	96,069	75,396
Depreciation of motor vehicles		7,966	2,451
Depreciation of information technology equipment		914	241
Staffing costs and consultants		1,220,619	2,628,859
Levy		570,468	606,756
Scheme management fees	6	740,956	491,039
TOTAL EXPENDITURE		3,542,059	4,302,729
5. AUDIT FEES			
Amounts payable or due and payable for audit services:			
Audit of the entity		96,069	75,396
TOTAL AUDIT FEE		96,069	75,396
6. SCHEME MANAGEMENT FEES			
management fees for:			
Risk Identification and prevention		296,382	196,415
Occupational Health and Safety		296,382	196,415
Training and Education		148,192	98,209
TOTAL SCHEME MANAGEMENT FEES		740,956	491,039

The Scheme service provider also received claims handling costs of \$800,618 which are included in total claims cost.

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2019

	NOTE	2019 \$	2018 \$
7. MOTOR VEHICLES, FURNITURE & EQUIPMENT			
Motor vehicles		36,768	36,768
Less accumulated depreciation		(10,418)	(2,451)
		26,350	34,317
Furniture and equipment - at cost		2,735	1,754
Less accumulated depreciation		(1,155)	(241)
		1,580	1,513
		27,930	35,830
Reconciliations of the carrying amounts of property, furniture and equipment at the beginning and end of the financial year.			
MOTOR VEHICLES			
Movements during the year			
Beginning of year		34,317	-
Additions		-	36,768
Disposals		-	-
Depreciation		(7,967)	(2,451)
End of year		26,350	34,317
FURNITURE AND EQUIPMENT			
Movements during the year			
Beginning of year		1,513	-
Additions		981	1,754
Disposals		-	-
Depreciation		(914)	(241)
End of year		1,580	1,513

8. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Cash and cash equivalents at balance date as shown in the Statement of Cash Flows are held in NAB cash deposits and are reconciled to the related items in the Statement of Financial Position as follows:

	NOTE	2019 \$	2018 \$
Cash and Cash Equivalents		30,902,878	9,572,530
TOTAL CASH		30,902,878	9,572,530

(b) Reconciliation of Net Cash (Used In) Operating Activities to Operating Surplus/(Deficit)

Surplus/(deficit) for year		(2,277,181)	(2,349,695)
<u>Adjustments for:</u>			
Depreciation		8,881	2,692
<u>Changes in assets and liabilities:</u>			
(Increase) decrease in trade and other receivables	2(f)	6,316,587	(16,827,661)
Increase(Decrease) in employee entitlements		(4,993)	27,430
Increase in trade and other payables		2,798,787	3,311,792
Increase in premiums in advance		942,421	15,783,798
Increase in outstanding claims	2(m)	1,167,452	67,557,695
NET CASH (USED IN) OPERATING ACTIVITIES		8,951,953	67,506,051

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2019

NOTE	2019 \$	2018 \$
9. TRADE AND OTHER RECEIVABLES		
Future reinsurance and other recoveries receivable	3,284,418	1,036,109
Discount to present value	(394,548)	-
	2,889,870	1,036,109
Less provision for doubtful debts	-	-
Premiums receivable	5,607,373	12,788,744
Other receivables	230,695	1,187,058
TOTAL RECEIVABLES	8,727,938	15,011,911
Represented By:		
CURRENT	5,963,774	13,333,236
NON-CURRENT	2,764,164	1,678,675
TOTAL	8,727,938	15,011,911

Reinsurance recoveries are due from a reinsurer with an S&P rating of A. Other recoveries are due from unrated Local Authorities based in Victoria.

The ageing analysis of premiums receivable and other receivables are as follows:

	Total	<30 days	31 - 60 days	61 - 90 days	>90 days
2019					
MAV WorkCare	5,838,068	5,752,522	-	-	85,546
2018					
MAV WorkCare	13,975,803	13,531,811	-	381,358	62,634

	2019 \$	2018 \$
10. PREMIUMS IN ADVANCE		
Contributions billed in advance	16,726,219	15,783,798
11(a). OUTSTANDING CLAIMS		
Central estimate	70,685,807	75,269,662
Discount to present value	(6,516,667)	(12,774,830)
	64,169,140	62,494,832
Claims handling costs	4,556,008	5,062,863
TOTAL OUTSTANDING CLAIMS	68,725,148	67,557,695
Comprising:		
CURRENT	11,774,664	11,861,029
NON-CURRENT	56,950,484	55,696,666
TOTAL OUTSTANDING CLAIMS	68,725,148	67,557,695

11(b) RISK MARGIN - PROCESS FOR DETERMINING RISK MARGIN

As at 30 June 2019, the MAV WorkCare Board determined that the outstanding claims liability is to be held at the 50% probability of sufficiency on the basis of the mutual structure of the MAV WorkCare Scheme. As a result, a 0% risk margin was applied to the central estimate to achieve the desired level of sufficiency. Please see Note 16.

11(c) RECONCILIATION OF MOVEMENT IN DISCOUNTED OUTSTANDING CLAIMS LIABILITY

	2019			2018		
	Gross \$	Reinsurance & Recoveries \$	Net \$	Gross \$	Reinsurance & Recoveries \$	Net \$
Outstanding claims brought forward	67,557,695	890,281	66,667,414	67,143,225	-	67,143,225
Changes in assumptions	(1,355,924)	609,749	(746,175)	-	-	-
Increase in claims incurred/recoveries anticipated	15,716,120	(1,839,258)	13,876,862	7,724,781	(890,281)	6,834,500
Incurred claims recognised in income statement	14,360,196	(1,229,509)	13,130,687	7,724,781	(890,281)	6,834,500
Claim payments during the year	(13,192,742)	(770,080)	(13,962,822)	(7,310,311)	-	(7,310,311)
Outstanding claims carried forward	68,725,148	(2,889,869)	65,835,279	67,557,695	(890,281)	66,667,414

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2019

12. NET CLAIMS INCURRED

	2019			2018		
	Current Year	Prior Year	Total	Current Year	Prior Year	Total
	\$	\$	\$	\$	\$	\$
COMBINED						
Gross claims and related expenses – undiscounted	16,787,504	(8,390,544)	8,396,960	10,779,750	(3,425,872)	7,353,878
Discount	(1,158,376)	7,121,612	5,963,236	(1,235,220)	1,606,124	370,904
Gross Claims and related expenses – discounted	15,629,128	(1,268,932)	14,360,196	9,544,529	(1,819,749)	7,724,780
Reinsurance and other recoveries undiscounted	(1,913,344)	678,690	(1,234,654)	(1,211,332)	-	(1,211,332)
Discount	240,774	(235,629)	5,145	321,051	-	321,051
Reinsurance and other recoveries – discounted	(1,672,570)	443,061	(1,229,509)	(890,281)	-	(890,281)
NET CLAIMS INCURRED	13,956,558	(825,871)	13,130,687	8,654,248	(1,816,539)	6,834,499

13. CLAIMS DEVELOPMENT TABLE

ACCIDENT YEAR	2015	2016	2017	2018	2019	Total
	\$	\$	\$	\$	\$	\$
GROSS ESTIMATE OF ULTIMATE CLAIMS COST						
At end year of accident	-	-	-	16,091,056	15,017,468	
One year later	-	-	15,317,981	15,698,598		
Two years later	-	14,782,820	14,494,192			
Three years later	13,272,035	14,250,521				
Four years later	13,274,397					
Current estimate of cumulative claims cost	13,274,397	14,250,521	14,494,192	15,698,598	15,017,468	72,735,176
Cumulative payments	(7,641,205)	(6,525,667)	(5,131,560)	(4,955,490)	(1,892,879)	(26,146,802)
Outstanding claims – undiscounted	5,633,192	7,724,854	9,362,632	10,743,107	13,124,589	46,588,374
Discount						(4,117,665)
Claims handling expense						3,015,420
2014 and prior						23,239,019
MAV WORKCARE GROSS OUTSTANDING CLAIMS 11c						68,725,148
NET ESTIMATE OF ULTIMATE CLAIMS COST						
At end year of accident	-	-	-	14,280,525	13,104,123	
One year later	-	-	15,194,378	14,280,253		
Two years later	-	14,558,137	14,458,220			
Three years later	12,939,053	14,098,331				
Four years later	12,992,877					
Current estimate of cumulative claims cost	12,992,877	14,098,331	14,458,220	14,280,253	13,104,123	68,933,804
Cumulative payments	(7,359,685)	(6,373,477)	(5,095,588)	(4,925,048)	(1,876,051)	(25,629,849)
Outstanding claims - undiscounted	5,633,192	7,724,854	9,362,632	9,355,205	11,228,072	43,303,956
Discount						(3,723,116)
Claims handling Expense						3,015,420
2014 and prior						23,239,019
MAV WORKCARE NET OUTSTANDING CLAIMS 11c						65,835,279

These tables show the trend in the balance of outstanding claims.

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2019

14. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES

MAV WorkCare's exposure to interest rate risk and the effective average interest rate for the classes of financial assets is set out below:

	Non- Interest Earning	Floating Interest Rate
	\$	\$
2019		
FINANCIAL ASSETS		
Cash and cash equivalents		30,902,879
Investments		45,532,165
Trade and other receivables	5,963,774	-
TOTAL FINANCIAL ASSETS	5,963,774	76,435,044
Weighted Average Interest Rate		0.07%
FINANCIAL LIABILITIES		
Outstanding claims	68,725,148	-
Unearned premiums/subscriptions	16,726,219	-
Trade and other payables	6,133,015	-
TOTAL FINANCIAL LIABILITIES	91,584,382	-
Weighted Average Interest Rate		0.0%
2018		
FINANCIAL ASSETS		
Cash and cash equivalents		9,572,530
Investments		57,911,541
Trade and other receivables	13,333,236	-
TOTAL FINANCIAL ASSETS	13,333,236	67,484,071
Weighted Average Interest Rate		2.1%
FINANCIAL LIABILITIES		
Outstanding claims	67,557,695	-
Unearned premiums/subscriptions	15,783,798	-
Trade and other payables	3,339,221	-
TOTAL FINANCIAL LIABILITIES	86,680,714	-
Weighted Average Interest Rate		0.0%

Investments are considered level 2 financial assets in accordance with AASB 7 (Financial Instruments). The carrying amounts of financial assets and financial liabilities represent their approximate fair value. All maturity dates are within twelve months.

The table below reflects all contractually fixed pay-offs and receivables for settlement, repayments and interest resulting from recognised financial assets and liabilities as at 30 June 2019. Cash flows for financial assets and liabilities without fixed amounts or timing are based on conditions existing at 30 June 2019.

The remaining contractual maturities of the financial liabilities are:

	COMBINED	
	2019	2018
	\$	\$
3 months or less	13,257,356	3,005,022
3-12 months	21,440,333	9,015,065
1-5 years	30,732,331	31,590,905
Over 5 years	33,111,275	36,820,938
	98,541,297	80,431,929

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2019

14. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (CONTINUED)

LIQUIDITY RISK

Maturity analysis of financial assets and liabilities based on management's expectation

The risk implied from the values in the table below, reflects a balanced view of cash inflows and outflows. These liabilities originate from workers' compensation insurance contracts and other financial assets used in the ongoing operations of the business. These assets are considered in the MAV's overall liquidity risk. To monitor existing financial assets and liabilities as well as to enable effective controlling of future risks, the MAV has established a comprehensive risk reporting covering its workcare insurance business that reflects the management of settlement of financial assets and liabilities.

Year ended 30 June 2019	<3 months \$	3-12 months \$	1-5 years \$	>5years \$	Total \$
FINANCIAL ASSETS					
Cash and cash equivalents	30,902,878				30,902,878
Investments	45,532,165	-	-	-	45,532,165
Trade and other receivables	31,657	94,970	651,299	2,506,493	3,284,419
	76,466,700	94,970	651,299	2,506,493	79,719,462
FINANCIAL LIABILITIES					
Outstanding claims	2,965,223	8,895,669	30,732,331	33,111,275	75,704,498
Unearned premiums/subscriptions	16,726,219	-	-	-	16,726,219
Trade and other payables	6,133,015	-	-	-	6,133,015
TOTAL FINANCIAL LIABILITIES	25,824,457	8,895,669	30,732,331	33,111,275	98,563,732
NET MATURITY	50,642,243	(8,800,699)	(30,081,032)	(30,604,782)	(18,844,270)

Risk management objectives and policies for mitigating insurance risk

The MAV WorkCare Self-Insurance mutual liability scheme (trading as MAV WorkCare) was established in 2017 and commenced operations on 1 November 2017. Membership is available to local government councils and prescribed bodies. The Scheme operates in Victoria to provide services to members in respect of their potential and actual workers' compensation liabilities.

Actuarial models, using information from the Scheme's management information systems are used to confirm premiums and monitor claim patterns. Past experience and statistical methods are used as part of the process.

The principal risk is that the frequency and severity of claims is greater than expected. Risk events are, by their nature, random, and the actual number and size of events during any one-year may vary from those estimated using established statistical techniques.

Objectives in managing risk arising from insurance and policies for mitigating those risks

The Scheme has an objective to control insurance risk thereby reducing the volatility of its operating surplus. In addition to the inherent uncertainty of occupational health and safety risks, which can lead to variability in the loss experience, operating surpluses can also be affected by external factors, such as movements in asset values.

The Scheme relies on a strong relationship with its members and provides members with occupational health and safety risk management and return to work programs and encourages members to implement these programs in order to reduce the incidence of injuries to workers leading to less claims to the Scheme.

Reinsurance strategy

The Scheme adopts a conservative approach towards management of risk and does this by utilising various risk transfer options. The MAV WorkCare Board determines the level of risk, which is appropriate for the Scheme having regards to ordinary concepts of prudence and regulatory constraints. The risk transfer arrangements adopted by the Scheme include the utilisation of commercial reinsurance / excess arrangements. These arrangements include constant review of both reinsurers' financial strength, and ensuring reinsurers meet the requirements of the MAV WorkCare policies. These risk transfer arrangements assist the Scheme to limit exposures to large single claims and catastrophic events. These programs are reviewed each year to ensure that they continue to meet the risk needs of the Scheme.

Terms and conditions of membership

Membership to the Scheme is for the initial three year period of the self-insurance licence ending on 31 October 2020. Current members will be requested to advise MAV of their intention to renew their membership of the Scheme for the second licence period of either four year or six years by 28 February 2020. Other eligible local government bodies will also be invited to join the Scheme at that time. Termination of membership will be determined if the member does not renew for the second licence period.

Product features

The Scheme operates in Victoria. Should a claim be accepted the Scheme provides an unlimited indemnity to the member. The Scheme purchases excess insurance cover over \$500,000 per claim from a qualified insurance company that meets the financial criteria set down in the operational policies of MAV WorkCare. The financial strength of the insurer is continually assessed to ensure it meets policy guidelines of an S&P rating of A as well as US\$25 million of free cash on its balance sheet.

Operating surpluses arise from the total contributions charged to members less the amounts paid to cover claims and the expenses incurred by the Scheme.

Management of risks

The key insurance risks that affect the Scheme are contribution risk, and claims experience risk. The Scheme is a captive insurer for the period of the licence. Contribution risk is the risk that the Scheme does not charge contributions appropriate for the indemnity cover it provides. The Scheme partially manages contribution risk through its proactive approach to risk management that addresses all material risks both financial and non-financial. There are no specific terms and conditions that are expected to have a material impact on the financial statements.

Claims experience risk is managed through the non-financial risk assessment and risk management and reinsurance management process. Claims experience is monitored on an ongoing basis to ensure that any adverse trending is addressed. The Scheme is able to reduce the claims experience risk of severe losses through an active OH&S and risk management program, the reinsurance arrangements, and by managing the concentration of insurance risks. The Scheme is governed by a participation agreement and rules that contain the ability to obtain contributions from members to pay liabilities and expenses and has the power to call on members to cover any future losses that are not recovered by contributions.

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2019

14. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (CONTINUED)

Concentration of insurance risks

Insurance risk is managed by taking a long term approach to setting the annual contribution rates that eliminates price fluctuations, through appropriate investment strategy, reinsurance and by maintaining an active state-wide risk management profile. The Scheme keeps abreast of changes in the general economic, legal and commercial environment in which it operates. The Scheme spreads its risk of reinsurance failure by ensuring reinsurers are of high financial quality and can meet their commitments to the MAV. The MAV maintains policies and strategies and receives advice from an independent actuary on at least an annual basis in order to determine the concentration and amount of risk exposure.

		CREDIT RATING						Total
		AAA	AA	AA-	A	Speculative	Not Rated	
		+/- \$m	+/- \$m	+/- \$m	\$m	\$m	\$m	
Reinsurance and other recoveries on outstanding claims	2019	-	-	-	2,058	-	832	2,890
	2018	-	-	-	1,036	-	-	1,036
Reinsurance and other recoveries on paid claims	2019	-	-	-	-	-	-	-
	2018	-	-	-	-	-	-	-
		PAST DUE BUT NOT IMPAIRED						Total
		Neither past due nor impaired	Less than 3	3 to 6 months	6 months to 1	Greater than 1	Impaired	
		\$m	\$m	\$m	\$m	\$m	\$m	\$m
Reinsurance and other recoveries on paid claims	2019	-	-	-	-	-	-	-
	2018	-	-	-	-	-	-	-

Credit risk

The Scheme is exposed to credit risk on insurance contracts as a result of exposure to reinsurers. The credit risk of reinsurers is managed through the Scheme's Reinsurance Management Strategy and policies that includes regularly monitoring both the financial rating of the reinsurers both prior to and during the reinsurance program and the flow of payments coming from the reinsurers. Investments in cash and cash equivalents at balance date as shown in the Statement of Cash Flows are held in S&P rated AA- and A- rated cash deposits.

Price risk

Investments held are not subject to price risk.

Interest rate risk

MAV WorkCare is exposed to interest rate risk from its investments, cash and cash equivalents.

MAV WorkCare manages its interest rate risk with the advice and assistance of its Investment adviser and its independent actuary. The 2019 financial year has proved difficult for the Scheme with one of the investments in the investment portfolio performing poorly, negatively impacting the final operating result. Interest rate risk exposure showing the effect on the net operating result and total accumulated resulting from 'reasonably possible' changes in interest rate risk at 30 June 2019 is set out in the table below.

Variable	Current Rate	Change variable to +0.5%/-0.5%	Operating surplus (deficit) at 30 June 2019	Total Accumulated Funds after the impact of applying variable
	%	%	\$	\$
IMPACT OF CHANGES IN INTEREST RATE ON FINANCIAL ASSETS				
Base value at 30 June 2019	0.07%		(2,277,181)	(4,626,876)
Interest Rate p.a.		0.57%	(1,895,006)	(4,244,701)
		-0.43%	(2,659,357)	(5,009,051)

15. ACCOUNTING ESTIMATES AND JUDGEMENTS

The Scheme makes estimates and judgements in respect of certain key assets and liabilities. Estimates and judgements are continually reviewed and are based on past experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key areas in which critical estimates and judgements are applied are described below.

(a) Estimation of outstanding claims liability

Provision is made at the year-end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported ("IBNR") to the Scheme. The Scheme takes all reasonable steps to ensure that it has appropriate information regarding its claims exposure. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome may be different from the original liability established.

Provisions are calculated gross of all recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers and any third party.

The determination of an appropriate outstanding claims provision involves:

- Establishing a case estimate for each reported claim at year-end taking into account legal advice where appropriate on larger claims;
- Allowance for incurred but not reported claims as confirmed by the actuarial review on 30 June 2019;
- An allowance of 7.4% for claim administration expenses, as assumed by the Actuary;
- Allowances for claim inflation of 2.5%, as assumed by the Actuary;
- Allowances for discount at 1.5%, as assumed by the Actuary;
- A risk margin of 0% of net outstanding claims after the effect of reinsurance has been applied, as assumed by the actuary.

Refer to Note 11 b) for details

Details of specific actuarial assumptions used in deriving the outstanding claims liability at year-end are detailed in note 16.

(b) Assets arising from reinsurance contracts

Assets arising from reinsurance contracts were estimated for each fund year, from the payments to date and estimated outstanding claims history at 30 June 2019, taking into account the reinsurance terms applying to that fund year.

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2019

16. ACTUARIAL ASSUMPTIONS AND METHODS

Actuarial assumptions

The following assumptions have been made in determining the outstanding claims liabilities:

	2019	2018
Key actuarial assumptions		
Wage inflation	2.50%	3.25%
Claim administration expense	7.40%	8.00%
Discount rate	1.50%	2.70%
Risk margin	0.00%	0.00%
Superimposed inflation	1.78%	1.78%

Process used to determine actuarial assumptions

A description of the processes used to determine the above key actuarial assumptions is provided below:

MAV WorkCare commenced business operations on 1 November 2017. It provides workers compensation insurance for thirty Local Government Authorities and the Municipal Association of Victoria. The Actuary was supplied with details of all transactions (payments, recoveries, estimates) to 30 June 2019. The individual claim payments and case estimates reconciled closely with totals in MAV WorkCare's financial statements for the year of cover. The actuary subdivided the claims data into 2 groups (Above Excess and Below Excess) and made separate estimates of the gross outstanding claims liabilities for each claim type. The actuary estimated the gross outstanding claims liabilities for Above Excess (Standard) claims by splitting the payments on Above Excess claims into 5 different sub-groups and modelling each sub-group separately. Above Excess claims were predominantly estimated using a numbers times average size method (PPCI). Below Excess (Minor) claims were modelled separately and utilised a numbers times average size method. Payments were projected with a payment pattern, based on past experience. Estimates of non reinsurance recoveries were made by a recoveries per claim method. Outstanding non reinsurance recoveries for accident periods up to and including 2016/17 were reduced to 0% to allow for the inability of MAV WorkCare to claim recoveries for these accident periods. Reinsurance recoveries for periods post 1 November 2017 were estimated by considering a total payment model and a total payment model where payments are capped at the expected excess of loss limit. The difference between these two models is the implied reinsurance recovery that would have been received if a similar reinsurance contract had been in place for historical periods. There has been no allowance for reinsurance recoveries for periods prior to 1 November 2017.

Based on economic forecasts, market based expectations for longer term CPI expectations and a long term CPI-wage gap, wage inflation was assumed to be 2.50%. The discount rate was assumed to be 1.5% pa., derived from the yields on Commonwealth government bonds.

The Actuary has assumed a risk margin of 0% of the net liabilities to give a probability of 50% that the provisions will prove adequate to meet the relevant liabilities.

VARIABLE	IMPACT OF MOVEMENT IN VARIABLE
Wage inflation	Expected future payments are inflated to take account of inflationary increases. An increase or decrease in the assumed levels of economic inflation would have a corresponding impact on claims expense, with particular reference to longer tail claims.
Discount rate	The outstanding claims liability is calculated by reference to expected future payments. These payments are discounted to adjust for the time value of money. An increase or decrease in the assumed discount rate will have an opposing impact on total claims expense.
Case estimate development	Case estimates are initially established in accordance with established guidelines and by reference to the known facts. Where new information becomes available the initial case estimate will change. This development movement is applied to open claims and will have a corresponding impact on claims expense.

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2019

16. ACTUARIAL ASSUMPTIONS AND METHODS (CONTINUED)

Wage inflation rate sensitivity

Expected future payments are inflated to take account of inflationary increases. An increase or decrease in the assumed levels of economic inflation would have a corresponding impact on claims expense, with particular reference to longer tail claims.

Variable	Current Rate	Change variable to +0.5%/-0.5%	Operating surplus (deficit) at 30 June 2019	Total Accumulated Funds after the impact of applying variable
	%	%	\$	\$

IMPACT OF CHANGES IN KEY VARIABLES

Base value at 30 June 2019	2.50%		(2,277,181)	(4,626,876)
Wage Inflation rate p.a.		3.00%	(4,377,181)	(6,726,876)
		2.00%	(277,181)	(2,626,876)

Discount rate sensitivity

The reinsurance indemnity contracts contain no clauses that expose the Scheme, directly to interest rate risk. The reinsurance contracts are long term arrangements, reviewed and payable annually.

Variable	Current Rate	Change variable to +0.5%/-0.5%	Operating surplus (deficit) at 30 June 2019	Total Accumulated Funds after the impact of applying variable
	%	%	\$	\$

IMPACT OF CHANGES IN DISCOUNT RATES

Base value at 30 June 2019	1.50%		(2,277,181)	(4,626,876)
Discount rate p.a.		2.00%	(277,181)	(2,626,876)
		1.00%	(4,077,181)	(6,426,876)

Claims handling sensitivity

Future claims handling expenses represent administrative costs relating to the payment of claims incurred to date.

Variable	Current Rate	Change to the Current Rate +2%/-2%	Operating surplus (deficit) at 30 June 2019	Total Accumulated Funds after the impact of applying variable
	%	%	\$	\$

IMPACT OF CHANGES IN KEY VARIABLES

Base value at 30 June 2019	7.40%		(2,277,181)	(4,626,876)
Claim administration expense		9.40%	(3,560,564)	(5,910,259)
		5.40%	(993,798)	(3,343,493)

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2019

17. CAPITAL MANAGEMENT OBJECTIVES AND ECONOMIC DEPENDENCY

The MAV is specifically excluded from the provisions of the Insurance Act and from APRA regulation. The only externally imposed capital requirement on the MAV is within the self-insurance licence conditions imposed by WorkSafe. The capital ratio of MAV WorkCare must be greater than 85% of net liabilities. If the capital ratio falls below 100% the MAV must put in place strategies to return to a capital ratio of 100% or better. The MAV's capital management philosophy is focused on capital efficiency and effective risk management to support a progressive business model for the benefit of members of the Scheme. The Board of directors and management have in place a strategic plan that is aligned to achieving the MAV's capital management philosophy with an objective remain in surplus. Key elements of this plan include premium setting, risk management, claims management and reinsurance management. Key elements of the capital management plan include a review of the investment strategy and establishing increased flexibility in the scheme cost structures. MAV is operating the MAV WorkCare Scheme as a going concern. MAV WorkCare has considered the future operation of the Scheme and has issued premium notices for the 2020 year. These premium notices are expected to maintain the Scheme in an operating surplus position. All members of the Scheme are committed to the Scheme for the first licence period of three years in accordance with the Participation Agreement. The MAV operates MAV WorkCare as a captive, non-discretionary mutual fund, and under Schedule 1, Part B, Clause 3 of the Participation Agreement the MAV has the ability to obtain contributions from members to meet any shortfall in the Provision set aside in respect of that Insurance Year. Schedule 1, Part B, Clause 7 of the Participation Agreement, provides the ability for MAV to make additional calls on each Participant (member) will remain liable to make further contributions to the scheme in respect of any insurance year in which it was a participant to the extent of its participant's share of any shortfall in the provision set aside in respect of that insurance year, and such liability will continue whether or not the Participant remains a Participant in future Insurance Years. MAV is operating MAV WorkCare Scheme as a going concern. MAV WorkCare has considered the future operation of the Scheme and has issued premium notices for the 2020 year. These premium notices are expected to maintain the Scheme in an operating surplus position. All members of the Scheme are committed to the Scheme for the first licence period of three years in accordance with the Participation Agreement.

18. LOSS ON TRANSFER OF LIABILITIES ON COMMENCEMENT OF THE SCHEME

On 1 November 2017 MAV WorkCare commenced business as a licensed self-insurer under the WIRC Act. WorkSafe granted the licence to MAV WorkCare on 3rd May, 2017 to commence business as a self-insurer subject to meeting performance and financial conditions. MAV met all the conditions required to be met by WorkSafe prior to commencement. On commencement of the Scheme WorkSafe paid to MAV WorkCare the sum of \$65,856,545 which was the Statistical Case Estimate (SCE) of claims outstanding for the thirty-one inaugural members of the Scheme. The independent actuary to the Scheme estimated the value the claims outstanding, including claims handling expenses, for the thirty-one inaugural members of the Scheme that were transferred by WorkSafe to the Scheme, net of recoveries, at \$67,478,639. This resulted in a deficit of \$1,622,094 at commencement.

19. CONTINGENT LIABILITY

During the normal course of business, the Scheme may be exposed to contingent liabilities from litigation arising from its activities, which if they should crystallise may adversely affect the financial position and performance of MAV WorkCare. Provisions are made for obligations that are probable and able to be quantified.

On 1 November 2017 MAV WorkCare commenced business as a licensed self-insurer under the WIRC Act. WorkSafe granted the licence to MAV WorkCare to commence business as a self-insurer subject to meeting performance and financial conditions. MAV met all the conditions required to be met by WorkSafe prior to commencement. One of the conditions related to the provision of a bank guarantee equivalent to one hundred and fifty per cent (150%) of the net liabilities of the Scheme. The National Australia Bank has provided a bank guarantee on behalf of the MAV to WorkSafe in the amount of \$102.207 million.

In order for the National Australia Bank to provide the Bank Guarantee the following securities were provided by the MAV:

- a) Letter of set off over a bank deposit amounting to \$11.7 million.
- b) Security Interest and Charge over the cash and investments of the MAV WorkCare Self-Insurance Scheme.

MAV WorkCare is also subject to Covenants and Undertakings it has provided to the Bank:

- a) that the market value of the cash and investments held by MAV WorkCare is to be maintained at a minimum of 65% of the Bank Guarantee amount at all times. The National Australia Bank is to be immediately notified should the investment funds fall below this level.
- b) Where WorkSafe make a claim on the Bank Guarantee and the cash reserves are insufficient to clear the liability the MAV will undertake to make a claim on its members within 30 days.

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2019

20. RELATED PARTIES

The MAV is a body corporate established under the Municipal Association Act of 1907 to provide services for and represent Local Government authorities in Victoria. The MAV and its wholly owned controlled entities trade with its members in the normal course of business and on an arm's length basis. The Participation Agreement provides for the MAV to appoint the MAV WorkCare Board to be responsible for the administration of the Scheme. Total expenses of \$Nil (2018 \$1,266,590) were payable to the MAV being payment for establishing the self-insurance licence to allow MAV WorkCare to operate the Scheme. The MAV pays workers compensation insurance premiums to MAV WorkCare \$36,096 (2018 \$29,889). Other than this, there were no other related party transactions.

Board members during the year

M. Duncan (Independent Chair)
M. Ulbrick (Independent)
P. Digby (Independent)
J. Dore (Independent)
R. Spence (Independent)
K. Thompson (MAV Chief Executive Officer)

Key management personnel remuneration

Independent Board members receive meeting fees. The key management person is the Director - MAV WorkCare

	Annual Sitting Fee
Chairperson	\$ 25,000
Independent board members	15,000
	2019
	\$
Short-term remuneration of MAV WorkCare board and key management personnel (cost of key management personnel is recovered by the MAV)	336,436
Post employment benefits	21,017

Loans to MAV WorkCare Board members

No loans were made to or are payable by WorkCare board members during the year.

Other transactions

There were no other material transactions with WorkCare board Members.

Insurance

The activities of the MAV WorkCare board members are covered by the MAV directors and officers indemnity insurance policy effected by the MAV.

21. SUBSEQUENT EVENTS

There were no material events subsequent to the year end that require reporting.

22. ISSUE OF AUDIT OPINIONS BY THE VICTORIAN AUDITOR GENERAL

Due to changes to the Audit Act the Victorian Auditor General's Office has indicated that they would be issuing an audit opinion on top of our auditor Ernst & Young's opinion on the combined financial statements for the year ended 30 June 2019, of the Municipal Association of Victoria under the *Audit Act of 1994*, which is expected to be similar in form and content to Ernst & Young's opinion.

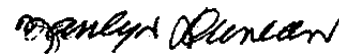
Statement by the MAV WorkCare Board

As at 30 June 2019

In the opinion of the MAV WorkCare Board:

- (a) the accompanying Statement of Comprehensive Income is drawn up so as to present fairly in all material respects the result of the association for the year ended 30 June 2019;
- (b) the accompanying Statement of Financial Position is drawn up so as to present fairly in all material respects the state of affairs of MAV WorkCare as at that date;
- (c) at the date of this statement there are reasonable grounds to believe that MAV WorkCare will be able to pay its debts as and when they fall due; and
- (d) the accompanying Combined Financial Statements present fairly in all material respects the state of affairs of the association as at that date;

Signed



Marilyn Duncan
MAV WorkCare Board Chairman



Kerry Thompson
Chief Executive Officer - Municipal Association of Victoria

Melbourne
2/10/2019

STATEMENT BY DIRECTORS

In accordance with a resolution of the directors of the Municipal Association of Victoria, we state that:

In the opinion of the Directors:

- (a) the accompanying Statement of Comprehensive Income drawn up so as to present fairly in all material respects the result of the association for the year ended 30 June 2019;
- (b) the accompanying Statement of Financial Position is drawn up so as to present fairly in all material respects the state of affairs of the association as at that date;
- (c) at the date of this statement there are reasonable grounds to believe that the association will be able to pay its debts as and when they fall due; and
- (d) the accompanying Combined Financial Statements present fairly in all material respects the state of affairs of the association as at that date;
- (e) the financial statements and notes comply with the Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board, as disclosed in note 2(b).

The financial statements and combined financial statements have been made out in accordance with applicable Accounting Standards and other mandatory professional reporting requirements.

Signed in accordance with the resolution of Directors.



Cr. Coral Ross
President



Cr. Mike Symon
Director



Kerry Thompson
Chief Executive Officer

Melbourne
16/10/2019

Independent auditor's report to the members of MAV WorkCare

Opinion

We have audited the financial report of MAV WorkCare (the "Scheme"), which comprises the statement of financial position as at 30 June 2019, 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 statement by directors.

In our opinion, MAV WorkCare's financial report presents fairly, in all material respects, the financial position of the Scheme as at 30 June 2019, and its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards.

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 Scheme 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.

Emphasis of matter - capital management and economic dependency

We draw attention to note 17 of the financial statements which describes the capital management plan of MAV WorkCare with respect to the recovery from the net liability position, which has been impacted by poor investment performance in the current year as well as the loss on transfer of liabilities on the commencement of the Scheme as described in note 18 of the financial statements.

We also draw your attention to note 11(b) of the financial statements which details the valuation of the outstanding claims liability as at 30 June 2019, to which a 0% risk margin has been applied to the central case estimates.

Emphasis of matter - Issue of opinions by the Victorian Auditor General

We also draw attention to note 22 of the financial statements which describes the Victorian Auditor General will be issuing an audit opinion, similar in form and content to our opinion, on the financial report of the Scheme as at 30 June 2019.

Our opinion is not qualified in respect of the above matters.

Responsibilities of the Directors for the Financial Report

The directors of the Scheme are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and for such internal control as the directors determine is necessary to enable the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Scheme'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 Scheme 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 Scheme'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 Scheme'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 Scheme 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.

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

Ernst & Young



Maree Pallisco
Partner
Melbourne

16 October 2019

A member firm of Ernst & Young Global Limited
Liability limited by a scheme approved under Professional Standards Legislation

MAV LGE Health Plan Financial Report 2018-19

Legal form

The MAV is an association incorporated by the Municipal Association Act 1907. The LGE Health Plan is a division of the MAV.

Domicile:

Melbourne, Australia

Address of registered office and principal place of business:

Level 12, 60 Collins Street, Melbourne, 3000, Victoria, Australia

Nature of the operation and principal activities:

The MAV represents, promotes and supports the interest of Victorian local governments and their communities.

Number of employees

Average number of equivalent full time employees during the year is 0 EFT.

Statement of Comprehensive Income

For the year ended 30 June 2019

	NOTE	2019 \$	2018 \$
REVENUE			
REVENUE FROM OPERATING ACTIVITIES			
Administration allowance income		521,383	491,762
Investment income		42,067	27,357
TOTAL REVENUE		563,450	519,119
EXPENSES			
Hospital Excesses refunded		184,879	200,628
Administration Overhead		3,859	24,151
TOTAL EXPENSES		188,738	224,779
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		374,712	294,340

The accompanying notes form an integral part of these statements.

Statement of Financial Position

as at 30 June 2019

	NOTE	2019 \$	2018 \$
CURRENT ASSETS			
Cash and cash equivalents	4(a)	1,866,234	1,584,475
Trade and other receivables	5,2(e)	127,031	33,975
TOTAL CURRENT ASSETS		1,993,265	1,618,450
TOTAL ASSETS		1,993,265	1,618,450
CURRENT LIABILITIES			
Trade and other payables		8,035	7,932
TOTAL CURRENT LIABILITIES		8,035	7,932
TOTAL LIABILITIES		8,035	7,932
NET ASSETS		1,985,230	1,610,518
EQUITY		1,985,230	1,610,518

The accompanying notes form an integral part of these statements.

Statement of Changes in Equity

For the year ended 30 June 2019

	2019 \$	2018 \$
RETAINED EARNINGS		
Balance at beginning of year	1,610,518	1,316,178
Surplus from ordinary activities	374,712	294,340
BALANCE AT END OF YEAR	1,985,230	1,610,518

Statement of Cash Flows

for the year ended 30 June 2019

	NOTE	2019 \$	2018 \$
CASH FLOW FROM OPERATING ACTIVITIES			
RECEIPTS			
Administration allowance		436,185	516,921
Interest received		43,975	30,800
PAYMENTS			
Hospital excesses refunded		(194,542)	(203,098)
Administration overhead		(3,859)	(24,151)
NET CASH FLOWS FROM OPERATING ACTIVITIES	4(b)	281,759	320,472
NET INCREASE IN CASH HELD			
Cash at beginning of year		1,584,475	1,264,003
CASH AT END OF YEAR	4(a)	1,866,234	1,584,475

The accompanying notes form an integral part of these statements.

Notes to and forming part of the financial statements

For the year ended 30 June 2019

1. Corporate information

The LGE Health Plan was established by the Municipal Association of Victoria (MAV). The MAV has joined with GMHBA and Choosewell Pty Ltd to offer attractive health insurance plans to Council staff at reduced cost. The LGE Health Plan is owned and operated by the MAV and is not a provider of health insurance products.

The MAV is an Association incorporated by an Act of the Parliament of Victoria, Australia, known as the Municipal Association Act 1907.

The nature of the operations and principal activities of the MAV are:

- to promote the efficient carrying out of municipal government throughout the State of Victoria and watch over and protect the interests, rights and privileges of municipal corporations
- to arrange fidelity insurance for local government
- arranging contracts of insurance
- to provide a public liability insurance scheme for local government

The financial report of LGE Health Plan for the year ended 30 June 2019 was authorised for issue in accordance with a resolution of the directors of the MAV on the date shown on the attached Statement by Directors.

2. Summary of significant accounting policies

Accounting Standards and Interpretations issued but not yet effective.

<u>Reference</u>	<u>Title Summary</u>	<u>Application Date of Standard</u>	<u>Application Date for MAV</u>	<u>Impact</u>
AASB 9	Financial Instruments	1 January 2019	1 July 2019	Preliminary assessment indicates minimal impact arising on the adoption of these standards
AASB 15	Revenue from Contracts with	1 January 2019	1 July 2019	
AASB 16	Leases	1 January 2020	1 July 2020	No leases. No impact
IFRS 17	Insurance Contracts	1 January 2021	1 July 2021	Preliminary assessment indicates minimal impact arising on the adoption of this standard

(a) Basis of preparation

The financial report is a general purpose financial report which has been drawn up in accordance with Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board.

The principal accounting policies adopted in preparing the financial report are stated to assist in a general understanding of the financial report. Accounting policies have been consistently applied unless otherwise indicated.

The financial report is presented in Australian dollars. The MAV, and therefore LGE Health Plan, is a not for profit entity.

The accounts have been prepared on the accruals basis using historical costs and, except where stated, do not take into account current valuations of assets.

(b) Statement of compliance

The financial statements and notes comply with the Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board

(c) Income tax

The MAV is a State and Territory Body (STB) and is exempt from income tax, in accordance with Division 1AB of Part III of the Income Tax Assessment Act and therefore LGE Health Plan is exempt from income tax.

(d) Cash and cash equivalents

Cash and cash equivalents in the Statement of Financial Position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2019

(e) Trade and other receivables

Trade receivables, which generally have 30-60 day terms, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment.

Collectability of trade receivables is reviewed on an ongoing basis at an operating unit level. Individual debts that are known to be uncollectible are written off when identified. An impairment provision is recognised when there is objective evidence that the LGE Health Plan will not be able to collect the receivable. Financial difficulties of the debtor, default payments or debts more than 60 days overdue are considered objective evidence of impairment.

(f) Trade and other payables

Trade and other payables are carried at amortised cost and due to their short term nature they are not discounted. They represent liabilities for goods and services provided to the LGE Health Plan prior to the end of the financial year that are unpaid and arise when the LGE Health Plan becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

(g) Revenue recognition

Administration allowance income

An administration allowance is paid by GMHBA to the LGE Health Plan. The allowance is recognised on an accrual basis.

Interest received

Interest received is accounted for on an accrual basis.

(h) Comparative figures

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

(i) Cash flows

For the purposes of the Statement of Cash Flows, cash includes cash on hand and deposits held at call with banks and investments in cash in fixed interest funds net of outstanding bank overdrafts.

(j) Fair value measurement

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the MAV determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. LGE Health Plan does not have any level 3 financial assets.

The carrying amounts of financial assets and financial liabilities represent their approximate fair value. All maturity dates are within twelve months. For the purpose of fair value disclosures, the LGE Health Plan has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Notes to and forming part of the financial statements

For the year ended 30 June 2019

3. Audit Fees

	NOTE	2019 \$	2018 \$
Amounts received or due and receivable for audit services:			
Audit services		3,859	7,932
Other services		-	-
		3,859	7,932

4. NOTES TO STATEMENT OF CASH FLOWS

(a) Cash and cash equivalents at balance date as shown in the Statement of Cash Flows are held in NAB cash deposits and reconciled to the related items in the Statement of Financial Position as follows:

	NOTE	2019 \$	2018 \$
Cash and cash equivalents		1,866,234	1,584,475
TOTAL CASH AND CASH EQUIVALENTS		1,866,234	1,584,475

(b) Reconciliation of Net Cash Used In Operating Activities to Operating Profit

Profit for year		374,712	294,340
Changes in assets and liabilities			
(Increase)/decrease in accounts receivable		(93,056)	25,850
Increase in accounts payable		103	282
NET CASH FLOW FROM OPERATING ACTIVITIES		281,759	320,472

5. TRADE AND OTHER RECEIVABLES

Other receivables		127,031	33,975
TOTAL TRADE AND OTHER RECEIVABLES		127,031	33,975
Represented By:			
Current		127,031	33,975
Non-current		-	-
TOTAL		127,031	33,975

The ageing analysis of trade receivables are as follows:

	Total	< 30 days	>30 days
2019			
LGE EMPLOYEE HEALTH PLAN	127,031	127,031	-
2018			
LGE EMPLOYEE HEALTH PLAN	33,975	33,975	-

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2019

6. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES

The LGE Health Plan's exposure to interest rate risk and the effective average interest rate for the classes of financial assets is set out below:

	Non- Interest Earning	Floating Interest Rate
	2019	2019
	\$	\$
FINANCIAL ASSETS		
Cash and cash equivalents	-	1,866,234
Trade and other receivables	127,031	-
TOTAL FINANCIAL ASSETS	127,031	1,866,234
Weighted Average Interest Rate		2.4%
FINANCIAL LIABILITIES		
Trade and other payables	8,035	7,932
TOTAL FINANCIAL LIABILITIES	8,035	7,932

Weighted Average Interest Rate

0%

Cash and cash equivalents are considered level 1 financial assets in accordance with AASB 7 (Financial Instruments). The carrying amounts of financial assets and financial liabilities represent their approximate net fair value. All maturity dates are within twelve months.

Notes to and forming part of the financial statements

For the year ended 30 June 2019

6. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (Continued)

	Non- Interest Earning	Floating Interest Rate
	2018	2018
	\$	\$
FINANCIAL ASSETS		
Cash and cash equivalents	-	1,584,475
Trade and other receivables	33,975	-
TOTAL FINANCIAL ASSETS	33,975	1,584,475
Weighted average interest rate		1.9%
FINANCIAL LIABILITIES		
Trade and other payables	7,932	-
TOTAL FINANCIAL LIABILITIES	7,932	-
Weighted average interest rate		0%

The table below reflects all contractually fixed pay-offs and receivables for settlement, repayments and interest resulting from recognised financial assets and liabilities as at 30 June 2019. Cash flows for financial assets and liabilities without fixed amount or timing are based on conditions existing at 30 June 2019.

The remaining contractual maturities of the financial liabilities are:

	NOTE	2019 \$	2018 \$
3 months or less		8,035	7,932
3-12 months		-	-
1-5 years		-	-
Over 5 years		-	-
		8,035	7,932

LIQUIDITY RISK

Maturity analysis of financial assets and liabilities based on management's expectation.

The risk implied from the values in the table below, reflects a balanced view of cash inflows and outflows. These liabilities originate from financial assets used in the ongoing operations of the business. These assets are considered in the MAV's overall liquidity risk. To monitor existing financial assets and liabilities as well as to enable effective controlling of future risks, the MAV has established a comprehensive risk reporting covering its business that reflects the management of expected settlement of financial assets and liabilities.

Year ended 30 June 2019	<3 months	3 - 12 months	Total
	\$	\$	\$
FINANCIAL ASSETS			
Cash and cash equivalents	1,866,234	-	1,866,234
Trade and other receivables	127,031	-	127,031
	1,993,265	-	1,993,265
FINANCIAL LIABILITIES			
Trade and other payables	8,035	-	8,035
Other liabilities	-	-	-
Total Financial Liabilities	8,035	-	8,035
NET MATURITY	1,985,230	-	1,985,230

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2019

6. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (CONTINUED)

Year ended 30 June 2018	<3 months	3 - 12 months	Total
	\$	\$	\$
FINANCIAL ASSETS			
Cash and cash equivalents	1,584,475	-	1,584,475
Trade and other receivables	33,975	-	33,975
	1,618,450	-	1,618,450
LGE EMPLOYEE HEALTH FUND			
FINANCIAL LIABILITIES			
Trade and other payables	7,932	-	7,932
Other liabilities	-	-	-
Total Financial Liabilities	7,932	-	7,932
NET MATURITY	1,610,518	-	1,610,518

7. REMUNERATION OF KEY MANAGEMENT PERSONNEL

No remuneration was paid to Key Management Personnel by the LGE Health Plan during the year.

Loans to Directors

The LGE Health Plan has a strict policy of not providing loans to Directors. No loans were made to or are payable by Directors during the year.

Other Transactions

There were no other material transactions with Directors.

8. RELATED PARTIES

The MAV is a body corporate established under the Municipal Association Act of 1907 to provide services for and represent Local Government authorities in Victoria. The MAV and its wholly owned controlled entities trade with its members in the normal course of business and on an arm's length basis. There were no related party transactions during the year.

9. SUBSEQUENT EVENTS

There were no material events subsequent to the year end that require reporting.

10. CONTINGENT LIABILITIES

There are no contingent liabilities.

11. ISSUE OF AUDIT OPINIONS BY THE VICTORIAN AUDITOR GENERAL

Due to changes to the Audit Act the Victorian Auditor General's Office has indicated that they would be issuing an audit opinion on top of our auditor Ernst & Young's opinion on the combined financial statements for the year ended 30 June 2019, of the Municipal Association of Victoria under the *Audit Act of 1994*, which is expected to be similar in form and content to Ernst & Young's opinion.

Statement by directors

As at 30 June 2019

In the opinion of directors of The Municipal Association of Victoria:

- (a) the accompanying Statement of Comprehensive Income of the LGE Health Plan is drawn up so as to present fairly in all material respects the result of the Plan for the year ended 30 June 2019
- (b) the accompanying Statement of Financial Position is drawn up so as to present fairly in all material respects the state of affairs of the LGE Health Plan as at that date;
- (c) at the date of this statement there are reasonable grounds to believe that the LGE Health Plan will be able to pay its debts as and when they fall due; and
- (d) the financial statements and notes comply with the Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board, as disclosed in note 2(b).

The financial statements have been made out in accordance with applicable Accounting Standards and other mandatory professional reporting requirements.

Signed in accordance with the resolution of directors of the Municipal Association of Victoria.



Cr. Coral Ross
President



Cr. Mike Symon
Director



Kerry Thompson
Chief Executive Officer

Melbourne
16/10/2019

Independent Auditor's Report to the Members of LGE Health Plan

Opinion

We have audited the financial report of LGE Health Plan (the Plan), which comprises the statement of financial position as at 30 June 2019, 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 statement by directors.

In our opinion, the LGE Health Plan financial report presents fairly, in all material respects, the financial position of the Plan as at 30 June 2019, and its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards.

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 Plan 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.

Emphasis of matter - Issue of opinions by the Victorian Auditor General

We also draw attention to note 11 of the financial statements which describes the Victorian Auditor General will be issuing an audit opinion, similar in form and content to our opinion, on the financial report of the Plan as at 30 June 2019.

Our opinion is not qualified in respect of the above matters.

Responsibilities of the Directors for the Financial Report

The directors of the Plan are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and for such internal control as the directors determine is necessary to enable the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Plan'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 Plan 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.

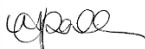
As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- 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 Plan'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 Plan'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 Plan 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.

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

Ernst & Young



Maree Pallisco
Partner
Melbourne

16 October 2019



Municipal Association of Victoria
Level 12, 60 Collins Street, Melbourne
GPO Box 4326, Melbourne 3001
Phone: 03 9667 5555
Fax: 03 9667 5550
Email: inquiries@mav.asn.au
mav.asn.au