

# Directors' Report

## Illawarra Retirement Trust (A Company Limited By Guarantee) ACN 000726536

The directors present their report together with the financial report of Illawarra Retirement Trust ("the company") for the year ended 30 June 2007 and the auditor's report thereon.

### Directors of the company during the year and up to the date of this report are:

Alan Reginald NEWING	(Chairman)
Ferguson HAMILTON	(Vice Chairman)
Bruce Stewart ALLAN	
Graham Ralph BARKER	
Michael Hermann HYDE	(Resigned 25 May 2007)
Linton Keith LEWIS	
Michael Antony PAUL	(Vice Chairman)
Tineke Alice ROBINSON	(Appointed 30 August 2007)
Richard John YOUNG	
Richard Patrick WALSH	(Appointed 18 January 2007)

## Principal activities

The principal activities of the company during the financial year have continued to be the provisions of aged care services.

## Operating result

The operating profit from ordinary activities of the company for the year was \$11,310,979 compared to \$6,242,880 last year.

## Review of operations

The company's total revenue, including interest income, fair value adjustments and bed licence valuations, increased from \$63,143,929 to \$75,254,829.

The company's operating revenue, excluding interest income, fair value adjustments to investment property and bed licence valuations, increased during the year from \$58,467,885 to \$64,603,462. The increases were mainly across the company's residential, community and self care services.

Operating expenses, increased from \$56,901,049 to \$63,943,850, mainly due to increases in care wages and employee costs across the company's residential, community and self care services.

## Property development

Development of the final stages of Macarthur Village at Campbelltown was completed during the year.

The village consists of 262 self care units along with 60 low care residential care units.

Completion of the additional 28 low care residential care units at Nowra also occurred in June 2007.

Development of low care residential care facilities at Woonona and Milton commenced during the year with construction expected to be completed by the middle of 2008. Development of both residential care units (40 high care and 60 low care) and self care units (up to 150) at Belconnen ACT is also expected to commence late 2007.

## Corporate governance

The Board of Directors is responsible for the overall corporate governance of the company including formulating its strategic direction with the assistance of the company's Chief Executive Officer and executive management.

To assist in fulfilling its responsibilities and in recognition of the current and future nature of the aged care industry and the growth of the company, the Board's Audit Committee, Care Policy & Facilities Committee and Building & Development Committee, are seen as an integral part of the company's control environment.

The Board has delegated responsibility for operation and administration of the company to the Chief Executive Officer and executive management. Responsibilities are delineated by formal authority delegations.

## Directors' Report continued...

### Dividends

The company is limited by guarantee and as such has no shares. No dividend payment is allowed under the company's Constitution, which specifically states:

"The income and property of the company cannot be transferred or paid by way of dividend, bonus or otherwise howsoever, by way of profit to the persons who at any time are or have been members of the company, or to any relative of them or to any person claiming through them."

### Significant changes in the state of affairs

There were no significant changes in the state of affairs for the company during the year.

### Events subsequent to reporting date

There is no matter or circumstance which has arisen since balance date which has significantly affected, or will significantly affect the operation of the company, the results of those operations or the state of affairs of the company in future years.

### Directors interests and benefits

The company's directors cannot and have not received any benefits other than in return for services actually rendered and these benefits are included in the key management personnel disclosure in the company's attached financial report.

### Environmental regulation

To the best of the directors' knowledge, all activities of the company, including its care services, development and catering activities, are undertaken in compliance with necessary environmental regulations.

### Indemnification and insurance of officers

During the year, the company paid a premium under contract to insure the directors and officers of the company against liability. Disclosure of the premium payable and a summary of the nature of the liability covered by the insurance contract are prohibited by a confidentiality clause in the contract.

### Company Secretary

Nieves Murray (Chief Executive Officer) was appointed Company Secretary in January 2007. Joe Gaudiosi (Chief Financial Officer) and Rex Leighton (General Manager – Governance & Strategy) were jointly appointed Company Secretary in July 2006. These positions were held for the balance of the financial year.

### Meetings of directors

The company's directors meet monthly, as well as at any other extraordinary meetings that may be called. During the financial year, the company also operated an Audit Committee, Care Policy & Facilities Committee and Building & Development Committee.

The number of meetings of the company's directors and committees held during the year and the numbers of meetings attended by each director were:

	Board of Directors	Audit Committee	Care Policy & Facilities Committee	Building & Development Committee
<b>Number of meetings held</b>	<b>12</b>	<b>3</b>	<b>3</b>	<b>9</b>
Mr A Newing	12	3	3	9
Mr F Hamilton	12	-	2	8
Mr B Allan	9	3	2	-
Mr G Barker	11	-	1	8
Mr M Hyde	9	-	2	1
Mr L Lewis	12	-	3	9
Mr M Paul	10	-	-	-
Mr R Young	11	3	1	8
Mr R Walsh	6	-	3	-
Ms T Robinson	-	-	3	-

- Mr Hyde resigned as a director of the company on 25 May 2007 and was eligible to attend ten Board meetings.
- Mr Walsh commenced as director on 18 January 2007 and was eligible to attend six Board meetings but was a member of the Care Policy & Facilities Committee prior.
- Ms Robinson commenced as director on 30 August 2007 but was a member of the Care Policy & Facilities Committee prior.

# Information on Directors

<b>Name</b>	<b>Date of Appointment And Experience</b>	<b>Position Held</b>
Mr A R Newing	November 1995 Company Management	Chairman Member of all Company Committees
Mr F Hamilton	November 1988 Company Management	Vice Chairman Member of Care Policy & Facilities Committee Member of Building & Development Committee
Mr M A Paul	Foundation Member 1969 to October 1985 Re-appointed May 1986 Solicitor	Vice Chairman Member of Audit Committee
Mr B S Allan	April 2005 Company Management	Chairman of Audit Committee Member of Care Policy & Facilities Committee
Mr G R Barker	April 2004 Company Management	Member of Care Policy & Facilities Committee Member of Building & Development Committee
Mr M H Hyde (resigned May 2007)	May 2005 Local Government Management	Member of Care Policy & Facilities Committee
Mr L K Lewis	May 1999 Company Management	Chairman of Care Policy & Facilities Committee Member of Building & Development Committee
Ms T A Robinson	August 2007 Public Health Sector Management	Member of Care Policy & Facilities Committee
Mr R J Young	November 1972 Company Management	Chairman of Building & Development Committee Member of Audit Committee
Mr R P Walsh	January 2007 Human Resource Management	Member of Care Policy & Facilities Committee

## Lead auditor's independence declaration under Section 307C of the Corporations Act 2001

To the directors of Illawarra Retirement Trust

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2007 there have been:

- No contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- No contraventions of any applicable code of professional conduct in relation to the audit



KPMG

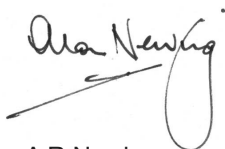


Warwick Shanks

Partner

Wollongong, 27 September 2007

This report is signed in accordance with a resolution of the directors:



A R Newing

Director

Wollongong, 27 September 2007

# Income Statement

For the year ended 30 June 2007

	Note	2007 \$	2006 \$
Revenue from rendering of services		56,850,663	51,326,520
Revenue from capital grants		8,500	76,500
Other revenue		15,671,778	9,278,382
	2	<u>72,530,941</u>	<u>60,681,402</u>
Employee expenses		(44,079,414)	(39,042,500)
Depreciation expenses		(3,340,427)	(2,980,292)
Amortisation		(62,895)	-
Other expenses		(16,461,114)	(14,878,257)
	2	<u>(63,943,850)</u>	<u>(56,901,049)</u>
<b>Results from operating activities</b>		<b>8,587,091</b>	<b>3,780,353</b>
Financial income	3	2,723,888	2,462,527
<b>Profit before related income tax expense</b>		<b>11,310,979</b>	<b>6,242,880</b>
Income tax expense	1(j)	-	-
<b>Profit for the year</b>		<b><u>11,310,979</u></b>	<b><u>6,242,880</u></b>

*The income statement is to be read in conjunction with the notes to the financial statements set out on pages 10 to 24.*

# Statement of changes in equity

For the year ended 30 June 2007

	Retained earnings	Bed licence reserve	Total
	\$	\$	\$
Opening balance at 1 July 2005	151,984,232	-	151,984,232
Net profit for the period	6,242,880	-	6,242,880
Closing balance at 30 June 2006	158,227,112	-	158,227,112
Opening balance at 1 July 2006	158,227,112	-	158,227,112
Net profit for the period	11,310,979	-	11,310,979
Transfer to bed licence reserve	(2,640,000)	2,640,000	-
Closing balance at 30 June 2007	166,898,091	2,640,000	169,538,091

*The statement of changes in equity is to be read in conjunction with the notes to the financial statements set out on pages 10 to 24.*

# Balance sheet

As at 30 June 2007

	Note	2007 \$	2006 \$
<b>Assets</b>			
Cash and cash equivalents	4	32,131,926	35,327,020
Trade and other receivables	5	2,154,150	2,509,909
Inventories	6	153,416	202,087
Other assets	7	2,823,487	3,392,714
<b>Total current assets</b>		<b>37,262,979</b>	<b>41,431,730</b>
Investment property	8	298,484,311	226,220,400
Property, plant and equipment	9	114,498,057	120,621,699
Intangible assets	10	2,891,580	12,500
<b>Total non-current assets</b>		<b>415,873,948</b>	<b>346,854,599</b>
<b>Total assets</b>		<b>453,136,927</b>	<b>388,286,329</b>
<b>Liabilities</b>			
Trade and other payables	11	7,817,086	4,104,166
Non interest bearing liabilities	12	217,052,893	188,698,743
Employee benefits	13	6,331,857	5,082,307
Other liabilities	14	25,822,265	27,231,015
<b>Total current liabilities</b>		<b>257,024,101</b>	<b>225,116,231</b>
Employee benefits	13	496,595	770,653
Other	14	26,078,140	4,172,333
<b>Total non-current liabilities</b>		<b>26,574,735</b>	<b>4,942,986</b>
<b>Total liabilities</b>		<b>283,598,836</b>	<b>230,059,217</b>
<b>Net assets</b>		<b>169,538,091</b>	<b>158,227,112</b>
<b>Equity</b>			
Retained earnings		166,898,091	158,227,112
Bed licence reserve		2,640,000	-
<b>Total equity</b>		<b>169,538,091</b>	<b>158,227,112</b>

The balance sheet is to be read in conjunction with the notes to the financial statements set out on pages 10 to 24.

# Statements of Cash Flows

For the year ended 30 June 2007

	Note	2007 \$	2006 \$
<b>Cash flows from operating activities</b>			
Cash receipts from customers		64,262,050	60,458,305
Cash paid to suppliers and employees		(54,467,603)	(54,044,309)
Cash generated from operations		9,794,447	6,413,996
Capital grants		8,500	76,500
Interest received		2,770,948	2,462,527
<b>Net cash from operating activities</b>	19	12,573,895	8,953,023
<b>Cash flows from investing activities</b>			
Acquisition of property, plant and equipment		(66,307,503)	(29,515,881)
Proceeds from sale of plant and equipment		536,318	499,330
<b>Net cash from investing activities</b>		(65,771,185)	(29,016,551)
<b>Cash flows from financing activities</b>			
Net proceeds from borrowings		50,002,196	35,318,044
<b>Net cash from financing activities</b>		50,002,196	35,318,044
<b>Net (decrease)/increase in cash and cash equivalents</b>		(3,195,094)	15,254,516
Cash and cash equivalents at 1 July		35,327,020	20,072,504
<b>Cash and cash equivalents at 30 June</b>	4	32,131,926	35,327,020

*This statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 10 to 24.*

# Notes to the financial statements

For the year ended 30 June 2007

## 1. Significant accounting policies

The Illawarra Retirement Trust (the company) is a Company Limited by Guarantee and domiciled in Australia. Under its Constitution it is unable to distribute funds to its members by way of dividend or any other such arrangement. The liability of each member, in the event that the company goes into liquidation, is limited to twenty dollars (\$20). The address of the company's registered office is 44-46 Hopetoun Street, Woonona, NSW.

The financial report was authorised for issue by the directors on 27 September 2007.

### (a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ('AASBs') (including Australian Interpretations) adopted by the Australian Accounting Standards Board ('AASB') and the *Corporations Act 2001*.

### (b) Basis of preparation

The financial report has been prepared on the historical cost basis except that investment property is stated at its fair value. These financial statements are represented in Australian dollars, which is the company's functional currency.

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amount of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. These accounting policies have been consistently applied by the company.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of Australian Accounting Standards that have a significant effect on the financial report and estimates with a significant risk of material adjustment in the next year are discussed in note 1(p).

The accounting policies set out below have been applied consistently to all periods presented in the financial report.

The following standards have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2007, but have not been applied in preparing this financial report:

- AASB 7 *Financial Instruments: Disclosures*;
- AASB 20058-10 Amendments to Australian Accounting Standards makes consequential amendments to AASB 132 *Financial Instruments: Disclosure and Presentation*, AASB 101 *Presentation of Financial Statements*, AASB 114 *Segment Reporting*, AASB 117 *Leases* and AASB 139 *Financial Instruments: Recognition and Measurement* and
- AASB 2007-2 Amendments to Australian Accounting Standards arising from AASB Interpretation 12 makes amendments to AASB 117 *Leases*, AASB 118 *Revenue*, AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance* and AASB 139 *Financial Instruments: Recognition and Measurement*.

These standards will require additional disclosures in the financial report.

## *Notes to the financial statements continued...*

### **(c) Property, plant & equipment**

#### ***Acquisition***

Items of property, plant and equipment are initially recorded at cost and either depreciated or valued at fair value as explained further below. The cost of property, plant and equipment constructed by the company includes the cost of materials and direct labour. The proportion of overheads and other incidental costs directly attributable to its construction are also capitalised to the cost of the property, plant and equipment.

#### ***Subsequent additional costs***

Costs incurred on property, plant and equipment subsequent to initial acquisition are capitalised when it is probable that future economic benefits, in excess of the originally assessed performance of the asset will flow to the company in future years and the cost can be reliably measured. Costs incurred on property, plant and equipment that do not meet the criteria for capitalisation are expensed as incurred.

#### ***Recoverable amount of non current assets valued on the cost basis***

The carrying amount of property, plant and equipment valued on the cost basis are reviewed in regard to their recoverable amount at balance date. Any write-down is recognised as an expense in the income statement in the period in which it occurs. The recoverable amount is based on depreciated present replacement cost.

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation and impairment losses. Certain items of property, plant and equipment that had been revalued to fair value on or prior to 1 July 2004, the date of transition to Australian Accounting Standards – AIFRSs, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

#### ***Depreciation***

Depreciation is charged to the income statement, on a straight line basis, over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated.

The estimated useful lives in the current and comparative period are as follows:

- Buildings - 40 years
- Plant and equipment - 10 years

The residual value, the useful life and the depreciation method applied to an asset are reassessed at least annually.

### **(d) Investment property**

Investment properties are properties which are held to earn rental income and capital appreciation. Investment properties are stated at fair value with any changes therein recognised in profit and loss. The basis of valuation is described in note 1(p). Self care retirement villages, rental properties and vacant land are considered to be investment property.

### **(e) Impairment**

The carrying amounts of the company's assets, other than investment property, are reviewed at each balance date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For intangible assets that have indefinite useful lives the recoverable amount is estimated at each reporting date.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement unless the asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of the previous revaluation.

#### ***Calculation of recoverable amount***

The recoverable amount of assets is the greater of their fair value less costs to sell and value in use.

## *Notes to the financial statements continued...*

### **(f) Revenue recognition**

#### ***Capital Grants***

Revenue from capital grants associated with building expenditure is taken direct to the income statement when actually received.

#### ***Rendering of Services***

Revenue from rendering services either through Government subsidy or resident and client fees is recognised in the period in which the service is provided.

#### ***Interest Income***

Interest income is recognised as it accrues, using the effective interest rate method.

#### ***Donations***

General donations are brought to account in the year of receipt.

#### ***Retention***

Allocation retentions from the retention plus interest free loan accommodation option are brought to account as accrued, compared to allocation "donations" from the lower non refundable accommodation option being brought to account as received.

### **(g) Goods and Services Tax**

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities, which are recoverable from, or payable to, the ATO are classified as operating cash flows.

### **(h) Property under construction**

Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassified as investment property.

When the construction or development of a self-constructed investment property is completed and will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the income statement.

### **(i) Employee Entitlements**

#### ***Defined contribution funds***

Obligations for contributions to defined contribution superannuation funds are recognised as an expense in the income statement as incurred.

For the majority of employees, the company contributed to an industry accumulation benefits plan at the rate of nine percent of the employees' gross salary or wage for all of its qualifying employees in accordance with current superannuation legislation. The company also contributed to a separate commercial accumulation benefits plan for the provision of benefits to senior employees on retirement, death or disability. Similar to the industry fund, the benefits are based on contributions for each employee ranging from the minimum nine per cent in accordance with current superannuation legislation up to fifteen percent of the employees' gross salary or wage.

## *Notes to the financial statements continued...*

### **(i) Employee Entitlements (continued)**

#### ***Wages, salaries and annual leave***

Liabilities for employee benefits for wages, salaries and annual leave that are expected to be settled within 12 months of the reporting date represent present obligations resulting from employees' services provided to reporting date, are calculated at undiscounted amounts based on remuneration wage and salary rates that the company expects to pay as at reporting date included related on-costs, such as workers compensation insurance.

#### ***Long Service Leave***

The company's obligation in respect of long-term service benefits, is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates, and is discounted using the rates attached to the Commonwealth Government bonds at the balance sheet date which have maturity dates approximating to the terms of the company's obligations.

### **(j) Income Tax**

The company is a public benevolent institution and therefore is exempt from income tax under Section 50-5 of the Income Tax Assessment Act 1997. The company is also endorsed by the Australian Taxation Office as an Income Tax Exempt Charity and a Deductible Gift Recipient.

### **(k) Peakhurst Retirement Village**

The company manages the Peakhurst Retirement Village on behalf of the NSW Department of Housing. Under the Management Agreement with the Department, the company is entitled to management fees and only this income has been included in these financial statements.

### **(l) Trade and other receivables**

Trade receivables are recognised at amounts due as they are generally settled within 14 days. Trade and other receivables are stated at their amortised cost less impairment losses.

### **(m) Trade and other payables**

These amounts represent liabilities for goods and services provided to the company prior to the end of the financial year and which are unpaid and are stated at their amortised cost. The amounts are unsecured non interest bearing and are usually settled within 30 days.

### **(n) Inventories**

Inventories are carried at the lower of cost and net realisable value.

### **(o) Segment reporting**

A segment is a distinguishable component of the entity that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

## *Notes to the financial statements continued...*

### **(p) Accounting estimates and judgements**

The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

#### ***Critical accounting judgements in applying the company's accounting policies***

Certain critical accounting judgements in applying the consolidated entity's accounting policies are described below.

#### ***Investment property***

The fair value of the self care retirement villages has been determined by analysing the unit prices and the average occupancy of those properties. Unit prices vary according to the retention option chosen by the incoming resident. The unit value relating to the 2% retention option was used in the valuation. Other unit value options available are the 5% retention option, the fully refundable option and the non refundable option. If either of these options were used as the basis of valuation a change would result in the fair value of self care retirement villages. The average occupancy rates are reviewed annually.

### **(q) Interest income**

Net financing costs comprise interest receivable on funds invested. Interest income is recognised in the income statement as it accrues, using the effective interest method.

### **(r) Intangibles**

#### ***Recognition and measurement of intangibles***

Intangible assets are only recognised if the cost of the assets can be reliably measured. In respect to not for profit entities, where an intangible asset is acquired at no cost or for a nominal cost, the cost is the fair value at the date of acquisition. The company is a not for profit entity.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset it relates. All other expenditure is recognised in profit or loss when incurred.

#### ***Bed licences***

The current interpretation of the requirements of AIFRS, in regard to bed licences, is to bring to account the value of bed licences acquired only if those bed licences can be reliably measured. The company currently holds and operates bed licences granted to it as far back as the 1970's. AIFRS does not define "reliably measured" so it is generally felt that the date of introduction of AIFRS in July 2004 is a notional transition date for this purpose. Accordingly, the company has determined that bed licences acquired prior to 1 July 2004 cannot be reliably measured, and therefore these are recorded at nil value.

The company has been awarded bed licences after 1 July 2004. These bed licences can be reliably measured and eighty eight have become operational in 2007 and have been brought to account as at 30 June 2007. The value of the bed licences is shown as a transfer to the bed licence reserve in the balance sheet.

Bed licences are deemed to have indefinite useful lives due to the inherent nature of such licences and evidenced by the continued operation today of licences granted to the company over 30 years ago.

#### ***Software***

Software assets that are acquired, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

Amortisation is recognised in profit and loss on a straight-line basis over the estimated useful life of the asset. The estimated useful lives in the current and comparative period are as follows:

- Software capitalised - 5 years

### **(s) Cash and cash equivalents**

Cash and cash equivalents comprise cash balances, deposits at call and bank bills of exchange.

*Notes to the financial statements continued...*

	2007	2006
	\$	\$
<b>2. Revenue and profit from activities</b>		
<i>Revenue</i>		
Residential care services	42,102,695	38,190,928
Community care services	8,619,791	7,420,274
Self care services	3,394,221	2,917,067
Catering services (to outside organisations)	2,733,956	2,798,251
Capital grants	8,500	76,500
Capital upgrade revenue (including accommodation charges & retentions)	5,790,669	5,076,715
Other operating revenue	1,953,630	1,973,903
Profit on sale of property, plant and equipment	-	14,247
Fair value adjustments to investment property	5,287,479	2,213,517
Bed licences granted	2,640,000	-
Total revenue	<u>72,530,941</u>	<u>60,681,402</u>

*Profit from activities has been arrived at after charging the following items*

Employee expenses	44,079,414	39,042,500
Property cleaning, maintenance and other related property costs	4,559,579	4,379,956
Rates and other utilities	1,925,472	1,844,346
Depreciation	3,340,427	2,980,292
Amortisation	62,895	-
Catering and food provisions	3,915,189	3,754,835
Provision for employee entitlements	975,492	715,194
Other operating expenses	4,960,378	4,183,926
Loss on sale of property, plant and equipment	125,004	-
Total expenses	<u>63,943,850</u>	<u>56,901,049</u>

### 3. Financial income

Interest income	<u>2,723,888</u>	<u>2,462,527</u>
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### 4. Cash and cash equivalents

Cash at bank and on hand	1,631,926	1,377,005
Bank bills of exchange	30,500,000	33,950,015
Cash and cash equivalents in the statement of cash flows	<u>32,131,926</u>	<u>35,327,020</u>

Cash at bank is at call with effective interest rates of up to 6.25% (2006 – up to 5.75%).

Bank bills of exchange mature within 90 days with effective interest rates of up to 6.47% (2006 – up to 6.11%) and are disclosed at face value.

## Notes to the financial statements continued...

	2007	2006
	\$	\$
<b>5. Trade and other receivables</b>		
Trade and other receivables	2,154,150	2,509,909
Less provision for doubtful debts	-	-
	<u>2,154,150</u>	<u>2,509,909</u>

## 6. Inventories

Consumable stores – at cost	151,626	198,590
Kiosks – at cost	1,790	3,497
	<u>153,416</u>	<u>202,087</u>

Inventories on hand consist of consumable stores in catering, nursing and maintenance divisions, which are not for resale, and kiosk stocks in those kiosks run by the company.

## 7. Other assets

Prepayments	459,254	901,315
Resident Trust Fund	2,364,233	2,491,399
	<u>2,823,487</u>	<u>3,392,714</u>

Resident Trust funds mature within 90 days with effective interest rates of up to 6.47% (2006 - up to 6.11%). The associated liability is shown at note 14.

## 8. Investment property

Balance at 1 July	226,220,400	203,655,720
Acquisitions	66,976,432	20,351,163
Fair value adjustment	5,287,479	2,213,517
Balance at 30 June	<u>298,484,311</u>	<u>226,220,400</u>

The carrying amount of investment property is at a fair value of the property as determined by a director's valuation. Self care retirement villages, rental properties and vacant land are all classified as investment properties. The fair value of the self care retirement villages has been determined by analysing the unit prices and the average occupancy of those properties. Unit prices vary according to the retention option chosen by the incoming resident. The unit value relating to the 2% retention option was used in the valuation with an average occupancy rate of 95%. The directors are of the opinion that the resulting fair value is reasonable and does not overstate recoverable value due to the unit price used in the fair value calculation being based on the retention entry contribution pricing option and not the higher fully refundable pricing option.

When the construction or development of a self-constructed investment property is completed and will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the income statement.

Notes to the financial statements continued...

	2007	2006
	\$	\$
<b>9. Property, plant and equipment</b>		
<b>Non current assets</b>		
Land and buildings (A)	94,656,941	85,008,041
Plant and equipment (B)	6,422,334	5,849,241
Land and buildings under construction (C)	10,787,150	2,878,828
Investment property under construction (C)	2,631,632	26,885,589
	<u>114,498,057</u>	<u>120,621,699</u>
<b>A. Land and buildings</b>		
Land and buildings – cost	106,580,672	94,665,626
Accumulated depreciation	(11,923,731)	(9,657,585)
	<u>94,656,941</u>	<u>85,008,041</u>

In assessing the appropriateness of the carrying value of its land and buildings, these properties held by the company are independently revalued every three years at the request of the directors. The last revaluation was at 30 June 2005 by Burgess & Jaye Pty Ltd. The valuation was based on depreciated present replacement cost of improvements with a site value component added.

The valuation included properties which have been subsequently transferred to Investment Property (note 8) as well as properties at cost.

The directors are of the opinion that the valuation and the basis adopted provides a reasonable estimate of recoverable amount, to support the actual carrying value of \$94,656,941 (2006 - \$85,008,041) for the company's land and buildings.

	2007	2006
	\$	\$
<b>B. Plant and equipment</b>		
Plant and equipment – cost	3,607,419	3,242,973
Accumulated depreciation	(2,444,698)	(2,222,063)
	<u>1,162,721</u>	<u>1,020,910</u>
Furniture, fittings and linen – cost	5,717,329	5,084,419
Accumulated depreciation	(3,349,695)	(2,887,106)
	<u>2,367,634</u>	<u>2,197,313</u>
General equipment and motor vehicles – cost	4,369,837	3,828,127
Accumulated depreciation	(1,477,858)	(1,197,109)
	<u>2,891,979</u>	<u>2,631,018</u>
	<u>6,422,334</u>	<u>5,849,241</u>

Notes to the financial statements continued...

2007                      2006  
\$                              \$

**9. Property, plant and equipment (continued)**

Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:

**Land and buildings**

Carrying amount at beginning of year	85,008,041	85,169,280
Additions	11,915,046	1,224,943
Fair value adjustment	-	580,877
Disposals	-	-
Transfers from work in progress	-	-
Depreciation	(2,266,146)	(1,967,059)
Carrying amount at the end of year	94,656,941	85,008,041

**Plant and equipment**

Carrying amount at beginning of year	1,020,910	834,708
Additions	364,446	413,413
Disposals	-	-
Depreciation	(222,635)	(227,211)
Carrying amount at the end of year	1,162,721	1,020,910

**Furniture, fittings and linen**

Carrying amount at beginning of year	2,197,313	2,225,578
Additions	635,625	424,509
Disposals	(2,715)	(6,476)
Depreciation	(462,589)	(446,298)
Carrying amount at the end of year	2,367,634	2,197,313

**General equipment and motor vehicles**

Carrying amount at beginning of year	2,631,018	2,372,940
Additions	1,308,685	1,095,686
Disposals	(658,608)	(651,932)
Depreciation	(389,116)	(185,676)
Carrying amount at the end of year	2,891,979	2,631,018

**C. Property under construction**

Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassified as investment property.

Notes to the financial statements continued...

	2007	2006
	\$	\$
<b>10. Intangible assets</b>		
Software – cost	314,475	12,500
Accumulated amortisation	(62,895)	-
	<u>251,580</u>	<u>12,500</u>
Bed licences – valuation	2,640,000	-
Accumulated amortisation	-	-
	<u>2,640,000</u>	<u>-</u>
	<u>2,891,580</u>	<u>12,500</u>

Reconciliation of the carrying amounts for each class of intangible assets are set out below:

**Software**

Carrying amount at beginning of year	12,500	-
Additions	301,975	12,500
Amortisation	(62,895)	-
Carrying amount at the end of year	<u>251,580</u>	<u>12,500</u>

**Bed licences**

Carrying amount at beginning of year	-	-
Additions	2,640,000	-
Carrying amount at the end of year	<u>2,640,000</u>	<u>-</u>

**11. Trade and other payables**

Trade creditors	3,203,370	1,785,621
Other creditors	3,911,021	1,704,702
Operating monies received in advance	702,695	613,843
	<u>7,817,086</u>	<u>4,104,166</u>

**12. Non interest bearing liabilities**

**Current liabilities**

Resident loans (A)	157,380,185	135,546,865
Resident deposits (B)	59,672,708	53,151,878
	<u>217,052,893</u>	<u>188,698,743</u>

## Notes to the financial statements continued...

### A. Resident loans and accommodation bonds

#### Incoming residents

Loans/bonds are received from incoming residents for the purposes of occupancy of units which may be for a number of years.

#### Departing residents

Loans/bonds become payable by the company on departure by the resident. As the company does not have an unconditional right to defer the refund for 12 months, the resident loan/bond is required to be disclosed as a current liability.

### B. Resident deposits

#### Incoming residents

Deposits have been received for future accommodation in the company in general and more specifically where construction on accommodation units has commenced, but is not completed.

2007	2006
\$	\$

## 13. Employee benefits

#### Current liabilities

Employee benefits	6,331,857	5,082,307
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#### Non current liabilities

Employee benefits	496,595	770,653
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The total number of employees at year end was 1,303 (2006 – 1,220).

## 14. Other liabilities

#### Current liabilities

Resident Trust Fund	2,364,233	2,491,399
Caversham Pty Ltd - development	23,458,032	24,739,616
	<u>25,822,265</u>	<u>27,231,015</u>

#### Non current liabilities

Caversham Pty Ltd – development and land	26,078,140	4,172,333
	<u>26,078,140</u>	<u>4,172,333</u>

Resident Trust Funds are repayable to residents within 90 days and are interest free. The liability to Caversham Pty Ltd represents payments due in relation to the completion of 262 self care units and a 60 place residential care facility in Campbelltown CBD. The project also includes a parcel of land adjacent to the self care village.

## *Notes to the financial statements continued...*

### **15. Commitments**

#### **Capital expenditure**

At 30 June 2007 the company had commitments within twelve months for capital expenditure on future projects approximating \$36.5 million (2005 - \$46.4 million).

The company also has commitments approximating \$42 million to future projects up to June 2009, \$62 million up to June 2010 and similar commitments approximating \$39 million up to 2011.

These commitments are in the form of various self care and residential care facility developments which will be significantly financed from ensuing unit allocations or sales.

### **16. Contingent liabilities**

A. The agreements signed with the Department of Social Security, Department of Health, Housing and Community Services or Department of Community Services and Health by the company for some of its projects provide that should the company demolish, dispose of, mortgage or otherwise encumber these properties, or breach the agreement, without the prior approval of the Director General of the relevant Department, it may be liable to repay the capital grants advanced by the Department on the projects involved. The total of such grants is \$17,285,397 (2006 - \$17,285,397).

At balance date the company also had performance guarantees totalling \$221,650 (2006 - \$356,650) with Wollongong City Council, Shoalhaven City Council and other entities with respect to various building projects.

B. In prior years the company had received capital grants totalling \$2,385,500 for the Peakhurst Retirement Village. Those monies have been forwarded to the New South Wales Department of Housing for the establishment of the hostel. Under the Management and Lease Agreements, the company is indemnified by the Department should any of these monies be required to be repaid.

### **17. Financial instruments**

Exposure to credit and interest rate risks arises in the normal course of the company's business.

#### **Credit risk**

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis.

Investments are allowed only in liquid securities. Given their high credit ratings, management does not expect any counterparty to fail to meet its obligations.

#### **Fair values**

The carrying value of cash, receivables and payables as shown in the balance sheet approximates fair value.

### **18. Subsequent events**

There have been no subsequent events to balance date which would have a material effect on the company's financial statements as at 30 June 2007.

Notes to the financial statements continued...

	2007	2006
	\$	\$
<b>19. Reconciliation of cash flows from operating activities</b>		
<b>Cash flows from operating activities</b>		
Profit for the period	11,310,979	6,242,880
<i>Adjustments for:</i>		
Depreciation	3,340,427	2,980,292
Amortisation	62,895	-
Change in value of investment property	(5,287,479)	(2,213,517)
Bed licences granted	(2,640,000)	-
Loss/(Profit) on sale of fixed assets	125,004	(14,247)
<b>Operating profit before changes in working capital and provisions</b>	<b>6,911,826</b>	<b>6,995,408</b>
Decrease in trade debtors	434,460	2,201,954
Decrease / (increase) in inventories	48,671	(15,718)
Decrease / (increase) in other assets	569,227	(638,037)
Increase / (decrease) in other operating liabilities	4,481,698	(227,077)
Increase in provisions	128,013	636,493
<b>Net cash from operating activities</b>	<b>12,573,895</b>	<b>8,953,023</b>

## 20. Financing facilities

The company has access to the following unsecured lines of credit:

Bank overdraft	1,000,000	1,000,000
Commercial bill facilities	7,000,000	7,000,000
	<b>8,000,000</b>	<b>8,000,000</b>

The above facilities were unused during the year. Interest on the bank overdraft, if used, is charged at the prevailing market rate, which at balance date was 9.25% (2006 – 9.5%). The bill facility bears an unused line fee of 0.1% (2006 – 0.1%).

## 21. Auditors' remuneration

Audit	47,000	45,150
Other services	28,000	13,350
	<b>75,000</b>	<b>58,500</b>

## 22. Key management personnel disclosures

Key management personnel represent the directors and senior executives of the company.

### Key management personnel compensation

In addition to their salaries, the company also provides non-cash benefits to key management personnel such as motor vehicle and expense payment fringe benefits. The following short-term employee benefits include salaries and fringe benefits. Other long term benefits comprise the movements in Annual and Long Service Leave provisions over the period. Post employment benefits represent contributions made to a superannuation fund on their behalf.

		2007	2006
		\$	\$
Short-term employee benefits	(i)	1,086,000	936,000
Other long term benefits		92,000	19,000
Post employment benefits		256,000	67,000
		1,434,000	1,022,000

(i) The directors of the company fulfil their responsibilities in a voluntary capacity and do not receive any income (2006 - \$0). However, a motor vehicle is provided for the use of the directors to enable them to perform and attend their many commitments. The net operating cost of the motor vehicle to the company is approximately \$6,000 (2006 - \$6,000). This is included in the short term employee benefits disclosed above.

### Other key management personnel transactions with the company

Mr L K Lewis, a Director, is associated with the insurance brokerage firm L & B Lewis. This firm has provided insurance brokerage services to the company for several years on normal terms and conditions. Amounts paid to various insurers via L & B Lewis amount to approximately \$739,000 (2006 \$508,000), and the outstanding balance owing to L&B Lewis at 30 June 2007 is nil (2006 – nil).

## 23. Segment reporting

The company provides self care accommodation, high and low level residential care facilities, community care programs and ancillary health care services at various locations throughout south-east New South Wales. The geographic spread covers Sydney to Narooma on the coast and Canberra to Campbelltown and Peakhurst inland.

*Notes to the financial statements continued...*

## **24. Information and declarations to be furnished under the charitable fundraising Act , 1991**

The company has an authority to fundraise for charitable purposes under the Charitable Fundraising Act – Authority Number CFN 10480. Site specific Auxiliaries operate as individual branches under this Authority. The constitution of all the Auxiliaries states that fundraising income can only be applied to the company's operations, normally being the site to which the Auxiliary is associated with.

### **Fundraising appeals conducted during the financial period**

Fundraising appeals conducted during the financial period by the Auxiliaries included various themed raffles and other general fundraising activities.

	<b>2007</b>	<b>2006</b>
	<b>\$</b>	<b>\$</b>
<b>Results of fundraising appeals</b>		
(1) Gross proceeds from fundraising appeals	95,369	132,328
Less: Direct costs of fundraising appeals	(26,945)	(30,578)
Net surplus obtained from fundraising appeals	68,424	101,750
(2) Application of net surplus obtained from fundraising appeals		
Distributions to the company's operations (expenditure on direct services)	(47,576)	(87,286)
Net surplus held in cash for future needs	20,848	14,464
(3) Comparisons by monetary figures and percentages		
	<b>2007</b>	<b>2006</b>
	<b>\$'000</b>	<b>\$'000</b>
Total cost of fundraising/gross income from fundraising	27/95 (28%)	31/132 (23%)
Net surplus from fundraising/gross income from fundraising	21/95 (22%)	14/132 (11%)
Total cost of services/total expenditure from fundraising	48/75 (64%)	87/118 (74%)
Total cost of services/total income from fundraising	48/95 (51%)	87/132 (66%)





