

# Financial Report

and disclosures



# Financial Report and disclosures

## OVERVIEW

### Legal Framework

The will of R E Ross provides that the Trustees hold on trust the balance of the “real and personal estate” of Mr Ross remaining after payment of debts, expenses and duties following his death, in order “to pay or apply the income therefrom in perpetuity...”.

The will authorises the Trustees to invest the Trust’s monies as they “think fit”, “to vary, alter, transpose and re-invest” monies and to invest in the name of a custodian trustee, including any company the Trustees form for such purpose.

The will also authorises the Trustees to meet from Trust income the expenses of any custodian company and of administration, accounting and other services required to carry out the trusts under the will.

The Trustees have the approval of the Australian Taxation Office to withhold from distribution up to 20% of income earned each year. The Trustees invest these withheld distribution funds (Reserves) to generate income and provide for greater distributions in future years. In the year under report, only 15% of income was withheld.

### Investment and Administration

In their investment decisions, the Trustees aim to achieve maximum income for distribution as charitable grants consistent with achieving over the medium to longer term capital growth which is greater than the mere maintenance of real capital value. In administering the Trust, the Trustees aim to achieve a balance between using and paying for those services necessary to achieve best investment and distribution results and keeping expenses within bounds appropriate to a Charitable Trust.

Most of the assets of The R E Ross Trust are held in the name of its “custodian” company, R E Ross Nominees Pty Ltd. The five Trustees are the Directors of the company.

Currently the Trust holds assets in the following classes:

Cash	Australian Equities
Fixed Interest and Hybrids	International Funds
Property Trusts	Alternative Investments
Real Property	A wholly owned quarrying business.

For most of its holdings of Australian and International equities the Trust uses professional investment managers. For part of the year, the manager of Australian equities was Challenger Financial Services which had acquired that part of the business of HSBC Asset Management (Australia) Limited which had previously advised the Trustees. As from 11 November 2006, the relevant part of that business was again sold, this time to Deutsche Bank Australia Private Wealth Management which, since that date, has been the principal manager of Australian equities for the Trust. The Trust also holds units in diversified international and alternative investment funds through Goldman Sachs JBWere Limited.

Trustees continued to use the benchmarks established previously for each category of assets (except for the separate investment in the wholly owned quarrying business, Hillview Quarries Pty Ltd, and the land used for quarrying operations). However, they made a number of changes in the individual holdings within asset categories. All Trustees serve as the Directors of Hillview Quarries Pty Ltd and the Trust owns the quarry land.

All Trustees are members of the Trust’s Investment Committee which meets quarterly. Two Trustees comprise an Investment Sub-Committee which meets in each other month and as required.

## Information, Reporting and Independent Audit

For the year ended 30 June 2006, the Trustees prepared a general purpose financial report (Annual Report) on The R E Ross Trust and its controlled entity, Hillview Quarries Pty Ltd. An independent audit of the financial report was conducted by PricewaterhouseCoopers.

By special Orders of the Supreme Court of Victoria, the Trustees are paid commission if the Attorney-General of Victoria is satisfied with the Trust's Annual Accounts. The Trust submits a copy of the Annual Accounts in the form of the Annual Report, together with a report of the activities of the Trust, each year to the Attorney-General.

Trustees do not receive fees for their services as Directors of R E Ross Nominees Pty Ltd, Hillview Quarries Pty Ltd or any other company where they hold office as a nominee of the Trust.

The information contained in this Financial Report is drawn from the Annual Report of The R E Ross Trust for the period 1 July 2005 to 30 June 2006.

## PERFORMANCE

### Value of Assets

At 30 June 2006 the Book Value of the Trust's assets was \$32.97 million comprised as follows:

Residuary (corpus) funds	\$28,834,130
Reserves of accumulated income (up to 20% withheld from distribution) funds	\$7,434,261

The total estimated Market Value of the assets was \$76.94 million.

### Income

Gross income for the year totalled \$5,841,347, an increase of 15.78% on the previous year.

Income distributed as grants during the year totalled \$3,592,055. Grants refunded by previous recipients totalled \$100.

134 grant approvals, with a total grant value of \$2,304,042, were given during the year; they involved 134 grant payments being made in the year and 14 payments scheduled in future years.

### Expenses

Expenses for the year totalled \$1,122,512, an increase of 17.80%. Expenses represented:

1.84% of Residuary Fund asset market value.

19.22% of gross income.

### Distribution

From its establishment in 1970 to 30 June 2006, the Ross Trust has made grants totalling \$63,718,822. Of these, \$50,543,310 have been made by the Trust directly and \$13,175,512 by Hillview Quarries Pty Ltd at the request of the Trust.

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### INCOME STATEMENTS for the year ended 30 June 2006

The details below have been extracted from The R E Ross Trust Annual report – 30 June 2006 and relate only to the Parent entity referred to in that report, that is, The R E Ross Trust.

	Notes	2006 \$	2005 \$
<b>Revenue from continuing operations</b>	4	<b>5,841,347</b>	5,043,035
Employee benefits expense		<b>(422,500)</b>	(380,422)
Depreciation expense		<b>(11,747)</b>	(15,048)
Other expenses		<b>(687,507)</b>	(555,595)
Grants paid during the year		<b>(3,591,955)</b>	(4,153,916)
Finance cost		<b>(758)</b>	(1,855)
Net Surplus		<b>1,126,880</b>	(63,801)

## BALANCE SHEETS

### for the year ended 30 June 2006

The details below have been extracted from The R E Ross Trust Annual report – 30 June 2006 and relate only to the Parent entity referred to in that report, that is, The R E Ross Trust.

	Notes	2006 \$	2005 \$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	5	135,500	994,943
Trade and Other receivables	6	2,436,359	1,478,634
Other financial assets	7	31,903,743	28,251,313
Total Current assets		34,475,602	30,724,890
<b>Non-current assets</b>			
Receivables	8	3,119,539	3,119,539
Other financial assets	9	64,005	64,005
Property, plant and equipment		36,395	36,088
Total Non-current assets		3,219,939	3,219,632
<b>Total assets</b>		<b>37,695,541</b>	<b>33,944,522</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	10	387,601	378,542
Provisions		19,466	13,400
Total Current liabilities		407,067	391,942
<b>Non-current liabilities</b>			
Provisions		20,789	0
Total Current liabilities		20,789	0
<b>Total liabilities</b>		<b>427,856</b>	<b>391,942</b>
<b>Net assets</b>		<b>37,267,685</b>	<b>33,552,580</b>
<b>EQUITY</b>			
Residuary (Estate Funds)		28,834,130	26,245,905
Reserve funds		7,434,261	6,726,436
Accumulated income		999,294	580,239
		37,672,685	33,552,580

# Financial Report and disclosures

## NOTES TO THE ACCOUNTS

The following notes comprise relevant (renumbered) extracts from the Notes to and forming part of the Annual Report and additional notes relating to the statement of Income and Expenses.

### Relevant extracts from the Notes to and forming part of the Annual Report

#### Note 1. Summary of significant accounting policies

a) **Basis or preparation**

This general purpose financial report has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS), other authoritative pronouncements of the Australian Accounting Standards Board and the Urgent Issues Group Interpretations, with the exception of accounting for investments, which is performed in accordance with note (f) as permitted for non-statutory reporting.

The financial statements have been prepared under the historical cost convention.

b) **Revenue recognition**

Interest, dividends and distributions are recognised as revenue when the right to receive payment is established.

c) **Income tax**

The trust is a non-profit charitable organisation and is not subject to income tax on its income.

On 28 June 1992 the Trustees were granted clearance by the Australian Taxation Office to accumulate 20% of the net income of the trust each year. The purpose of this is to maintain and enhance the capital asset base of the trust for the derivation of income to be distributed by way of grants for future years.

d) **Cash and cash equivalents**

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 that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

e) **Property, plant and equipment**

Plant and equipment is stated at historical cost less depreciation. Depreciation is calculated on both the diminishing value and prime cost method so as to write off the net cost of each item of property, plant and equipment (excluding land) over its expected useful life.

f) **Investments and other financial assets**

Interests in unlisted securities and associates are brought to account at cost.

g) **Investment property**

Investment properties are initially recorded at cost. Costs incurred 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 consolidated entity. Investment properties are maintained at a high standard.

h) **Payables**

These amounts represent liabilities for goods and services provided prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

**i) Employee benefits**

*i. Wages and salaries and annual leave*

Liabilities for wages and salaries, including non-monetary benefits, and annual leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

*ii. Long service leave*

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

*iii. Retirement benefit obligations*

The amount charged to the statement of financial performance in respect of superannuation represents contributions made by the Company and its controlled entity to employee superannuation funds.

**j) Grants**

Grants are recognised as a liability when there exists a present obligation which the entity has no realistic alternative but to settle. Accordingly, grants approved which have not been settled at 30 June 2006 and 30 June 2005 have not been recognised as liabilities at 30 June 2006 and 30 June 2005 respectively because the Trust can vary or terminate the approved grants prior to payment.

**k) Treatment of Residuary Funds / Reserves**

Reserves are increased by the transfer of up to 15% (2005: 20%) of net income to reserves (see note 1(c)) and Residuary Funds are increased by profit on disposal of investments and decreased by losses on disposal of investments and by unrealised losses on fall in market value below purchase cost.

## Financial Report and disclosures

### Note 2. Financial risk management

The consolidated entity's activities expose it to a variety of financial risks; market risk (including fair value interest rate risk and price risk), credit risk and cash flow interest rate risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the consolidated entity.

Risk management is carried out by the trustees in conjunction with their external advisors.

#### a) Market risk

##### i. Price risk

The consolidated entity is exposed to equity securities price risk. This arises from market investments held by the consolidated entity.

##### ii. Fair value interest rate risk

Refer to (c) below.

#### b) Credit risk

The consolidated entity has no significant concentrations of credit risk. The consolidated entity has policies in place to ensure that sales of products are made to customers with an appropriate credit history.

#### c) Cash flow and fair value interest rate risk

As the consolidated entity has significant interest-bearing investment assets, the consolidated entity's income and operating cash flows are exposed to changes in market interest rates.

### Note 3. Segment information

The R E Ross Trust operates predominantly in one industry. The principal activity of the Trust is, in accordance with the establishing will and Trustees law, to hold the residuary estate in trust for the purpose of earning income from its investment and distributing the income for charitable purposes. The Trust operates predominantly in one geographical area being Victoria, Australia.

### Note 4. Revenue

	2006 \$	2005 \$
<b>From continuing operations</b>		
<i>Sales revenue</i>		
Investment income	3,252,830	2,548,820
Income from running Hillview Quarries Pty Ltd	834,361	893,864
	<hr/> 4,087,191	<hr/> 3,442,684
<i>Other revenue</i>		
Interest	348,308	324,483
Dividends	1,405,150	1,273,814
Other revenue	698	2,054
	<hr/> 1,754,156	<hr/> 1,600,351
	<hr/> <b>5,841,347</b>	<hr/> <b>5,043,035</b>

**Note 5. Current assets – Cash and cash equivalents**

	2006	2005
	\$	\$
Cash at bank and in hand	135,500	994,943

**Note 6. Current assets – Receivables**

	2006	2005
	\$	\$
Trade receivables	2,436,051	1,478,326
Other debtors and prepayments	308	308
	<b>2,436,359</b>	<b>1,478,634</b>

**Note 7. Current assets – Other financial assets**

	2006	2005
	\$	\$
<i>Investments</i>		
Public listed property trusts – at cost	5,214,995	5,787,048
Public listed property trusts – fall in market value of certain trusts	0	(296,975)
Investment funds – at cost	3,742,619	2,095,676
Other managed portfolio investment – at cost	20,498,608	18,176,844
Investment properties – at cost	2,447,521	2,447,520
Public company shares – at cost	0	41,200
	<b>31,903,743</b>	<b>28,251,313</b>

**Note 8. Non-current assets – Other financial assets**

	2006	2005
	\$	\$
Private company shares – at cost	64,005	64,005

**Note 9. Current liabilities – Payables**

	2006	2005
	\$	\$
Trade payables	281,757	282,750
Other creditors and accruals	105,844	95,792
	<b>387,601</b>	<b>378,542</b>

## Financial Report and disclosures

### Note 10. Related party transactions

#### a) Trustees

The names of persons who were trustees of The R E Ross Trust at any time during the financial year are as follows: G E Limb, C J Harper, F H Osborn, I A Renard, E N Ritchie and C A Bradfield. All of these persons were also directors of the controlled entity, Hillview Quarries Pty Ltd, during the year ended 30 June 2006 unless otherwise stated. C A Bradfield was appointed a trustee of the consolidated entity on 4 April 2006. J L C McInnes was appointed a trustee of the consolidated entity on 1 July 2006. F H Osborn resigned as a trustee of the consolidated entity on 3 April 2006. C J Harper resigned as a trustee of the consolidated entity on 30 June 2006.

#### c) Transactions with related parties

The following transactions occurred with related parties:

	2006	2005
	\$	\$
Royalty revenue	620,311	676,505
Interest revenue	269,762	267,266
Dividend revenue	1,335,587	812,301
Fees received for management services	200,000	200,000
Fees received for company secretary services	14,050	17,360

The above transactions comprised:

- > Royalties received from Hillview Quarries Pty Ltd based on that company's operations;
- > Interest received from Hillview Quarries Pty Ltd on loans from the Trust;
- > Dividends paid from Hillview Quarries Pty Ltd;
- > Fees for directors' services received for management of Hillview Quarries Pty Ltd;
- > Fees received for company secretary services provided to Hillview Quarries Pty Ltd.

#### d) Outstanding balances arising from sales/purchases of goods and services

The following balances are outstanding at the reporting date in relation to transactions with related parties:

<i>Non-current receivables (loans)</i>	2006	2005
	\$	\$
Commonly controlled entities	3,119,539	3,119,539

#### e) Terms and conditions

The transactions were made on normal commercial terms and conditions and at market rates.

### Note 11. Movements in grants made by the R E Ross Trust

During the year:

- > payments were made for grants approved during the year and for grants approved in previous years but for which payments had not been made by 30 June 2006;
- > new grants were approved, some of which had not been paid at year's end;
- > some approved grants were cancelled prior to payments; and
- > some approved grants were refunded after payment had been made.

## Disclosures

**Colin Harper, Trustee:**

Non executive Director, Australian National Memorial Theatre Limited.

**Ian Renard, Trustee:**

Chancellor, The University of Melbourne;

Director of CSL Limited;

Director of Newcrest Mining Limited; and

Director of The SP Ausnet Group.

**Eda Ritchie, Trustee:**

Member, Board of Management, Moyne Health Services;

Member, Council of the Australian National Maritime Museum;

Member, Council of The University of Melbourne: and

Member, Victorian Environment Assessment Council.

**Sylvia Geddes, Executive Officer:**

Member, Ministerial (Victorian Minister for Children and for Community Services)

Advisory Committee for Vulnerable Children, Young People and Families.

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8 February 2007

Dear Trustees

**Extracts of financial information included in the Ross Trust Annual Report 2006**

This is to confirm the financial information presented on pages 56 to 65 of the Ross Trust Annual Report 2006 has been extracted from the R. E. Ross Trusts 2005 General Purpose Financial Report dated 25 October 2006.

The 2005 General Purpose Financial Report was audited by PricewaterhouseCoopers and was not subject to audit qualification.

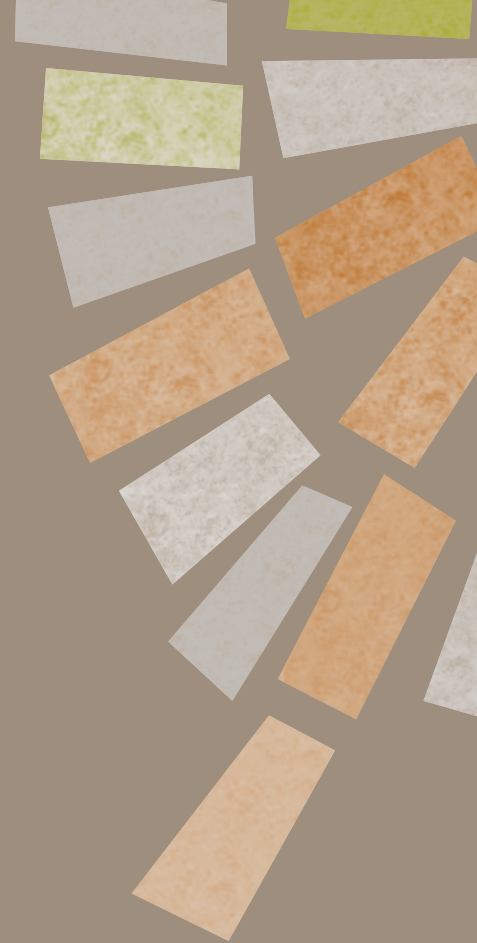
We have reconciled the extracted information presented on pages 56 to 65 of the Ross Trust Annual Report 2006 to the R. E. Ross Trusts 2005 General Purpose Financial Report noting no exceptions.

Yours faithfully



Sanjiv Jeraj  
Partner





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