Australian Unity Select Mortgage Income Fund (formerly known as Owenlaw First Mortgage Income Fund)

ARSN 091 886 789

Annual financial statements for the reporting period ended 30 June 2015

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These financial statements cover Australian Unity Select Mortgage Income Fund as an individual entity.

The Responsible Entity of Australian Unity Select Mortgage Income Fund is Australian Unity Funds Management Limited (ABN 60 071 497 115). The Responsible Entity's registered office is Level 14, 114 Albert Road, South Melbourne, VIC 3205.

Directors' report

The directors of Australian Unity Funds Management Limited (ABN 60 071 497 115), the Responsible Entity of Australian Unity Select Mortgage Income Fund (formerly known as Owenlaw First Mortgage Income Fund) ("the Scheme"), present their report together with the financial statements of the Scheme for the year ended 30 June 2015 ("the reporting period").

Change of Responsible Entity

On 10 June 2015, Australian Unity Funds Management Limited replaced Australian Unity Mortgage Investments Limited ("AUMIL") as the Scheme's Responsible Entity.

AUMIL was previously known as Owenlaw Trust Limited ('OTL'). On 15 December 2014, Australian Unity Limited (ABN 23 087 648 888) acquired OTL. On the same day, OTL changed its name to AUMIL and changed its registered office address to Level 14, 114 Albert Road, South Melbourne, VIC 3205.

Directors

The following persons held office as directors of the Responsible Entity during the reporting period or since the end of the reporting period and up to the date of this report:

Glenn Barnes (Chairman) (appointed 10 June 2015)
David Bryant** (Chief Executive Officer and Chief Investment Officer) (appointed 15 December 2014)
Melinda Cilento (Non-Executive Director) (appointed 10 June 2015)
Stephen Maitland (Non-Executive Director) (appointed 10 June 2015)
Kevin McCoy** (Chief Financial Officer) (appointed 15 December 2014)
Rohan Mead** (Group Managing Director) (appointed 15 December 2014)
Peter Promnitz (Non-Executive Director) (appointed 10 June 2015)
Greg Willcock (Non-Executive Director) (appointed 10 June 2015)
Luke Anderson* (Executive Director) (ceased15 December 2014)
Brian Harrison* (Non-Executive Director) (ceased15 December 2014)
David Owen* (Executive Director) (ceased15 December 2014)

*Directors of OTL
**Appointed directors of AUMIL

Principal activities

The principal activity of the Scheme is to provide opportunities to investors to invest on the security of registered first mortgages over legal interest in property situated in Australia.

Review and results of operations

Results

The performance of the Scheme, as represented by the results of its operations, was as follows:

	Reporting period ended	
	30 June 2015 $'000	30 June 2014 $'000
Profit before finance costs attributable to members	**3,653**	3,979
Distribution paid and payable	**3,653**	3,979

Significant changes in state of affairs

In the opinion of the directors, there were no significant changes in the state of affairs of the Scheme that occurred during the reporting period, except those mentioned elsewhere in the report.

Events occurring after the reporting period

Except as disclosed in note 13 to the financial statements, no other matter or circumstance has arisen since 30 June 2015 that has significantly affected, or may significantly affect:

(i) the operations of the Scheme in future reporting periods, or
(ii) the results of those operations in future reporting periods, or
(iii) the state of affairs of the Scheme in future reporting periods.

Likely developments and expected results of operations

The Scheme will continue to be managed in accordance with the investment objectives and guidelines as set out in the governing documents of the Scheme and in accordance with the provisions of the Scheme's Constitution.

Further information on likely developments in the operations of the Scheme and the expected results of those operations have not been included in this report because the Responsible Entity believes it would be likely to result in unreasonable prejudice to the Scheme.

Indemnification and insurance of officers and auditors

No insurance premiums are paid for out of the assets of the Scheme in regards to insurance cover provided to either the officers of Australian Unity Funds Management Limited or the auditors of the Scheme. So long as the officers of Australian Unity Funds Management Limited act in accordance with the Scheme's Constitution and the *Corporations Act 2001*, the officers remain indemnified out of the assets of the Scheme against losses incurred while acting on behalf of the Scheme. The auditors of the Scheme are in no way indemnified out of the assets of the Scheme.

Environmental regulation

The property operations within the Scheme are subject to environmental regulations under Australian law. There have been no known reportable breaches of these regulations.

Rounding of amounts to the nearest thousand dollars

The Scheme is an entity of a kind referred to in Class Order 98/0100 (as amended) issued by the Australian Securities and Investments Commission relating to the 'rounding off' of amounts in the directors' report and financial report. Amounts in the directors' report and financial report have been rounded to the nearest thousand dollars in accordance with that Class Order, where indicated.

Auditor's independence declaration

A copy of the Auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 4.

Signed in accordance with a resolution of the directors of Australian Unity Funds Management Limited.

Director

Director

10 September 2015

Ernst & Young
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Melbourne VIC 3000 Australia
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Building a better working world

Auditor's Independence Declaration to the Directors of Australian Unity Funds Management Limited, as responsible entity for Australian Unity Select Mortgage Income Fund

In relation to our audit of the financial report of Australian Unity Select Mortgage Income Fund for the financial year ended 30 June 2015, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

Luke Slater

Luke Slater
Partner
Melbourne

10 September 2015

Statement of comprehensive income

		Reporting period ended	
	Notes	**30 June 2015 $'000**	30 June 2014 $'000
Investment income			
Interest income and management fee	3	**4,421**	4,768
Other income		**233**	-
Total investment income		**4,654**	4,768
Expenses			
Responsible Entity's fees	11	**1,001**	789
Total expenses		**1,001**	789
Profit before finance costs attributable to members		**3,653**	3,979
Finance costs attributable to members			
Distributions to members	6	**(3,653)**	(3,979)
Total comprehensive income for the reporting reporting period attributable to members		**-**	-

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

Statement of financial position

		As at	
	Notes	**30 June 2015 $'000**	30 June 2014 $'000
Assets			
Cash and cash equivalents	7	**7,786**	20,927
Receivables	8	**269**	84
Mortgage loans		**51,222**	36,453
Total assets		**59,277**	57,464
Liabilities			
Payables		**108**	-
Other liabilities		**742**	-
Total liabilities (excluding net assets attributable to members)		**850**	-
Net assets attributable to members	5	**58,427**	57,464

The above statement of financial position should be read in conjunction with the accompanying notes.

Statement of changes in net assets attributable to members

	Reporting period ended	
	30 June 2015 $'000	30 June 2014 $'000
Net assets attributable to unitholders at the beginning of the reporting period	**57,464**	57,296
Profit before finance costs attributable to members	**3,653**	3,979
Distributions to members	**(3,653)**	(3,979)
Contributions by members	**963**	168
Net assets attributable to unitholders at the end of the reporting period	**58,427**	57,464

The above statement of changes in net assets attributable to members should be read in conjunction with the accompanying notes.

Statement of cash flows

		Reporting period ended	
	Notes	**30 June 2015 $'000**	30 June 2014 $'000
Cash flows from operating activities			
(Purchase)/sale of financial instruments		**(14,239)**	14,143
Interest and loan fees received		**4,681**	4,708
Responsible Entity's fees paid		**(893)**	(789)
Net cash (outflow)/inflow from operating activities	12(a)	**(10,451)**	18,062
Cash flows from financing activities			
Proceeds from contributions by members		**963**	168
Distributions paid		**(3,653)**	(3,979)
Net cash outflow from financing activities		**(2,690)**	(3,811)
Net (decrease)/increase in cash and cash equivalents		**(13,141)**	14,251
Cash and cash equivalents at the beginning of the reporting period		**20,927**	6,676
Cash and cash equivalents at the end of the reporting period	7	**7,786**	20,927

The above statement of cash flows should be read in conjunction with the accompanying notes.

Contents

1 General information

These financial statements cover Australian Unity Select Mortgage Income Fund (formerly known as Owenlaw First Mortgage Income Fund) ("the Scheme") as an individual entity. The Scheme was constituted on 3 March 2000.

On 10 June 2015, Australian Unity Funds Management Limited (ABN 60 071 497 115) replaced Australian Unity Mortgage Investments Limited ("AUMIL") as the Scheme's new Responsible Entity. AUMIL was previously known as Owenlaw Trust Limited ('OTL'). On 15 December 2014, Australian Unity Limited (ABN 23 087 648 888) acquired OTL. On the same day, OTL changed its name to AUMIL and changed its registered office address to Level 14, 114 Albert Road, South Melbourne, VIC 3205.

The Responsible Entity is incorporated and domiciled in Australia.

The financial statements are for the period from 1 July 2014 to 30 June 2015 ("the reporting period").

The financial statements were authorised for issue by the directors of the Responsible Entity on 10 September 2015. The directors of the Responsible Entity have the power to amend and reissue the financial statements.

2 Summary of significant accounting policies

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

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001* in Australia.

The Scheme is a for-profit entity for the purposes of preparing the financial statements.

The financial statements are prepared on the basis of fair value measurement of assets and liabilities except where otherwise stated.

The statement of financial position is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and are not distinguish between current and non-current. All balances are generally expected to be recovered or settled within 12 months, except for investment properties, mortgage loans and financial assets held at fair value through profit or loss and net assets attributable to members, where the amount expected to be recovered or settled within 12 months after the end of the reporting period cannot be reliably determined.

Compliance with Australian Accounting Standards and International Financial Reporting Standards

The financial statements of the Scheme comply with Australian Accounting Standards as issued by the Australian Accounting Standards Board and also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The financial statements are presented in the local reporting currency being Australian dollars.

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

Amended standards adopted by the Fund

The Scheme has applied the following major accounting standard amendment (to the extent relevant to the Scheme) for the first time for the reporting period:

AASB 2012 3 *Amendments to Australian Accounting Standard - Offsetting Financial Assets and Financial Liabilities*

AASB 2012 3 amended the application guidance in AASB 132 *Financial Instruments: Presentation*, to clarify some of the requirements for offsetting financial assets and financial liabilities in the statement of financial position. The amendments do not change the current offsetting rules in AASB 132, but they clarify that the right of set off must be available today (ie not contingent on a future event) and must be legally enforceable in the normal course of business as well as in the event of default, insolvency or bankruptcy. The Scheme currently complies with the amendment. The adoption of the amendment did not have a significant impact on the financial statements of the Scheme.

(b) Financial instruments

(i) Classification

- *Financial assets and liabilities held at fair value through profit or loss*

The Scheme's investments are categorised as held at fair value through profit or loss. They comprise:

- *Financial assets and liabilities held at fair value through profit and loss upon initial recognition*

  These include financial assets and financial liabilities that are not held for trading purposes and which may be sold. These may include investments in listed property trusts, unlisted property trusts and other unlisted trusts.

  Financial assets and financial liabilities designated at fair value through profit or loss at inception are those that are managed and their performance evaluated on a fair value basis in accordance with the Scheme's documented investment strategy. The Scheme's policy is for the Responsible Entity to evaluate the information about these financial instruments on a fair value basis together with other related financial information.

  The information on the fair value basis is provided internally to the Scheme's key management personnel. In addition, the designation of financial assets and financial liabilities at fair value through profit or loss will reduce any measurement or recognition inconsistencies and any accounting mismatch that would otherwise arise.

- *Loans and receivables/payables*

Loans and receivables/payables are non-derivative financial assets/liabilities with fixed or determinable payments that are not quoted in an active market. This category includes short term receivables/payables.

(ii) Recognition/derecognition

The Scheme recognises financial assets and financial liabilities on the date it becomes party to the contractual agreement (trade date) and recognises changes in fair value of the financial assets or financial liabilities from this date.

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;

- the Scheme retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' agreement; or

2 Summary of significant accounting policies (continued)

(b) Financial instruments (continued)

(ii) Recognition/derecognition (continued)

- the Scheme has transferred its rights to receive cash flows from the asset and either:
  - (a) has transferred substantially all the risks and rewards of the asset; or
  - (b) has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

Any gains or losses arising on derecognition of the asset (calculated as the difference between the disposal proceeds and the carrying amount of the asset) is included in the income statement in the reporting period the asset is derecognised as realised gains or losses on financial instruments.

(iii) Measurement

- *Financial assets and liabilities held at fair value through profit or loss*

Financial assets and financial liabilities held at fair value through profit or loss are measured initially at fair value excluding any transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities held at fair value through profit or loss are expensed immediately. Subsequent to initial recognition, all instruments held at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the statement of comprehensive income.

- *Fair value in an active market*

The fair value of financial assets and financial liabilities traded in active markets is based on their quoted market prices at the end of the reporting period without any deduction for estimated future selling costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current asking prices.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Investments in other unlisted unit trusts are recorded at the redemption value per unit as reported by the managers of such trusts.

2 Summary of significant accounting policies (continued)

(b) Financial instruments (continued)

(iii) Measurement (continued)

- *Mortgage loans*

Mortgage loans are measured initially at fair value plus transaction costs and subsequently amortised using the effective interest rate method, less impairment losses if any.

The Responsible Entity assesses at each reporting period date whether there is any objective evidence that mortgage loans are impaired. A mortgage loan is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the mortgage loan (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the mortgage loan that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing other financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

If any such indication of impairment exists, an impairment loss is recognised in the statement of comprehensive income as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the loan loss provision account.

For the purpose of a collective evaluation of impairment the Scheme considers credit risk characteristics such as asset type, industry, geographic location, collateral type, past due status and other relevant factors.

(iv) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when, and only when, there is currently a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(c) Net assets attributable to members

Members may withdraw their investments only in circumstances set out in the governing documents of the Scheme and are therefore classified as financial liabilities due to mandatory distributions. As the Scheme is not a "pooled fund', members' entitlement to income and capital is based only on their investment in a specific mortgage loan and they have no right to the income or capital of other mortgage loans, other than any interest that they have in the Scheme's cash and cash equivalents. Changes in the value of this financial liability are recognised in the statement of comprehensive income as they arise.

(d) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less from the date of acquisition that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts, if any, are shown within borrowings in the statement of financial position.

Payments and receipts relating to the purchase and sale of investment securities are classified as cash flows from operating activities, as movements in the fair value of these securities represent the Scheme's main income generating activity.

2 Summary of significant accounting policies (continued)

(e) Investment income

Interest income is recognised in the statement of comprehensive income for all financial instruments that are not held at fair value through profit or loss using the effective interest method. Other changes in fair value for such instruments are recorded in accordance with the policies described in note 2(b).

Trust distributions (including distributions from cash management trusts) are recognised on an entitlements basis.

Net gains/(losses) on financial assets and liabilities held at fair value through profit or loss arising on a change in fair value are calculated as the difference between the fair value at the end of the reporting period and the fair value at the previous valuation point. Net gains/(losses) do not include interest or dividend/distribution income. Realised and unrealised gains/(losses) are shown in the notes to the financial statements.

(f) Expenses

All expenses, including Responsible Entity's fees and custodian fees, are recognised in the statement of comprehensive income on an accruals basis.

(g) Income tax

Under current legislation, the Scheme is not subject to income tax as members are presently entitled to the income of the Scheme.

Financial instruments held at fair value may include unrealised capital gains. Should such a gain be realised, that portion of the gain that is subject to capital gains tax will be distributed so that the Scheme is not subject to capital gains tax.

Realised capital losses are not distributed to members but are retained in the Scheme to be offset against any future realised capital gains. If realised capital gains exceed realised capital losses, the excess is distributed to members.

The benefit of imputation credits and foreign tax paid, if any, are passed on to members.

(h) Distributions

In accordance with the Scheme's Constitution, the Scheme distributes income adjusted for amounts determined by the Responsible Entity, to members by cash or reinvestment. The distributions are recognised in the statement of comprehensive income as finance costs attributable to members.

(i) Increase/decrease in net assets attributable to members

Income not distributed is included in net assets attributable to members. Movements in net assets attributable to members are recognised in the statement of comprehensive income as finance costs.

(j) Receivables

Receivables may include amounts for interest, trust distributions, and securities sold where settlement has not yet occurred. Dividends and trust distributions are accrued when the right to receive payment is established. Interest is accrued at the end of each reporting period from the time of last payment in accordance with the policy set out in note 2(e) above. Amounts are generally received within 30 days of being recorded as receivables.

Receivables include such items as Reduced Input Tax Credits (RITC) and contribution monies receivable from members.

(k) Payables

Payables include liabilities and accrued expenses owing by the Scheme which are unpaid as at the end of the reporting period.

Trades are recorded on trade date, and normally settled within three business days. Purchases of financial instruments that are unsettled at the end of each reporting period are included in payables.

2 Summary of significant accounting policies (continued)

(k) Payables (continued)

The distribution amount payable to members as at the end of each reporting period is recognised separately in the statement of financial position when members are presently entitled to the distributable income under the Scheme's Constitution.

Liabilities for trade creditors are carried at original invoice amount which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Scheme.

Payables to related parties are recognised and carried at the nominal amount due. They are carried at the nominal amount due to the short term nature of the payable. Interest is taken up as an expense on an accrual basis.

Provisions are recognised when the Scheme has a present obligation as a result of the past event and it is probable that the Scheme will be requested to settle the obligation and a reliable estimate can be made of the amount of the obligation.

(l) Goods and Services Tax (GST)

The income statement is shown exclusive of GST, unless the GST incurred (or part thereof) on expenses that are not recoverable. Expenses of various services provided to the Scheme by third parties, such as custodial services and investment management fees, may have non-recoverable GST components, as applicable. In these cases, the non-recoverable GST component is recognised as part of the particular expense in the income statement.

Accounts payable and receivable are stated inclusive of the GST receivable and payable, respectively. The net amount of GST recoverable, or payable, is included in receivables or payables in the statement of financial position.

Cash flows relating to GST are included in the statement of cash flows on a gross basis.

(m) Use of judgements and estimates

The preparation of the Scheme's financial statements requires it to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future. However, estimates are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Scheme's financial instruments are valued primarily based on the prices provided by independent pricing services.

When the fair values of the reported financial instruments cannot be derived from active markets, they are determined using prices obtained from inactive or unquoted markets and/or other valuation techniques. The inputs to these valuation techniques (if applicable) are taken from observable markets to the extent practicable. Where observable inputs are not available, the inputs may be estimated based on a degree of judgements and assumptions in establishing fair values.

Where appropriate, the outcomes of the valuation techniques that are used in establishing fair values are validated using prices from observable current market transactions for similar instruments (without modification or repackaging) or based on relevant available observable market data.

The determination of what constitutes 'observable' requires significant judgement by the Scheme. The Scheme considers observable data to be market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

2 Summary of significant accounting policies (continued)

(m) Use of judgements and estimates (continued)

In addition, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates and judgements. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

For certain other financial instruments, including amounts due from/to brokers, accounts payable and the carrying amounts approximate fair value due to the immediate or short term nature of these financial instruments.

(n) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2015 reporting periods and have not been early adopted by the Scheme. The directors' assessment of the impact of these new standards (to the extent relevant to the Scheme) and interpretations is set out below:

(i) AASB 9 *Financial Instruments* (and applicable amendments) (effective from 1 January 2018)

AASB 9 *Financial Instruments* addresses the classification, measurement, recognition and derecognition of financial assets and financial liabilities. It has now also introduced revised rules for hedge accounting and impairment. The Standard is not applicable until 1 January 2018 but is available for early adoption. The Scheme does not expect this to have a significant impact on the recognition and measurement of the Scheme’s financial instruments as they are carried at fair value through profit or loss. The derecognition rules have not been changed from the previous requirements, and the Scheme does not apply hedge accounting. AASB 9 introduces a new impairment model. However, as the Scheme’s investments are all held at fair value through profit or loss, the change in impairment rules will not impact the Scheme. The Scheme does not intend to early adopt AASB 9. The Scheme will apply AASB 9 in its financial statements for the reporting period commencing from 1 July 2018.

(ii) AASB 15 *Revenue from Contracts with Customers* (effective from 1 January 2018)

In December 2014, the AASB issued a new standard for the recognition of revenue. Once applied or effective, AASB 15 will replace AASB 118 *Revenue* which covers contracts for goods and services and AASB 111 *Construction Contracts* which covers construction contracts. AASB 15 is based on the notion that revenue is recognised when control of a good or service transfers to a customer. This notion of control replaces the existing notion of risks and rewards. The Scheme’s main source of income includes interest, dividends/distributions and gains on financial instruments held at fair value through profit or loss. All of these are outside the scope of the Revenue standard. Consequently, the Scheme does not expect AASB 15 to have a significant impact on the Scheme’s financial statements. The Scheme does not intend to early adopt AASB 15. The Scheme will apply AASB 15 in its financial statements for the reporting period commencing from 1 July 2018.

(iii) AASB 2015-1 *Amendments to Australian Accounting Standards - Annual Improvements to Australian Accounting Standards 2012-2014 Cycle* (effective 1 January 2016)

In January 2015, the AASB approved a number of amendments to Australian Accounting Standards as a result of the 2012-2014 annual improvements project. No significant impact is expected upon adoption of the amendments. The Scheme does not intend to early adopt AASB 2015-1. The Scheme will apply AASB 2015-1 in its financial statements for the reporting period commencing from 1 July 2016.

(iv) AASB 2015-2 *Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 101* (effective 1 January 2016)

AASB 2015 2 amends AASB 101 *Presentation of Financial Statements* to clarify that entities should not disclose immaterial information and that the presentation in notes to the financial statements can and should be tailored to provide the report users with the clearest story of an entity’s financial performance and financial position. No significant impact is expected upon adoption of the amendments. The Scheme does not intend to early adopt AASB 2015 2. The Scheme will apply AASB 2015 2 in its financial statements for the reporting period commencing from 1 July 2016.

2 Summary of significant accounting policies (continued)

(n) New accounting standards and interpretations (continued)

(v) AASB 2015-3 *Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality* (effective 1 July 2015)

AASB 2015-3 completes the withdrawal of references to AASB 1031 *Materiality* in all Australian Accounting Standards and Interpretations, allowing AASB 1031 to effectively be withdrawn. No significant impact is expected upon adoption of the amendments. The Scheme does not intend to early adopt AASB 2015-3. The Scheme will apply AASB 2015-3 in its financial statements for the reporting period commencing from 1 July 2015.

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

(o) Rounding of amounts

The Scheme is an entity of the kind referred to in Class Order 98/0100 (as amended), issued by Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial statements. Amounts in the financial statements have been rounded off to the nearest thousand dollars in accordance with that Class Order, where indicated.

3 Interest income

The following table details the interest income earned by the Scheme during the reporting period:

	Reporting period ended	
	30 June 2015 $'000	30 June 2014 $'000
Cash and cash deposits - domestic	**387**	627
Mortgage income	**4,034**	4,141
Total interest income	**4,421**	4,768

4 Auditor's remuneration

The auditor's remuneration is paid directly by the Responsible Entity.

During the reporting period the following fees were paid or payable for services provided by the auditor of the Scheme:

	Reporting period ended	
	30 June 2015	30 June 2014
	$	$
(a) Audit services		
Audit and review of financial statements	**12,318**	4,837
Total remuneration for audit services	**12,318**	4,837
(b) Non-audit services		
Tax compliance services	**7,728**	-
Total remuneration for taxation services	**7,728**	-

5 Net assets attributable to members

Movements in the net assets attributable to members during the reporting period were as follows:

	For the reporting period ended	
	30 June 2015	30 June 2014
Contributed equity	**$'000**	$'000
Opening balance	**57,464**	57,296
Contributions (net of redemptions)	**963**	168
Closing balance	**58,427**	57,464
Undistributed income		
Opening balance	**-**	-
Increase/(decrease) in net assets attributable to members	**-**	-
Closing balance	**-**	-
Total net assets attributable to unitholders	**58,427**	57,464

6 Distributions to members

Timing of distributions

The distributions for the reporting period were as follows:

	For the reporting period ended	
	30 June 2015 $'000	30 June 2014 $'000
Distributions		
31 July	**221**	290
31 August	**300**	340
30 September	**311**	371
31 October	**324**	369
30 Novermber	**334**	366
31 December	**299**	358
31 January	**293**	363
28 February	**317**	317
31 March	**317**	286
30 April	**294**	289
31 May	**304**	272
30 June	**339**	358
	3,653	3,979

As members are presently entitled to the distributable income of the Scheme, no income tax is payable by the Responsible Entity.

7 Cash and cash equivalents

	As at	
	30 June 2015 $'000	30 June 2014 $'000
Cash at bank	**7,786**	20,927
	7,786	20,927

8 Receivables

	As at	
	30 June 2015 $'000	30 June 2014 $'000
Trade receivables	**230**	-
Accrued income	**39**	84
	269	84

9 Mortgage loans

	As at 30 June 2015 $'000	As at 30 June 2014 $'000
Mortgages	**51,222**	36,453
Loan loss provision	**-**	-
	51,222	36,453

Gross impaired assets represent those assets that are contractually past due with security insufficient to cover the principal and arrears. The Scheme does not hold any gross assets that are considered impaired at 30 June 2015. The impairment on these assets less anticipated recoveries including security (being real property held as collateral) has been provided for through the loan loss provision.

The Scheme's assets past due but with adequate security is shown below:

As at 30 June 2015
Days past due
$'000

	<30	**30-60**	**60-90**	**>90**	**Total**
Mortgage loans	**-**	**-**	**-**	**-**	**-**

As at 30 June 2014
Days past due
$'000

	<30	30-60	60-90	>90	Total
Mortgage loans	-	-	-	3,155	3,155

The fair value of collateral held for total assets past due with adequate security was $nil as at 30 June 2015 (2014: $4,454,545). The mortgage loans disclosed above are gross of the loan loss provision.

	For the reporting period 30 June 2015 $'000	For the reporting period 30 June 2014 $'000
Loan loss reconciliation		
Opening balance	**-**	5,272
Charge for the reporting period	**-**	-
Loan loss write off	**-**	(5,272)
Closing balance	**-**	-

The Scheme does not issue credit commitments to any third parties.

10 Financial risk management

(a) Objectives, strategies, policies and processes

The Scheme’s activities expose it to a variety of financial risks: market risk (including price risk and interest rate risk), credit risk and liquidity risk.

The Scheme's overall risk management program focuses on ensuring compliance with the Scheme's disclosure documents and seeks to maximise the returns derived for the level of risk to which the Scheme is exposed. Financial risk management is carried out by the Investment Manager ("the Investment Manager") under policies approved by the Board of Directors of the Responsible Entity ("the Board").

The Scheme uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rates, other price risks, and ratings analysis for credit risk.

As part of its risk management strategy, the Scheme may use derivatives and other investments, including share price and bond futures, interest rate swaps and forward currency contracts, to manage exposures resulting from changes in interest rates, foreign currencies, equity price risks, and exposures arising from forecast transactions.

(b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: price risk, foreign currency risk and interest rate risk. Market risk is managed and monitored using sensitivity analysis, and minimised through ensuring that all investment activities are undertaken in accordance with established mandates and investment strategies.

The market risk disclosures are prepared on the basis of the Scheme's direct investments and not on a look through basis for investments held in the Scheme.

The sensitivity of the Scheme’s net assets attributable to unitholders (and profit/(loss) before finance costs attributable to unitholders) to price risk and interest rate risk is measured by the reasonably possible movements approach. This approach is determined based on management’s best estimate, having regard to a number of factors, including historical levels of changes in interest rates and historical correlation of the Scheme’s investments with the relevant benchmarks and market volatility. However, actual movements in the risk variables may be greater or less than anticipated due to a number of factors, including unusually large market shocks resulting from changes in the performance of the economies, markets and securities in which the Scheme invests. As a result, historic variations in the risk variables are not a definitive indicator of future variations in the risk variables.

As of 30 June 2015, the overall market exposures were as follows:

	As at	
	30 June 2015	**30 June 2014**
	$'000	**$'000**
Mortgage loans	**51,222**	36,453

(i) Price risk

Price risk is the risk that the fair value or future cash flows of equities will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

Price risk exposure arises from the Scheme's investment in unlisted property securities. The investments are classified on the statement of financial position as at fair value through profit or loss. All securities investments present a risk of loss of capital.

The Scheme has no exposures to price risk.

10 Financial risk management (continued)

(b) Market risk (continued)

(ii) Foreign exchange risk

There was no significant direct foreign exchange risk in the Scheme as at 30 June 2015 (2014: $nil).

(iii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Scheme is exposed to interest rate risk predominantly through borrowings. The Scheme applies hedging across its differing interest rate exposures and utilises interest rate swaps, to exchange floating interest rates to fixed interest rates, to manage its exposure. Compliance with policy is reviewed regularly by management and is reported to the Board each meeting.

The Scheme has exposure to interest rate risk on its monetary assets and liabilities, mitigated by the use of interest rate swaps, as shown in the table below:

30 June 2015	**Floating interest rate $'000**	**Fixed interest rate: 3 months or less $'000**	**Fixed interest rate: 4 to 12 months $'000**	**Fixed interest rate: 1 to 5 years $'000**	**Fixed interest rate: Over 5 years $'000**	**Non-interest bearing $'000**	**Total $'000**
Assets							
Cash and cash equivalents	**7,786**	**-**	**-**	**-**	**-**	**-**	**7,786**
Receivables	**-**	**269**	**-**	**-**	**-**		**269**
Mortgage loans	**-**	**10,777**	**18,660**	**21,785**	**-**	**-**	**51,222**
Total assets	**7,786**	**11,046**	**18,660**	**21,785**	**-**	**-**	**59,277**
Liabilities							
Payable	**-**	**-**	**-**	**-**	**-**	**108**	**108**
Other liabilities	**-**	**302**	**229**	**211**	**-**	**-**	**742**
Total liabilities	**-**	**302**	**229**	**211**	-	**108**	**850**
Net assets attributable to unitholders	**7,786**	**10,744**	**18,431**	**21,574**	**-**	**(108)**	**58,427**

30 June 2014	Floating interest rate $'000	Fixed interest rate: 3 months or less $'000	Fixed interest rate: 4 to 12 months $'000	Fixed interest rate: 1 to 5 years $'000	Fixed interest rate: Over 5 years $'000	Non-interest bearing $'000	Total $'000
Assets							
Cash and cash equivalents	20,927	-	-	-	-	-	20,927
Receivables	-	84	-	-	-	-	84
Mortgage loans	-	4,580	6,743	25,130	-	-	36,453
Total assets	20,927	4,664	6,743	25,130	-	-	57,464
Liabilities							
Total liabilities	-	-	-	-	-	-	-
Net assets attributable to unitholders	20,927	4,664	6,743	25,130	-	-	57,464

10 Financial risk management (continued)

(b) Market risk (continued)

(iii) Interest rate risk (continued)

At 30 June 2015, should interest rates have (decreased)/increased by the basis points indicated below, with all other variables held constant, the net assets attributable to unitholders (and profit/(loss) before finance costs attributable to unitholders) would have changed by the following amounts, approximately and respectively:

	As at 30 June 2015		As at 30 June 2014	
	Increased by 25 bps $'000	**Decreased by 25 bps $'000**	Increased by 25 bps $'000	Decreased by 25 bps $'000
Increase/(decrease) in net assets attributable to unitholders (and profit/(loss) before finance costs attributable to unitholders)	**19**	**(19)**	52	(52)

(iv) Prepayment risk

Prepayment risk is the risk that the Scheme may incur a reduced margin of earnings because its borrowers repay or request repayment earlier than expected. The Scheme manages prepayment risk by actively monitoring its borrowers. Due to the Scheme's largely variable rate mortgage book the likelihood of prepayment risk eventuating is reduced.

(c) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Credit risk primarily arises from cash and cash equivalents, and deposits with banks and other financial institutions.

With respect to credit risk arising from the financial assets of the Scheme, other than derivatives, the Scheme's exposure to credit risk arises from default of the counterparty, with the current exposure equal to the fair value of these investments as disclosed in the statement of financial position. This does not represent the maximum risk exposure that could arise in the future as a result of changes in values, but best represents the current maximum exposure at the end of the reporting period.

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values.

The Scheme holds collateral as security for its investments.

Counterparty credit limits and the list of authorised brokers are reviewed by the relevant parties within the Responsible Entity on a regular basis as deemed appropriate.

In accordance with the Scheme's policy, the Investment Manager monitors the Scheme's credit position on a regular basis. This information and the compliance with the Scheme policy are reported to the relevant parties on a regular basis as deemed appropriate such as compliance manager, other key management personnel, compliance committees and ultimately the Board.

Credit quality per class of instrument

The credit quality of mortgage loans is managed by the Scheme using LVR analysis. Within the portfolio there exist some loans that are actively managed by the Responsible Entity. LVR of construction loans are reported on "as if complete" valuation basis. The table below shows the LVR of the loan portfolio based on the Scheme's credit rating system.

10 Financial risk management (continued)

(c) Credit risk (continued)

			Loan to valuation ratios ($'000)			
30 June 2015	**<40%**	**40%-60%**	**60%-80%**	**80%-85%**	**>85%**	**Total**
Mortgage loans	**3,615**	**16,314**	**31,293**	**-**	**-**	**51,222**

			Loan to valuation ratios ($'000)			
30 June 2014	<40%	40%-60%	60%-80%	80%-85%	>85%	Total
Mortgage loans	8,228	9,747	18,478	-	-	36,453

(d) Concentrations of risk

Concentrations of risk arise when a number of financial instruments are entered into with the same counterparty, or where a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic conditions. These similarities would cause the counterparties' liabilities to meet the contractual obligations to be similarly affected by certain changes in the risk variables.

The concentrations of risk are monitored by the Investment Manager to ensure they are within acceptable limits by reducing the exposures or by other means as deemed appropriate.

Concentrations of risk are managed by industry sector for equity instruments and by counterparty for debt instruments and selected derivatives.

Based on the concentrations of risk that are managed by industry sector and/or counterparty, the following investments can be analysed by the industry sector and/or counterparty as at 30 June 2015 and 30 June 2014:

Property Type	**As at 30 June 2015 $'000**	As at 30 June 2014 $'000
Commercial - improved	**9,079**	11,863
Commercial - vacant land	**2,707**	-
Residential - construction	**26,452**	7,071
Residential - improved	**10,367**	14,340
Residential - vacant land	**2,617**	3,179
Total	**51,222**	36,453

As at 30 June 2015, the Scheme held a mortgage loan which represented 13.23% of the total mortgage book (2014: 14.75%). This mortgage loan is classified within the residential - construction (2014: commercial improved) sector in the table above.

10 Financial risk management (continued)

(e) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. This risk is controlled through the Scheme's investment in financial instruments, which under normal market conditions are readily convertible to cash. In addition, the Scheme maintains sufficient cash and cash equivalents to meet normal operating requirements.

Under the terms of its constitution, the Scheme has the ability to manage liquidity risk by delaying redemptions to unitholders, if necessary, until the funds are available to pay them. Unitholders are only entitled to have their investment redeemed at the end of the nominated investment term. The Responsible Entity does not envisage that the contractual Maturity disclosed in the table below will be representative of the actual cash outflows, as the holders typically retain them for the medium to long term.

In accordance with the Scheme's policy, the Investment Manager monitors the Scheme's liquidity position on a regular basis. The information and compliance with the Scheme's policy are reported to the relevant parties on a regular basis as deemed appropriate such as compliance manager, other key management personnel, compliance committees and ultimately the Board.

Maturity analysis for financial liabilities

The table below analyses the Scheme's financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows. Financial liabilities such as trade payables, where there are no specific contractual settlement dates, have been grouped into the 'less than 1 year' maturity grouping as such liabilities are typically settled within 30 days.

	Less than 1 year $'000	**1-2 years $'000**	**2-3 years $'000**	**3+ years $'000**
30 June 2015				
Payables	**108**	**-**	**-**	**-**
Other liabilities	**529**	**212**	**-**	**-**
Net assets attributable to unitholders	**58,427**	**-**	**-**	**-**
Total financial liabilities	**59,064**	**212**	**-**	**-**

	Less than 1 year $'000	1-2 years $'000	2-3 years $'000	3+ years $'000
30 June 2014				
Payables	-	-	-	-
Other liabilities	-	-	-	-
Net assets attributable to unitholders	57,464	-	-	-
Total financial liabilities	57,464	-	-	-

As disclosed above, the Scheme manages its liquidity risk by investing predominantly in liquid assets that it expects to be able to liquidate within seven days or less. Liquid assets include cash and cash equivalents. As at 30 June 2015, these assets amounted to $7,786,328 (2014: $20,926,886).

10 Financial risk management (continued)

(f) Estimation of fair values of financial assets and financial liabilities

The carrying amounts of the Scheme's assets and liabilities at the end of each reporting period approximate their fair values, other than certain mortgage loans whereby fair value has been assessed based on valuation techniques including discounted cash flows and capitalisation approaches.

The Scheme values its investments in accordance with the accounting policies set out in note 2(b).

For the reporting periods ended 30 June 2015 and 30 June 2014, the Scheme did not hold financial assets that were determined using valuation techniques. The fair values of the Scheme's financial assets held at fair value through profit and loss for the period then ended were determined directly, in full or in part, by reference to quoted prices that were available from various sources, such as exchanges, dealers, brokers, industry groups and pricing services.

(g) Fair value hierarchy

The Scheme is required to classify fair value measurements using a fair value hierarchy that reflects the subjectivity of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

- Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); quoted prices for similar securities in active and/or inactive markets; market corroborated inputs; inputs that are developed based on available market data and reflect assumptions that markets would use when pricing similar securities.

- Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability.

The determination of what constitutes "observable" requires significant judgment by the Responsible Entity. The Responsible Entity considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The table below sets out the Scheme's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at the reporting date.

As at 30 June 2015	**Carrying value $'000**	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Financial assets not measured at fair value on a recurring basis					
Cash and cash equivalents	**7,786**	**7,786**	**-**	**-**	**7,786**
Receivables	**269**	**269**	**-**	**-**	**269**
Mortgage loans	**51,222**	**-**	**-**	**51,222**	**51,222**
Total financial assets	**59,277**	**8,055**	**-**	**51,222**	**59,277**
Financial liabilities not measured at fair value on a recurring basis					
Payables	**108**	**108**	**-**	**-**	**108**
Other liabilities	**742**	**742**	**-**	**-**	**742**
Total financial liabilities	**850**	**850**	**-**	**-**	**850**

10 Financial risk management (continued)

(g) Fair value hierarchy (continued)

As at 30 June 2014	Carrying value $'000	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets not measured at fair value on a recurring basis					
Cash and cash equivalents	20,927	20,927	-	-	20,927
Receivables	84	84	-	-	84
Mortgage loans	36,453	-	-	36,453	36,453
Total financial assets	57,464	21,011	-	36,453	57,464
Financial liabilities not measured at fair value on a recurring basis					
Total financial liabilities	-	-	-	-	-

The Scheme's policy is to recognise transfers into and out of fair value hierarchy levels as at the end of the reporting period. There are no transfers between levels 1, 2 and 3 for fair value measurements during the reporting period.

11 Related party transactions

Responsible entity

The Responsible Entity of Australian Unity Select Mortgage Income Fund is Australian Unity Funds Management Limited (ABN 60 071 497 115) whose immediate and ultimate parent entity is Australian Unity Limited (ABN 23 087 648 888).

Key management personnel

(a) Directors

The following persons held office as directors of the Responsible Entity during the reporting period or since the end of the reporting period and up to the date of this report:

Glenn Barnes (Chairman) (appointed 10 June 2015)
David Bryant** (Chief Executive Officer and Chief Investment Officer) (appointed 15 December 2014)
Melinda Cilento (Non-Executive Director) (appointed 10 June 2015)
Stephen Maitland (Non-Executive Director) (appointed 10 June 2015)
Kevin McCoy** (Chief Financial Officer) (appointed 15 December 2014)
Rohan Mead** (Group Managing Director) (appointed 15 December 2014)
Peter Promnitz (Non-Executive Director) (appointed 10 June 2015)
Greg Willcock (Non-Executive Director) (appointed 10 June 2015)
Luke Anderson* (Executive Director) (ceased15 December 2014)
Brian Harrison* (Non-Executive Director) (ceased15 December 2014)
David Owen* (Executive Director) (ceased15 December 2014)

*Directors of Owenlaw Trust Limited
**Appointed directors of Australian Unity Mortgage Investments Limited

(b) Other key management personnel

There were no other persons with responsibility for planning, directing and controlling the activities of the Scheme, directly or indirectly during the reporting period.

Other transactions within the Scheme

From time to time directors of Australian Unity Funds Management Limited, or their director related entities, may invest in or withdraw from the Scheme. These investments or withdrawals are on the same terms and conditions as those entered into by other Scheme members and are trivial in nature.

11 Related party transactions (continued)

Responsible Entity's fees and other transactions

The Scheme's Constitution provides that the Responsible Entity is entitled to receive up to 3.075% per annum of the loan amount recovered from fees and/or interest payable by the borrower. The management fee payable by members is nil.

Administration expenses incurred in the day to day running of the scheme are reimbursed in accordance with the Scheme's Constitution.

The transactions during the reporting period and amounts payable at the end of reporting period between the Scheme and the Responsible Entity were as follows:

	30 June 2015 $	30 June 2014 $
Responsible Entity's fees paid by the Scheme to the Responsible Entity	**1,001,492**	778,141

Related party unitholdings

Parties related to the Scheme (including Australian Unity Funds Management Limited, its related parties and other schemes managed by Australian Unity Funds Management Limited), held units in the Scheme as follows:

30 June 2015

Unitholders	**No. of units held opening '000**	**No. of units held closing '000**	**Fair value of investment $'000**	**Interest held %**	**No. of units acquired '000**	**No. of units disposed '000**	**Distributions paid/payable by the Scheme $'000**
Australian Unity Pooled Mortgage Fund	**8,669**	**7,013**	**7,013**	**12.01**	**-**	**1,656**	**574**
Total	**8,669**	**7,013**	**7,013**		**-**	**1,656**	**574**

30 June 2014

Unitholders	No. of units held opening '000	No. of units held closing '000	Fair value of investment $'000	Interest held %	No. of units acquired '000	No. of units disposed '000	Distributions paid/payable by the Scheme $'000
Australian Unity Pooled Mortgage Fund	2,298	8,669	8,669	15.09	6,371	-	729
Total	2,298	8,669	8,669		6,371	-	729

12 Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities

(a) Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities

	Reporting period ended	
	30 June 2015 $'000	30 June 2014 $'000
Profit/(loss) for the reporting period attributable to unitholders	**-**	-
Increase/(decrease) in net assets attributable to	**-**	-
(Purchase)/sale of financial instruments	**(14,239)**	14,143
(Increase)/decrease in receivables	**28**	(59)
Distribution to unitholders	**3,653**	3,978
Net change in payables and accrued liabilities	**107**	-
Net cash inflow/(outflow) from operating activities	**(10,451)**	18,062

(b) Components of cash and cash equivalents

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

Cash and cash equivalents	**7,786**	20,927

13 Events occurring after the reporting period

No significant events have occurred since the end of the reporting period which would impact on the financial position of the Scheme disclosed in the statement of financial position as at 30 June 2015 or on the results and cash flows of the Scheme for the reporting period ended on that date.

14 Contingent assets and liabilities and commitments

There are no outstanding contingent assets and liabilities or commitments as at 30 June 2015 and 30 June 2014.

Directors' declaration

In the opinion of the directors of the Responsible Entity:

(a) The financial statements and notes set out on pages 5 to 29 are in accordance with the *Corporations Act 2001*, including:

(i) complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and

(ii) giving a true and fair view of the Entity's financial position as at 30 June 2015 and of its performance, as represented by the results of its operations and cash flows for the reporting period ended on that date.

(b) There are reasonable grounds to believe that the Scheme will be able to pay its debts as and when they become due and payable.

(c) The financial statements are in accordance with the Scheme's Constitution.

(d) Note 2(a) confirms that the financial statements comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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

Director

Director

10 September 2015

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Independent auditor's report to the unitholders of Australian Unity Select Mortgage Income Fund

We have audited the accompanying financial report of Australian Unity Select Mortgage Income Fund, which comprises the statement of financial position as at 30 June 2015, the statement of comprehensive income, statement of changes in net assets attributable to unitholders and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' responsibility for the financial report

The directors of Australian Unity Funds Management Limited (the Responsible Entity) are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

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

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

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

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

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Opinion

In our opinion:

a. the financial report of Australian Unity Select Mortgage Income Fund is in accordance with the *Corporations Act 2001*, including:

   i. giving a true and fair view of the Australian Unity Select Mortgage Income Fund 's financial position as at 30 June 2015 and of its performance for the year ended on that date; and

   ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.

Ernst & Young

Ernst & Young

Luke Slater

Luke Slater
Partner
Melbourne

10 September 2015