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Ocean Gardens (Inc.)
Annual Report 2009

Chairman's Report Welcome

Welcome to the first published annual report of Ocean Gardens (Inc.).

The Board decided to produce a corporate style annual report to increase the transparency and accountability of the Board, and to provide more information to people who are considering becoming residents of the village.

There are two versions of this annual report: a graphic-rich version, which is available in pdf format from our web site, and a simple, printed version, which is available in the village (while stocks last).



Simon Withers
Chairman



Management

Last year we recruited a new Executive Manager, Kevin Bown, and a new Finance Manager, Gail Underwood.

Kevin has settled into to his role very well. He has an easygoing, approachable nature and is always available to speak to residents. He has also brought with him a wealth of experience about managing and redeveloping villages.

Last year, thanks to the efforts of Gail and our auditors, Grant Thornton, we managed to produce audited accounts in time for the AGM, under the new AIFRS accounting standards. This was more heroic than it sounds: previously the accounts

department was not geared up to meet audit deadlines and the AIFRS project was in the Too Hard basket.

This year it was plain sailing. The Audit Committee met at appropriate intervals and we followed an audit timetable which saw the audit completed in comfortable time for the AGM. All the things that most companies take for granted, but which are a lot of work when it is not part of your operational procedure or culture. It is now.



The Ocean Gardens Finance and Accounts team.

Village Manager, Kevin Bown.

Governance

Historically, Board members have been appointed from the community and the Board has comprised a combination of:

- elected council members, originally from the City of Perth and, subsequently, the Town of Cambridge;
- members of the community elected at the AGM of Ocean Gardens (Inc.); and, at different times,
- a member appointed by the residents.

The reality, however, is that community-based boards often have neither the skills nor the experience to manage organisations like Ocean Gardens. Organisations like Ocean Gardens (Inc.) need commercial people on their Boards because they are facing major commercial challenges.

In 2008, the Board recruited two new directors with commercial backgrounds. Eric Hooper and Anthony Kinder made a substantial contribution to the running of the village and the Board was a very different place following their arrival. Unfortunately, however, Anthony resigned during 2009 for personal reasons and he will be missed.

The appointment of Eric and Anthony was such a success that we are now reviewing Board composition, recruitment and retention, with a view to bringing in more commercial Board members. This year the position of residents' representative on the Board will be replaced by a third commercial Board member.

While our administration is of a much higher calibre than you would normally find in an organisation of our size, it is small and cannot be expected to run the village and cope with the multitude and complexity of issues currently facing the Board.

Consequently, Board members need to make a significant contribution – in both time and expertise - to the management and development of the village.

The Ocean Gardens Board is in transition from an old-fashioned community Board to a commercial Board. The next step will be to work out how to replace the three Board members currently appointed by the Town of Cambridge.

Few serving councillors (from any council) would be qualified to sit on a Board and deal with the issues facing Ocean Gardens. In addition, the time and the effort demanded of Board members over the past and coming years is an unfair burden to place on councillors. The Board is therefore discussing, at Board meetings and with the Town of Cambridge, options for making this transition while preserving the Town's role in the governance process.

Accountability, Transparency and Consultation

The Board is also working on proposals to improve its accountability, transparency and consultation with residents. We will be adopting a charter which will formalise the things that Ocean Gardens has been doing for a long time, and things that it has started doing recently, to give residents a guarantee of transparency and consultation.

This year, for the first time, this Board report and the audited accounts of Ocean Gardens (Inc.) are being made available to residents and the public in a corporate-style annual report, which can be viewed or downloaded from our new web site.

The Board



Simon Withers, GAICD - Chairman

Simon Withers is the Mayor of the Town of Cambridge.

He holds degrees in law and finance from the University of Western Australia, and a Master of Law degree from Cambridge University. He qualified as a barrister and solicitor with Parker & Parker in Perth and then worked for Peat Marwick's insolvency practice in Perth.

In 1985 he joined London merchant bank Kleinwort Benson, where he ultimately became a Director of the Mergers & Acquisitions department. In 1993 he founded Anvil Partners, a London-based corporate advisory firm which arranged private equity transactions and advised on company sales, acquisitions and restructurings. He returned to Perth in 2003 and has been a member of the Takeovers Panel since 2003.

He was appointed to the Board of Ocean Gardens in 2007.



Alan Langer - Vice Chairman

Alan is a retired company director and a former Chairman of Ocean Gardens.

He is a past Commodore of the Perth Flying Squadron and is a former Chairman of the Used Car Dealers Association of Western Australia.

He is currently serving his third term as a councillor for the Wembley Ward of the Town of Cambridge, where he is the Deputy Mayor and Chairman of the Corporate and Governance Committee.

He was appointed to the Board of Ocean Gardens in 2007.



Eric Hooper, GAICD

Eric is currently the Deputy Chairman and Chair of the Audit and Compliance Committee for the energy retailer Synergy. He also operates a corporate advisory consultancy business with a particular speciality in health and aged care.

He holds a Bachelor of Business degree majoring in accounting and an MBA.

Eric was previously the Chief Financial Officer for St John of God Healthcare and prior to that headed the corporate advisory area of Oakvale Capital Limited.

He was appointed to the Board of Ocean Gardens in 2008.



Hilary Pinerua

Hilary is a retired speech pathologist with a Master of Science degree from London University. She worked as an academic speech pathologist with clinical speciality involving work with the elderly suffering language damage.

After moving to Perth and having two children, she concentrated on school activities and ran the business side of her husband's medical practice. Hilary is currently serving a second term as a councillor for the Coast Ward of the Town of Cambridge.

She was appointed to the Board of Ocean Gardens in 2007.

She is a former Vice Chairman of Ocean Gardens, having previously served on the Board from to 2003 to 2005.

New lease, new “formula”



The government is currently reviewing the Retirement Villages Code. When the new Code takes effect, it is our intention to rewrite our lease documents to ensure that they are compliant with the new Code and to improve the language. Our lawyers have promised a “plain English” rewrite. We shall see.

We are also considering what is commonly known as the lease “formula”. This is the agreement between the resident and Ocean Gardens regarding the sharing of the proceeds of sale from villas and apartments.

Under the current formula, Ocean Gardens (a) guarantees that the eventual sale price will be at least equal to the purchase price and (b) takes 60% of the sale proceeds in excess of the purchase price.

As far as we are aware, we are the only village in Australia that guarantees the resale price.

We are also the only village of which we are aware that uses a formula based on increase in value, as opposed to sale price.

Most villages charge a “deferred maintenance fee” (DMF) of 3% or 4% for each year of residence on the entire sale price. These fees are capped at a maximum percentage, which varies from village to village. So residents who sell their villa after 10 year occupancy could be charged a fee of 40% (4% x 10 years) of the sale price – whereas we would charge a fee of 60% of the increase in value.

Which fee would earn a greater or lesser amount for the village depends on a number of variables; it is not a straightforward computation.

No guarantees were paid in the year to 30 June 2009 (or, as far as we are aware, in the history of Ocean Gardens) but, since the year end, there have been two cases where the Board has been asked to fund the difference between the guaranteed resale price and the actual resale price. It is likely that the Board will be called upon to fund this guarantee more often in the future.

The Board is therefore considering whether it should adopt the same fee structure as the rest of the market. We have engaged consultants to develop a financial model to help us assess the potential financial impact of changing the formula. It should be stressed that if the formula is changed it will only affect new leases. Existing leases will not be changed.

The Board has spent a great deal of time considering the need to make improvements to the Village. It is important that the quality of the residences and facilities at Ocean Gardens matches the quality of its magnificent City Beach location.

We have also spent a great deal of time considering the market position of the Village. Our fantastic geographical location, the quality of our accommodation, common parts and gardens, and our marketing message are all inter-related.

The Board has moved swiftly and invested substantial funds to improve both the quality of villas and apartments offered for sale, and the quality of the common areas.



Taking the Village forwards

Refurbishments: Ocean Gardens has probably the best location of any existing or potential retirement village in Perth. In the past, the quality of the fit-out of our villas and apartments for sale has not matched the quality of the location. Under Kevin’s direction, we now offer as good a fit-out as good as any village in Perth and one which is probably better than most.

Our buildings may be 20 years old, but inside the residences we offer for sale are as modern as any on the market today. The next step – and it is not a large step – is to offer the best fit-out in Perth.

Village upgrade: We have spent nearly \$2 million upgrading the community centre and restaurant, enclosing the north facing balcony to create a café and constructing a large deck, overlooking ocean, which the restaurant can open onto in summer through bi-folding doors. This upgrade is now complete and it looks great. The café, with its wall of glass and expansive views over the ocean, is in regular use. The large adjoining deck, with its comfortable chairs, shade sails and ocean panorama, is also very popular.

In the coming 12-18 months, we will spend in the order of another \$2 million on a new heated swimming pool and barbeque area, a new gym and refurbished showers and change rooms, and a major upgrade of the gardens. Construction of the new pool and gym is scheduled to commence in March 2010 and to be completed by around the end of the year, in time for use over summer.

Garden upgrade: We have approved plans for a substantial upgrade of a large part of the Village’s gardens, including the entrance driveway and the areas around the community centre.

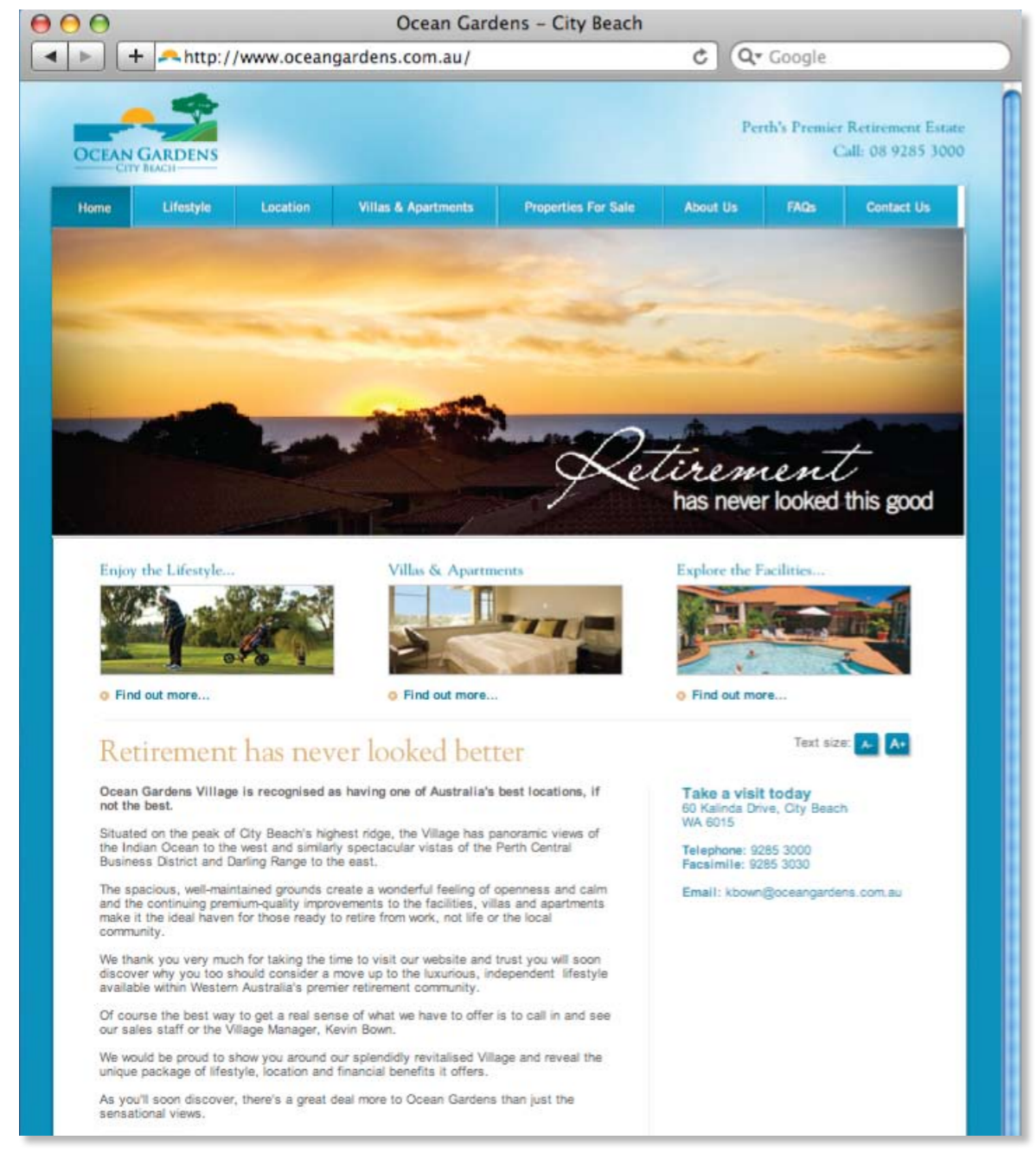
The new gardens will be both beautiful and waterwise. Our aim is to put the “gardens” back into Ocean Gardens.

Marketing: Last year we adopted a new logo for Ocean Gardens. This year we have adopted a new marketing strategy and commissioned new advertising, a new web site and new marketing materials. Spending on advertising and marketing will rise from \$60,000 in the year to 30 June 2009 to \$150,000 in fiscal year 2010.





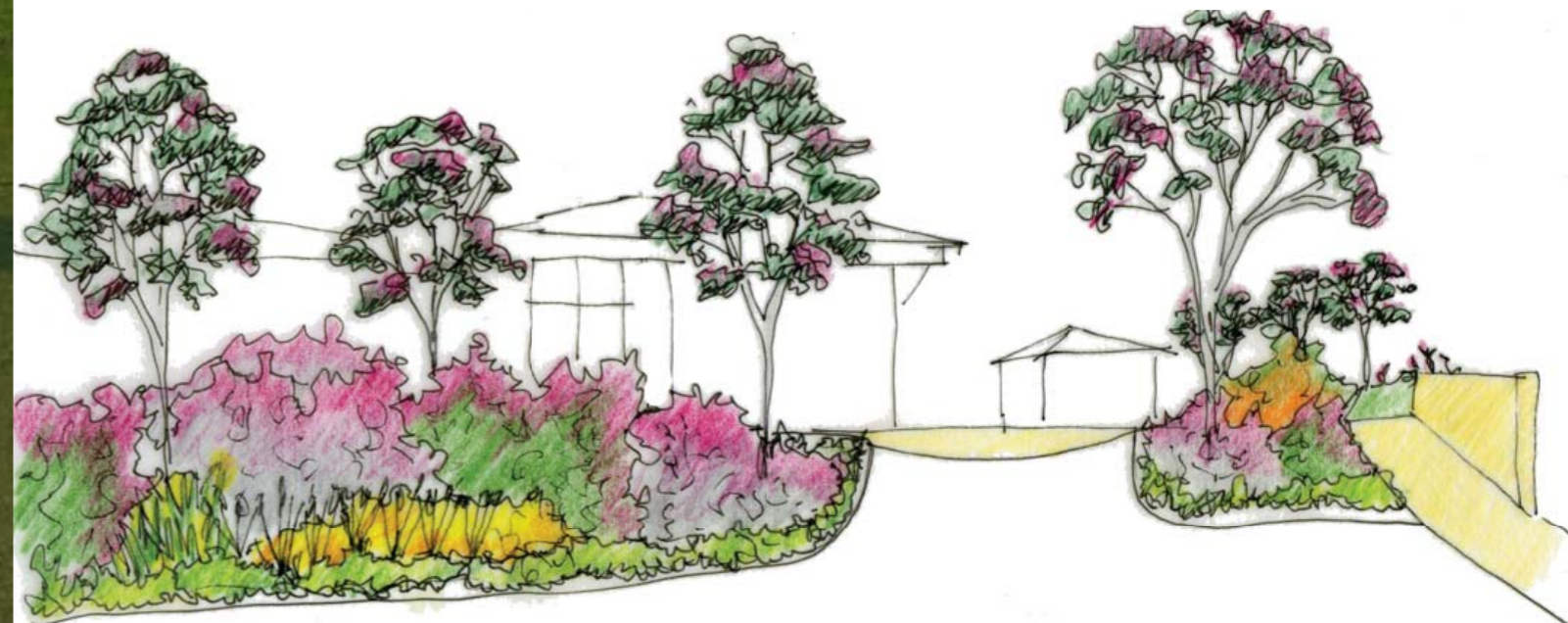
Artwork by Josh Byrne & Associates



The new website, advertisements and brochures are a huge step forward. Our website, which was dismal, has been redesigned and the new site is now live. It provides a lot of information about the village, including details of every villa and apartment for sale, and information about operations and finances. It will be a valuable marketing tool, but it will also play a role in our commitment to transparency and accountability.

Redevelopment: The Board is also examining opportunities to build modern, larger villas and apartment-style accommodation in the Village. T&Z Architects have been

appointed to advise the Board and to develop a master plan for the village. The Board's objectives are to modernise and expand the accommodation formats offered by the village, to attract younger residents, particularly baby-boomers, and to improve the perception of the village. Any redevelopment will be limited to a defined area of the village and all reasonable measures will be taken to minimise disruption and the impact of building works on residents. Much work has been done, but much more still needs to be done before we can move forward. We look forward to this challenge.



Artwork by Josh Byrne & Associates

2009 Audited Accounts

The audited accounts state that in the year to 30 June 2009 Ocean Gardens (Inc.) incurred a loss of \$8.2 million, compared to a loss of \$0.5 million in the previous year.

These losses arose because the new AIFRS (Australian International Financial Reporting Standards) accounting standard has changed the way our profit and loss is calculated. In particular, changes in the value of our assets are now included in the computation of our profit and loss account.

Consequently, under the new accounting standard, when the property market is strong, as it was a few years ago, our profit will soar, and when the property market falls, so does our profit.

You can see from the table below that under the new accounting standards the profit for the year is now largely determined by changes in the value of our investment properties.

Year to 30 June	2006 \$m	2007 \$m	2008 \$m	2009 \$m
Value of investment properties	86.4	125.3	124.9	112.9
Change in value		38.9	(0.4)	(12.0)
Profit/(Loss) for the year		24.5	(0.5)	(8.2)
Cash on deposit	11.3	15.8	17.8	16.2

In 2007 we recorded an increase of nearly \$40 million in the value of our investment properties, which translated into a \$25 million jump in profit. We realised at the time that a fall in the value of our investment properties would have a corresponding negative impact on profit and that is what happened in 2009, when the property market fell.

Perhaps the best way to summarise the financial performance of Ocean Gardens (Inc.) is that between 2006 and 2009:

- The value of investment properties rose from \$86.4 million to \$112.9 million.
- Cash on deposit rose from \$11.3 million to \$16.2 million.

AIFRS accounting does not show whether we are generating enough funds to meet our operating costs and accumulate surplus funds for the future development of the village. The Board therefore uses a cashflow report to assess operating performance and a summarised version is reproduced below.

This report (which has not been audited) provides a more useful picture of what happened during the year to 30 June 2009.

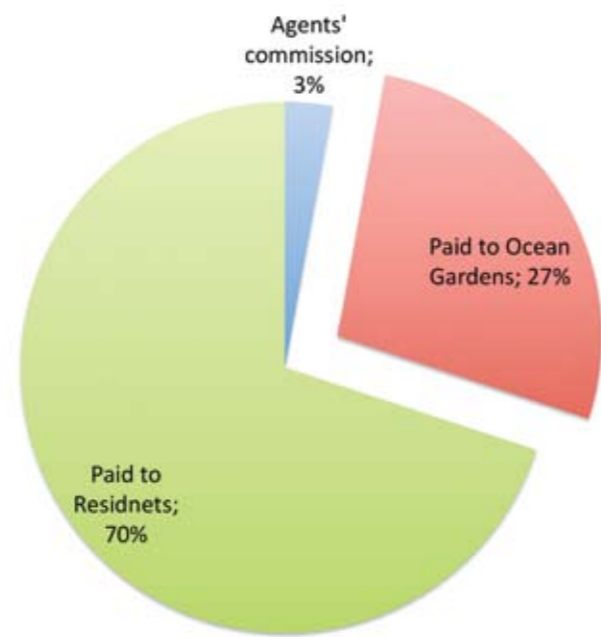
Cash Flow Summary

	Year to 30 June 2009 \$	
OPERATING MOVEMENTS		
Value of units sold	7,112,000	100.0%
Agent's commission (net)	(206,552)	2.9%
Residents' share of proceeds	(4,975,934)	70.0%
OG share of proceeds of unit sales	1,929,514	27.1%
Cost of refurbishments to units in the year	(1,549,340)	100.0%
Refurbishment fees paid by residents	348,350	22.5%
Refurbishments funded by the Board	(1,200,990)	77.5%
Net proceeds from unit sales	728,524	
Interest and Other Income	1,086,692	
Total Net Inflow from sales and other income	1,815,216	
Operating Expenses	(876,975)	
Net Operating Result	938,241	
ASSET MOVEMENTS		
Villas and Apartments Purchased by the Board	(992,312)	
Deferred Lease Bonds reimbursed - pre sale	86,435	
Total cost of asset purchases	(905,877)	
Village Upgrade (Restaurant and Community Centre)	(1,564,077)	
Garden Upgrade Stage 1	(35,526)	
Total Cost of Upgrades	(1,599,603)	
Adjustments	1,308	
NET CASH INFLOW (OUTFLOW)	(1,565,931)	
Opening Cash Balance	17,801,023	
Net inflow (outflow)	(1,565,931)	
Closing Cash Balance	16,235,092	

Cash Flow Summary

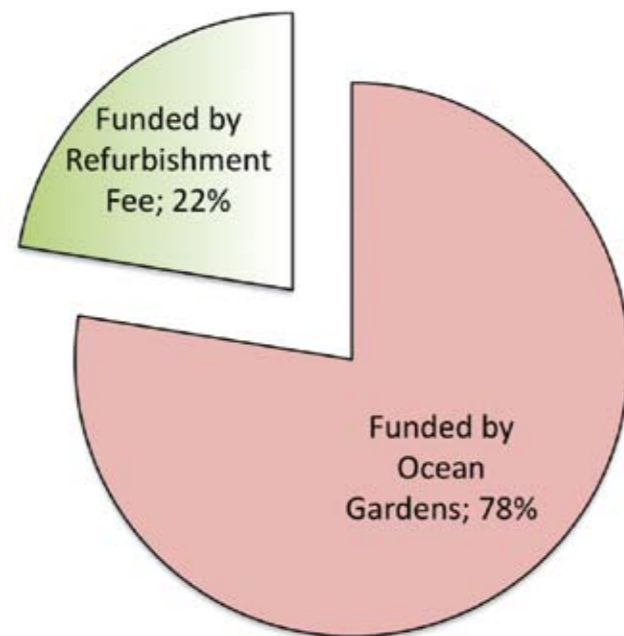
The primary source of our income is the sale of villas and apartments. We take 60% of the increase in value (after various costs and adjustments) of each villa or apartment when it is sold. In the year to 30 June 2008, the total value of apartments and villas sold was \$7.11 million and our share of that revenue was \$1.9 million (27%).

Proceeds of Sales of Villas and Apartments 2009 = \$7.11m



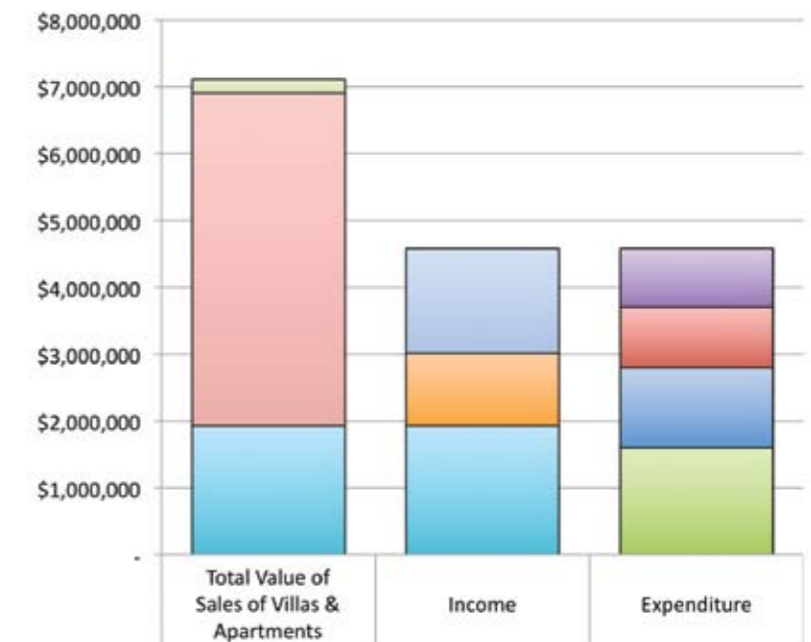
We used \$1.2 million of that money to improve the standard of refurbishment of villas and apartments vacated by residents prior to resale. This accounted for 78% of the funds spent on refurbishments.

Funds Spent Refurbishing Villas and Apartments 2009 = \$1.55m



In addition, we earned nearly \$1.1 million in interest and other income. Our operating expenses were approximately \$0.9 million leaving a surplus (or Net Operating Result) for the year of \$0.9 million. We spent \$0.9 million on repurchasing villas 39 and 80, and \$1.6 million on upgrading the village. The net result was a cash outflow of \$1.6 million. We began the year with \$17.8 million in the bank and finished with \$16.2 million.

Sources of Income and areas of Expenditure 2009



- Agents' commission
- Paid to Residnets
- Drawn from Reserves
- Interest and Other Income
- Paid to Ocean Gardens
- Operating Expenses
- Villas & Apartments Purchased by the Board
- Refurbishing Villas & Apartments
- Major Upgrades to Village

\$206,552		
\$4,975,934		
	1,565,931	
	\$1,086,692	
\$1,929,514	\$1,929,514	
		\$876,975
		\$905,877
		\$1,200,990
		\$1,599,603

Financial Report

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Statement by the Board of Management

The Board of Management of Ocean Gardens (Inc) has determined that the Association is not a reporting entity and that this special purpose financial report should be prepared in accordance with the accounting policies outlined in Note 1 to the financial statements.

In the opinion of the Board of Management, the financial report as set out on page 13 to 16:

1. presents fairly the financial position of the Association as at 30th June 2009, and its performance for the year ended on that date; and
2. at the date of this statement, there are reasonable grounds to believe that Ocean Gardens (Inc) will be able to meet its debts as and when they fall due.

This statement is made in accordance with a resolution of the Board of Management and is signed for and behalf of the Board of Management by:



.....
Chairman



.....
Secretary

Dated this 16th day of September 2009
City Beach, WA



Income Statement

	NOTE	2009 \$	2008 \$
Revenue from Operations			
Revenue from turnover of resident lease bonds		139,890	148,936
Other revenue		1,190,285	1,394,986
	2	<u>1,330,175</u>	<u>1,543,922</u>
Repairs and maintenance expense		(221,632)	(355,227)
Operations expenses		(224,841)	(172,158)
Consulting fees		(73,760)	(41,230)
Marketing expenses		(11,207)	(31,524)
Refurbishment		(1,429,325)	(643,089)
Other expenses		(418,281)	(223,502)
Depreciation expenses	3	(230,255)	(263,877)
Profit/(loss) before income tax		<u>(1,279,126)</u>	<u>(186,685)</u>
Income tax expense	1(e)	-	-
Net profit/(loss) from operations		<u>(1,279,126)</u>	<u>(186,685)</u>
AIFRS Adjustments			
Revaluation of properties	2	(6,910,232)	(315,446)
Net movement in property values			
Profit/(Loss) after AASB 140 revaluation of investment properties		<u>(8,189,358)</u>	<u>(502,131)</u>

Notes to and forming part of the financial statements are included on page 17 to 23.

Balance Sheet

	NOTE	2009 \$	2008 \$
CURRENT ASSETS			
Cash and Cash equivalents	4	16,235,092	17,801,022
Trade and other Receivables	5	48,841	36,248
TOTAL CURRENT ASSETS		<u>16,283,933</u>	<u>17,837,270</u>
NON-CURRENT ASSETS			
Trade and other receivables	5	35,034	139,507
Property, plant and equipment	6(a)	3,824,264	2,516,127
Investment property	6(b)	112,952,000	124,965,000
TOTAL NON-CURRENT ASSETS		<u>116,811,298</u>	<u>127,620,634</u>
TOTAL ASSETS		<u>133,095,231</u>	<u>145,457,904</u>
CURRENT LIABILITIES			
Trade and other payables	7	3,164,410	3,616,061
Resident lease bonds	7	75,942,471	79,664,135
TOTAL CURRENT LIABILITIES		<u>79,106,881</u>	<u>83,280,196</u>
TOTAL LIABILITIES		<u>79,106,881</u>	<u>83,280,196</u>
NET ASSETS		<u>53,988,350</u>	<u>62,177,708</u>
EQUITY			
Accumulated Surplus		53,988,350	62,177,708
TOTAL EQUITY		<u>53,988,350</u>	<u>62,177,708</u>

Notes to and forming part of the financial statements are included on page 17 to 23.

Statement of Changes in Equity

	Accumulated Funds
Balance at 30 June 2007	62,679,839*
Net loss from operations	(502,131)
Balance at 30 June 2008	62,177,708
Net Loss from Operations	(8,189,358)
Balance at 30 June 2009	53,988,350

*** Refer to Note 8**

Notes to and forming part of the financial statements are included on page 15 to 21.

Cash Flow Statement

	NOTE	2009 \$	2008 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from residents		405,764	508,099
Payments to suppliers and employees		(2,714,009)	(1,341,366)
Interest received		1,034,171	1,196,057
Change in Residents' lease bonds on turnover		1,246,536	2,252,579
Net cash provided by / (used) in operating activities		(27,538)	2,615,369
CASH FLOWS FROM INVESTING ACTIVITIES			
Net additions to property, plant & equipment		(1,538,392)	(603,397)
Net cash provided by (used in) investing activities		(1,538,392)	(603,397)
Net increase/(decrease) in cash held		(1,565,930)	2,011,972
Cash at the beginning of the financial year		17,801,022	15,789,050
Cash at the end of the financial year	4	16,235,092	17,801,022

Notes to and forming part of the financial statements are included on page 17 to 23.

Notes to and forming part of the Financial Statements

1. Statement of Significant Accounting Policies

This financial report is a "Special Purpose Financial Report" to satisfy the reporting requirements of the Constitution of the Association.

This financial report has been prepared in accordance with the Constitution of the Association and the following Australian Accounting Standards:

AASB 1031 Materiality

AASB 110 Events after the Balance Date

AASB 140 Investment Property

No other applicable Accounting Standards, Australian Accounting Interpretations or other authoritative pronouncements of the Australian Accounting Standards Board have been applied.

The principal accounting policies of the Association, which are set out below, have been consistently applied in all material respects.

The results of operations and assets and liabilities of the "Ocean Gardens Operations" accounts have not been consolidated into the results of Ocean Gardens (Inc).

This was done as the assets and liabilities of "Ocean Gardens Operations" are held for special purposes and benefit of the residents of the Retirement Village, and as such have restrictions as to the application thereof, as set out in the financial report of "Ocean Gardens Operations".

The results from operations of "Ocean Gardens Operations" are clearly set out in the financial report of "Ocean Gardens Operations".

It is deemed that the inclusion of the results and net assets of "Ocean Gardens Operations" will not have any additional benefit to the users of the financial report of Ocean Gardens (Inc). A copy of the financial report of "Ocean Gardens Operations" can be obtained from management upon request.

(a) Basis of Preparation of the Accounts

The financial report has been prepared on a historical cost basis, except for investment properties which have been measured at fair value.

(b) Significant accounting estimates and assumptions

The Association makes estimates and assumptions concerning the future. Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Association and that are believed to be reasonable under the circumstances. The resulting accounting estimates, by definition, will seldom equal the related actual results. Significant judgements, estimates and assumptions made by the Board in the preparation of these financial statements are discussed below.

Notes to and forming part of the Financial Statements continued

Valuation of Investment Property

The Association has certain assets classified as Investment Property for the purposes of AASB 140 Investment Properties, principally the Retirement Village owned by the Association. This asset is carried at an amount which represents fair value as at the balance date. Fair value is determined by reference to market-based evidence, which is the amount for which the asset could be exchanged between seller in an arm's length transaction.

Resident Lease Bonds

Residents are entitled to a portion of the revaluation gain on their unit in accordance with their resident contract. The revaluation of the unit has similar estimates and assumptions as discussed under investment properties.

(c) Property, Plant and Equipment

Property, Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the part is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation.

Depreciation is calculated on the village centre building, the units for administration use and furniture, fittings and equipment on a straight-line basis so as to write off the net cost of each fixed asset during its expected economic life. The following depreciation rates apply:

Buildings	2.5% straight line
Furniture fittings and equipment	5.0% to 33 1/3% straight line

Derecognition and disposal

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

(d) Income Tax

The Association is a charitable organisation as specified in section 50.5 of the Income Tax Assessment Act 1997, and is therefore exempt from income tax.

(e) Goods and Services Taxes

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

- When the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

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

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables and payables in the balance sheet.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising

from investing and financing activities, which is recoverable from, or payable to, the taxation authority, are classified as operating cash flows.

(f) Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Association and the revenue can be reliably measured. The following specific recognition criteria apply before revenue is recognised:

Revenue from re-leasing units such as refurbishment fees as per resident leases is recognised at settlement of the unit's re-leasing.

Refurbishment income is the amount by which resident lease bonds are reduced on an annual basis in accordance with the resident lease agreement. The refurbishment income is recognised in the income statement annually based on the market values of investment properties.

Interest Income

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

(g) Borrowing costs

Borrowing costs are capitalised for qualifying assets

(h) Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(i) Trade and other receivables

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

(j) Investment properties

Initially, investment properties are measured at cost, including transaction costs. Costs of enhancements to an existing investment property are capitalised. Costs of day-to-day servicing of an investment property are expensed. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date.

Gains or losses arising from changes in the fair values of investment properties are recognised in the Income Statement in the year in which they arise.

Investment properties are derecognised either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the Income Statement in the year of retirement or disposal.

The Association makes a determination, on a property by property basis, as to whether a property should be considered an investment property. Factors taken into account include:

- Whether the property generates cash flows largely independent of other services provided to residents of the properties; and
- Whether the property is held for long-term capital appreciation rather than for short-term sale in the ordinary course of business.

Currently, independent living units governed by the Retirement Villages Act are classified as investment properties.

Notes to and forming part of the Financial Statements continued

(k) Investments and other financial assets

Financial assets in the scope of AASB 139 Financial Instruments: Recognition and Measurement are classified as either financial assets at fair value through the profit or loss, loans and receivables or held-to-maturity investments as appropriate. When financial assets are recognised initially they are measured at fair value, plus, in the case of investments not at fair value through the profit or loss, directly attributable transaction costs. The Association determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end.

Term deposits are classified as loans and receivables.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

(l) Impairment of assets

The Association assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Association makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs.

When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(m) Trade and other payables

Trade payables and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Association prior to the end of the financial year that are unpaid and arise when the Association becomes obliged to make future payments in respect to the purchase of these goods and services.

(n) Resident lease bonds

Resident lease bonds are treated as financial liabilities and are measured at the principal amount less accrued annual loan reduction, plus the resident's share of capital gains from adjusting the booked value of the underlying property to its market value at balance date. Resident lease bonds are non-interest bearing. Fair value movements on resident lease bonds are recognised in the Income Statement in the period that the revaluation occurred. The fair value of resident lease bonds is not less than the amount payable on discharge.

Resident lease bonds are classified as current liabilities as the Association does not have an unconditional right to defer settlement of the liability for at least 12 months after balance sheet date.

	2009 \$	2008 \$
2. Revenue		
Operating Revenue		
Realised capital gain/(loss) on turnover of resident lease bonds	(139,800)	12,000
Refurbishment income	312,380	137,200
Less: Re-leasing expenses	(32,690)	(264)
Revenue from turnover of resident bonds	139,890	148,936
Newrose Holdings	-	809
Distribution from Ocean Gardens Trust	99,748	117,102
Marketing revenue	37,693	36,938
Respite income	-	8,460
Other revenue	18,673	35,620
Sundry revenue	156,114	198,929
Interest received	1,034,171	1,196,057
Other revenue	1,190,285	1,394,986
Total operating revenue	1,330,175	1,543,922
Revaluation of properties		
AIFRS Adjustments		
Revaluation of retirement village investment property	(7,044,800)	(357,081)
Refurbishment income	(14,810)	76,350
Less: Re-leasing expenses	149,378	(34,715)
Net movement in property values	(6,910,232)	(315,446)

Notes to and forming part of the Financial Statements continued

	2009 \$	2008 \$
3. Profit/(Loss)		
Net profit from operations has been determined after the following expenses:		
Depreciation expenses:		
Buildings	148,797	143,614
Furniture and Fittings	76,450	114,681
Motor Vehicles	5,008	5,008
Other assets	-	574
	230,255	263,877
4. Cash and Cash Equivalents		
Cash at bank	319,169	412,836
Term deposits	15,915,923	17,388,186
	16,235,092	17,801,022
5. Receivables		
Current		
Deposits	60	60
Prepayments	48,781	36,188
Sundry receipts	-	-
	48,841	36,248
Non-Current		
Deferred lease bonds	-	120,685
Deferred service fees	35,034	18,822
	35,034	139,507
6. (a) Property, Plant & Equipment		
Opening Balance Village Centre Building – at replacement value (i)	4,775,000	4,775,000
Additions	1,431,986	-
Village Centre Building – at replacement	6,206,986	4,775,000
Less: Accumulated Depreciation	(3,502,411)	(3,380,094)
	2,704,575	1,394,906
Units – administration use – at replacement value (i)	1,059,196	1,059,196
Less: Accumulated Depreciation	(491,919)	(465,440)
	567,277	593,756

	2009 \$	2008 \$
Opening Balance Furniture & Fittings – at cost	1,861,255	1,861,255
Additions	447,745	-
	2,309,000	1,861,255
Less: Accumulated Depreciation	(1,768,374)	(1,699,827)
	540,626	161,428
Motor Vehicles – at cost	36,051	36,051
Less: Accumulated Depreciation	(24,265)	(19,257)
	11,786	16,794
Capital Work in Progress – Community Centre	-	349,243
Total property, plant & equipment	3,824,264	2,516,127

Note (i)

The village centre building (including the link block) and the residential units (including village infrastructure) have been revalued to fair values based on a replacement value assessment less accumulated depreciation at 2.5% straight line since date of initial construction. The detailed replacement value assessment was carried out by Rider Hunt WA Pty Ltd in December 1999 and updated to 30 June 2005 values in August 2005. The Board considers this approach is a reasonable assessment of fair values as at 30 June 2009.

6. (b) Investment Property

Investment Property – retirement village		
At fair value	112,952,000	124,965,000
Total Investment Property	112,952,000	124,965,000

Valuations

The investment property was valued by members of the Board of Ocean Gardens (Inc) at 30 June 2009. In determining the fair value, the Board take into consideration internal valuations prepared by the Association and other market based evidence. Fair value of this property is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction at balance date

7. Trade and Other Payables

CURRENT

Sundry Creditors	3,164,410	3,616,061
Resident lease bonds	75,942,471	79,664,135
	79,106,881	83,280,196

Resident lease bonds are non-interest bearing and the net amount is repayable on demand. Settlement occurs between 14 days and 6 months after a resident vacates the property in accordance with the Retirement Villages Act, 1999. The fair value of resident lease bonds is not less than the amount payable on demand. Resident lease bonds are reduced by annual refurbishment fees and re-letting fees charged in accordance with the residency contract. Resident lease bonds have been remeasured to reflect the share of capital gains payable to residents at the reporting date based on current market prices.

Resident lease bonds are classified as current liabilities because the Association does not have an unconditional right to defer settlement for greater than 12 months. Resident lease bonds are derecognised when the obligation under the liability is discharged.

8. Prior Year Errors

Previous Stated balance at 30 June 2007

Less: Adjustment for prior period depreciation.

Depreciation rate applied for Buildings was 2% instead of 2.5% (as per the accounting policy) which amounted to an adjustment of \$23,875 per year over 23 years. (555,094)

Add: Value of lease bonds that were settled by Ocean Gardens (Inc) prior to 30 June 2007

Two unit's lease bond liabilities were settled by Ocean Gardens (Inc), in prior years, without on-selling the units to new residents. The lease bond liability relating to the two units were incorrectly included in the balance of lease bond liabilities in prior years. 763,873

Adjusted balance at 30 June 2007

62,679,839

Accumulated Funds (\$)

62,471,060

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INDEPENDENT AUDITOR'S REPORT TO MEMBERS OF OCEAN GARDENS (INC)

Report on the financial report

We have audited the accompanying financial report, being a special purpose financial report, comprising the balance sheet as at 30 June 2009, and the income statement, statement of changes in equity, cash flow statement for the year then ended and a summary of significant accounting policies of Ocean Gardens (Inc) ('the Association').

The Board of Management's responsibility for the financial report

The Board of Management ('the Board') of Ocean Gardens Inc are responsible for the preparation and fair presentation of the financial report and has determined that the accounting policies described in Note 1 to the financial statements which form part of the financial report are appropriate to meet the requirements of the Associations Incorporation Act 1987 and are appropriate to meet the needs of the members. The Board's responsibility also includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. No opinion is expressed as to whether the accounting policies used, and described in Note 1, are appropriate to meet the needs of the members. Our audit was conducted in accordance with Australian Auditing Standards, which require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance 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 control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstance, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the members of the Board, as well as evaluating the overall presentation of the financial report.

The financial report has been prepared for distribution to members for the purpose of fulfilling the Committee's financial reporting requirements under Associations Incorporation Act 1987. We disclaim any assumption of responsibility for any reliance on this audit report or on the financial report to which it relates to any person other than the members, or for any purpose other than that for which it was prepared.

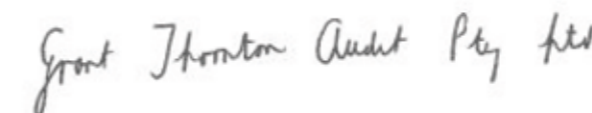
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of Australian professional ethical pronouncements.

Auditor's opinion

In our opinion, the financial report presents fairly, in all material respects, the financial position of Ocean Gardens (Inc) as of 30 June 2009 and of its financial performance and its cash flows for the year then ended in accordance with the accounting policies described at Note 1 to the financial statements.



GRANT THORNTON AUDIT PTY LTD



J W VIBERT
Director - Audit & Assurance Services

Perth, 25 September 2009