**MELBOURNE COMMUNITY FOUNDATION**
**ABN - 57 967 620 066**

# ANNUAL FINANCIAL REPORT
# FOR THE YEAR ENDED 30 JUNE 2008

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# MELBOURNE COMMUNITY FOUNDATION

## DIRECTORS' REPORT
## FOR THE YEAR ENDED 30 JUNE 2008

The Directors of Community Foundation Network Ltd (ACN 077 830 347), the Trustee of the Melbourne Community Foundation, present their report together with the financial report of the Melbourne Community Foundation (the "Fund") for the financial year ended 30 June 2008 and the auditor's report thereon.

**1. Directors**

The Directors of Community Foundation Network Ltd (the "Trustee") at any time during or since the end of the financial year are:

Marion Webster OAM BA Monash, DipSocStud (Chairperson) - appointed 12 March 1997
Chris Arnold BCom, MBA - appointed 9 July 2002
Sam Chandler - appointed 30 March 2006
Annie Duncan PhD - appointed 30 March 2006
Peter Griffin AM BCom - appointed 18 August 2004
Jo Grigg appointed 16 June 2007
Peter Hero BA, MC, MBA - appointed 31 May 2007
Greg Larsen BCA - appointed 30 June 2005
Chris Lovell LLB, BA, LLM - appointed 1 February 2005
Karen Mahlab BEcon - appointed 12 June 2001
Ian McHutchison LLB - appointed 30 March 2006
Lucy O'Brien LLB BA - appointed 1 February 2007 - retired 1 February 2008
His Honourable Judge David Parsons SC LLB - appointed 11 September 1997
Jac Phillips appointed - 22 February 2008
Jill Reichstein OAM BA - appointed 16 October 1998
Casey Tan BCom - appointed 1 July 2007
Mike Zafiropoulos BA - appointed 13 July 1999

**2. Fund secretary**

Ian McHutchison was appointed to the position of Fund secretary on 31 May 2007.

**3. Principal activities**

The Melbourne Community Foundation is a charitable organisation.

**4. Operating and financial review**

The loss for the year was $1,970,854 (2007: profit $8,573,293), comprising the Community Funds loss for the year of $1,955,276 (2007: profit $8,513,949) and the Administration Fund loss for the year of $15,578 (2007: profit $59,344). No income tax is payable by the Fund.

**5. Significant changes in the state of affairs**

In the opinion of the Directors there were no significant changes in the state of affairs of the Fund that occurred during the financial year under review. The decline in value of the Foundation's investments shown in Note 4 would be significant if the investments needed to be realised; however no sales of investments are current contemplated by the Board.

**6. Distributions**

Distributions paid during the 2008 financial year are grants made to Deductible Gift Recipient (DGR) and Tax Concession Charity (TCC) status organisation of $1,952,602 (2007:$1,449,615).

# DIRECTORS' REPORT (CONTINUED)
# FOR THE YEAR ENDED 30 JUNE 2008

**7. Directors' meetings**

The number of Directors' meetings and number of meetings attended by each of the Directors of the Trustee during the financial year are:

| Director | Board Meetings | |
|---|---|---|
| | A | B |
| Marion Webster OAM | 11 | 8 |
| Chris Arnold | 11 | 9 |
| Sam Chandler | 11 | 4 |
| Annie Duncan | 11 | 9 |
| Peter Griffin | 11 | 7 |
| Jo Grigg | 11 | 11 |
| Peter Hero | 11 | 2 |
| Greg Larsen | 11 | 8 |
| Chris Lovell | 11 | 9 |
| Karen Mahlab | 11 | 7 |
| Ian McHutchison | 11 | 9 |
| Lucy O'Brien | 6 | 3 |
| His Hon Judge David Parsons SC | 11 | 7 |
| Jac Phillips | 4 | 4 |
| Jill Reichstein OAM | 11 | 9 |
| Casey Tan | 11 | 8 |
| Mike Zafiropoulos | 11 | 6 |

**A** Number of meetings held during the time the Director held office during the year
**B** Number of meetings attended

**8. Directors' benefits**

The Directors act in an honorary capacity unless otherwise stated. During the financial year, no Director of the Trustee has received or become entitled to receive a benefit because of a contract that the Director, or firm of which the Director is a member, or an entity in which the Director has a substantial financial interest, made with the Fund, or an entity that the Fund controlled, or a body corporate that was related to the Fund, when the contract was made or when the Director received, or became entitled to receive the benefit.

**9. Environmental regulation**

The Fund's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation.

**10. Events subsequent to reporting date**

Due to the volatility in global equity markets, the fair value of investments have deteriorated further since 30 June 2008.

## DIRECTORS' REPORT (CONTINUED)
## FOR THE YEAR ENDED 30 JUNE 2008

**11. Likely developments**

We are aware of large fluctuations on global markets which will affect investment values and overtime investment returns. These will impact the Melbourne Community Foundation but the manner of the impact is not yet clear.

**12. Indemnification**

The Fund is entitled to be indemnified in respect of liabilities, out of the assets of the Fund.

Signed in accordance with a resolution of the Board of Directors:

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**M Webster OAM**
**Director**

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**I McHutchison**
**Director**

**Melbourne**
**18 November 2008**

## MELBOURNE COMMUNITY FOUNDATION

## INCOME STATEMENT

## FOR THE YEAR ENDED 30 JUNE 2008

| | Note | 2008 $ | 2007 $ |
|---|---|---|---|
| **REVENUE** | | | |
| Donations | | 4,978,682 | 4,921,902 |
| Investment income | 2 | 2,042,788 | 1,395,610 |
| Administration fee income | | 16,106 | 13,778 |
| Other income | | 58,435 | 40,174 |
| Net gain/(loss) on sale of investments | 1(h) | (846,640) | 217,425 |
| Net changes in fair value of investments | | (5,664,643) | 3,878,347 |
| | | 584,728 | 10,467,236 |
| **EXPENSES** | | | |
| Employee benefits expense | 1(e) | (314,194) | (178,035) |
| Investment fee | | (91,991) | (68,921) |
| Consulting costs | | (27,730) | (21,855) |
| Marketing costs | | (32,052) | (57,655) |
| Occupancy costs | | (30,576) | (16,467) |
| Depreciation expense | | (1,089) | (1,763) |
| Other expenses | | (105,348) | (99,632) |
| | | (602,980) | (444,328) |
| **PROFIT/(LOSS) FROM OPERATING ACTIVITIES** | | (18,252) | 10,022,908 |
| Distributions paid | | (1,952,602) | (1,449,615) |
| **PROFIT/(LOSS) FOR THE YEAR** | | (1,970,854) | 8,573,293 |

The notes on pages 9 to 23 form an integral part of these financial statements.

## MELBOURNE COMMUNITY FOUNDATION

## BALANCE SHEET
## AS AT 30 JUNE 2008

| | Note | 2008<br>$ | 2007<br>$ |
|---|---|---|---|
| **CURRENT ASSETS** | | | |
| Cash and cash equivalents | 7(b) | 5,159,585 | 4,467,234 |
| Receivables | 3 | 615,192 | 815,468 |
| **TOTAL CURRENT ASSETS** | | 5,774,777 | 5,282,702 |
| **NON CURRENT ASSETS** | | | |
| Investments | 1(h), 4 | 24,919,244 | 27,462,605 |
| Plant and equipment | 5 | 32,480 | 5,976 |
| **TOTAL NON CURRENT ASSETS** | | 24,951,724 | 27,468,581 |
| **TOTAL ASSETS** | | 30,726,501 | 32,751,283 |
| **CURRENT LIABILITIES** | | | |
| Payables | 6 | 72,251 | 126,179 |
| **TOTAL LIABILITIES** | | 72,251 | 126,179 |
| **NET ASSETS** | | 30,654,250 | 32,625,104 |
| **EQUITY** | | | |
| Corpus | | 200 | 200 |
| Retained earnings | | 30,654,050 | 32,624,904 |
| **TOTAL EQUITY** | | 30,654,250 | 32,625,104 |

The notes on pages 9 to 23 form an integral part of these financial statements.

## MELBOURNE COMMUNITY FOUNDATION

## STATEMENT OF CHANGES IN EQUITY
## AS AT 30 JUNE 2008

| | Note | 2008<br>$ | 2007<br>$ |
|---|---|---|---|
| Corpus | | 200 | 200 |
| Opening retained earnings | | 32,624,904 | 24,051,611 |
| Profit / (Loss) for the year | 1(h) | (1,970,854) | 8,573,293 |
| Closing retained earnings | | 30,654,050 | 32,624,904 |
| **TOTAL EQUITY** | | 30,654,250 | 32,625,104 |

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The notes on pages 9 to 23 form an integral part of these financial statements.

## MELBOURNE COMMUNITY FOUNDATION

## STATEMENT OF CASH FLOWS
## FOR THE YEAR ENDED 30 JUNE 2008

| | Note | 2008<br>$ | 2007<br>$ |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Dividends and imputation credits received | | 1,427,006 | 989,817 |
| Trust distributions received | | 552,792 | 316,115 |
| Interest received | | 176,027 | 152,294 |
| Other income | | 161,780 | 40,174 |
| Donations received | | 4,978,682 | 4,921,902 |
| Distributions paid | | (1,952,602) | (1,449,615) |
| Cash paid to suppliers and employees | | (655,819) | (404,983) |
| Net cash from operating activities | 7(a) | 4,687,866 | 4,565,704 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Acquisition of investments | | (15,048,058) | (9,389,053) |
| Proceeds from sale of investments | | 11,038,365 | 6,292,548 |
| Acquisition of plant and equipment | | (27,593) | (5,645) |
| Buyback proceeds | | 41,771 | 721,185 |
| Net cash from investing activities | | (3,995,515) | (2,380,965) |
| Net increase / (decrease) in cash and cash equivalents | | 692,351 | 2,184,739 |
| Cash and cash equivalents at 1 July | | 4,467,234 | 2,282,495 |
| Cash and cash equivalents at 30 June | 7(b) | 5,159,585 | 4,467,234 |

The notes on pages 9 to 23 form an integral part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS
# FOR THE YEAR ENDED 30 JUNE 2008

## 1. Significant accounting policies

The Melbourne Community Foundation (the "Fund") is a Fund domiciled in Australia. The Trustee of the Fund is Community Foundation Network Ltd (the "Trustee"). The address of the Fund's and the Trustee's registered office is Suite 6, 19 - 35 Gertrude Street, Fitzroy, Victoria 3065.

The financial report was authorised for issue by the Directors on 18 November 2008.

The significant polices which have been adopted in the preparation of this Financial Report are:

### (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 the Australian Accounting Interpretations) adopted by the Australian Accounting Standards Board ("AASB"). The financial report of the Fund also complies with the IFRSs and interpretations adopted by the International Accounting Standards Board.

### (b) Basis of measurement

The financial report is presented in Australian dollars.

The financial report has been prepared on the historical cost basis except for certain financial instruments which are stated at their fair value.

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. 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 and in any future periods affected.

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

### (c) Foreign currency transactions

Transactions in foreign currencies are translated at the foreign currency exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to Australian Dollars at the foreign currency closing exchange rate ruling at the balance sheet date.

Foreign currency exchange differences arising on translation and realised gains and losses on disposals or settlements of monetary assets and liabilities are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to Australian dollars at the foreign currency closing exchange rates ruling at the dates that the values were determined. Foreign currency exchange differences relating to investments at fair value through the income statement are included in gains and losses on investments. All other foreign exchange differences relating to monetary items, including cash and cash equivalents are presented separately in the income statement.

## NOTES TO THE FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 30 JUNE 2008

**(d) Revenue recognition**

*(i) Interest income*

Interest income and expense is recognised in the income statement as it accrues, using the effective interest rate method of the instrument calculated at the acquisition or origination date. Interest income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

*(ii) Dividend and distribution income*

Dividend and distribution income relating to exchange-traded equity investments is recognised in the income statement on the ex-dividend date.

In some cases, the Fund may receive or choose to receive dividends / distributions in the form of additional shares / units rather than cash. In such cases the Fund recognises the dividend / distribution income for the amount of the cash dividend / distribution alternative with the corresponding debit treated as an additional investment.

*(iii) Franking credits*

Imputation tax credits in respect of dividends and distributions received are recognised as revenue as at the date the share is quoted ex-dividend. As the application for the refund of excess imputation credits can only be made after year end, the applicable revenue is accrued for at year end.

*(iv) Donations*

Donations are recognised when received.

**(e) Expenses**

All expenses are recognised in the income statement on an accruals basis. Employee benefit expense is impacted by two additional full-time employees.

**(f) Cash and cash equivalents**

Cash and cash equivalents comprise cash balances, short term bills and call deposits.

**(g) Receivables**

Receivables may include amounts for dividends, trust distributions, imputation credits and interest. Dividends, distributions and imputation credits are accrued when the right to receive payment is established. Interest is accrued at the reporting date from the time of last payment. With the exception of imputation credits, amounts are generally received within 30 days of being recorded as receivables. Refer Note 1 (d) (iii) regarding imputation credits.

**(h) Investments**

Investments are classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Investments are designated at fair value through profit or loss if the Fund manages such investments and makes purchase and sale decisions based on their fair value with the Fund's documented risk management or investment strategy. At each reporting date, investments are re-valued at their quoted bid price and fair value movements are recognised through the profit or loss. The value of the Fund's investments have been impacted by the decline in value of shares on the Australian Stock Exchange resulting from the global economic downturn.

## NOTES TO THE FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 30 JUNE 2008

**(i) Buy backs**

The total proceeds including imputation credits of the investment less the fair market value the day before the buyback is used to calculate the portion attributable to income. The basis of this policy is to retain the capital value of investment and unitholder funds.

**(j) Plant and equipment**

Items of plant and equipment are measured at cost less accumulated depreciation. Depreciation is charged using the diminishing value method over the estimated useful lives of each part of an item of plant and equipment.

**(k) Payables**

Payables include liabilities and accrued expenses owing by the Fund which are unpaid at balance date.

**(l) Income tax**

The Fund is exempt from income tax under Section 50-5 of the Income Tax Assessment Act 1997. The Fund is a deductible gift recipient.

**(m) Goods and services tax**

Expenses are recognised net of the amount of goods and services tax (GST) recoverable from the Australian Taxation Office (ATO). GST on brokerage is claimed at the rate of 75% of the total. Payables are stated with the amount of GST included. The net amount of GST recoverable from the ATO is included in receivables in the balance sheet. Cash flows are included in the statement of cash flows on a gross basis.

**(n) New standards and interpretations not yet adopted**

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2008 reporting periods. They are available for early adoption at 30 June 2008, but have not been applied in preparing these financial statements. The Directors' assessment of the impact of these new standards (to the extent relevant for the Fund) and interpretations is set out below:

AASB 8 Operating Segments introduces the "management approach" to segment reporting. AASB 8, which becomes mandatory for the Fund's 30 June 2010 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Fund's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. Under the management approach, the Fund will present segment information on charitable organisations in Australia.

Revised AASB 101 Presentation of Financial Statements introduced as a financial statement (formerly "primary" statement) the "statement of comprehensive income". The revised standard does not change the recognition, measurement or disclosure of transactions and events that are required by other AASBs. The revised AASB 101 will become mandatory for the Fund's 30 June 2010 financial statements. The Fund has not yet determined the potential effect of the revised standard on the Fund's disclosure.

**(o) Distributions**

Distributions paid are grants made by the Fund, to approved Deductible Gift Recipient (DGR) and Tax Concession Charity (TCC) status recipients and are recorded on a cash basis.

## (p) Financial risk management

**Overview**

The Fund has exposure to the following risks from their use of financial instruments:

- credit risk
- liquidity
- market

This note presents information about the Fund's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout this financial report. The Board has overall responsibility for the establishment and oversight of the risk management framework and for developing and monitoring risk management policies.

Risk management policies are established to identify and analyse the risks faced by the Fund, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Fund's activities.

The Finance & Investment Committee oversees how the Fund's manager monitors compliance with the Funds risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Fund.

**Credit risk**

Credit risk is the risk of financial loss to the Fund if a counter party to a financial instrument fails to meet its contractual obligations, and rises principally from the Fund's investment securities and receivables from investment securities. Other credit risk arises from cash and cash equivalents holdings of the Fund.

The Fund's exposure to credit risk is influenced mainly by the individual characteristics of each investment security. Approximately 99 percent (2007: 99 percent) of the Fund's investment revenue is attributable to transactions with ASX 200 companies.

The Fund's manager has established a credit policy based on the present investment mandate set by the Finance & Investment Committee that complies with the the Fund's risk tolerance level and investment objectives.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date is disclosed in Note 8.

**Liquidity risk**

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due and by maintaining sufficient cash and cash equivalents to meet normal operating requirements.

The Fund ensures that it has sufficient cash on hand to meet expected operational expenses for a period of 60 days.

**Market risk**

Market risk is the risk that changes in market prices, such as movements in interest rates and equity prices will affect the Fund's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising returns.

a) Interest rate risk
Interest rate risk refers to the risk that the fair value of financial instruments or future cash flows will fluctuate due to changes in market interest rates.

b) Other market price risk

Equity price risk arises from fluctuations in the fair value of investment securities. The minimum and maximum asset mix of cash, equity, fixed interest, listed and unlisted trusts are set by the Investment & Finance Committee based on market conditions. Material investments within the portfolio are managed on an individual basis by the Fund's manager and all buy and sell decisions are at the discretion of the Fund manager.

The primary goal of the Fund's investment strategy is to maximise investment returns with the assumption that a high proportion of funds will be retained in perpetuity. The investment objective is to achieve a total return on investment funds of at least three percentage points greater than the growth in the Consumer Price Index over a rolling three-year period. In accordance with this strategy investments are designated at fair value through profit or loss because their performance is actively monitored and they are managed on a fair value basis.

**Capital Management**

The Board's policy is to maintain a strong capital base so as to maintain the sub-fund's capital contribution and to sustain future development. The Board monitors the return on capital on three, six, nine and twelve month rolling periods based on movements in investment security unit prices.

There were no changes in the Fund's approach to capital management during the year.

## NOTES TO THE FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 30 JUNE 2008

| | 2008<br>$ | 2007<br>$ |
|---|---|---|
| **2. Investment income** | | |
| Dividends | 877,613 | 655,200 |
| Franking credits | 338,362 | 250,151 |
| Interest | 187,889 | 136,409 |
| Trust distributions | 552,792 | 316,115 |
| Other income | 86,132 | 37,735 |
| | 2,042,788 | 1,395,610 |
| **3. Receivables** | | |
| Accrued imputation credits | 390,848 | 552,238 |
| Dividends and distributions receivable | 192,724 | 156,234 |
| Interest receivable | 21,379 | 9,517 |
| GST receivable | - | |
| Other receivables | 10,241 | 97,479 |
| | 615,192 | 815,468 |
| **4. Investments** | | |
| Ordinary shares | 17,460,409 | 17,517,117 |
| Property trusts | 939,394 | 1,696,730 |
| Interest bearing | 4,284,340 | 4,324,154 |
| International shares | 112,716 | 186,648 |
| Managed funds | 1,849,441 | 3,482,807 |
| Enhanced cash | 272,944 | 255,149 |
| | 24,919,244 | 27,462,605 |
| **5. Plant and equipment** | | |
| **Cost** | | |
| Balance at 1 July | 16,349 | 10,704 |
| Additions | 27,593 | 5,645 |
| Disposals | - | - |
| Balance at 30 June | 43,942 | 16,349 |
| **Depreciation** | | |
| Balance at 1 July | 10,373 | 8,610 |
| Depreciation for the year | 1,089 | 1,763 |
| Balance at 30 June | 11,462 | 10,373 |
| **Carrying amounts** | | |
| At 1 July | 5,976 | 2,094 |
| At 30 June | 32,480 | 5,976 |

## NOTES TO THE FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 30 JUNE 2008

| | 2008<br>$ | 2007<br>$ |
|---|---|---|
| **6. Payables** | | |
| Trade payables | 10,306 | 109,190 |
| Long service leave payable | 20,874 | 11,825 |
| Other payables | 41,071 | 5,164 |
| | 72,251 | 126,179 |
| **7. Notes to statement of cash flows** | | |
| **(a) Reconciliation of cash flows from operating activities** | | |
| Profit/(loss) for the year | (1,970,854) | 8,585,118 |
| *Adjustments for* | | |
| Net changes in fair value of investments | 5,664,643 | (3,878,347) |
| Net gain/(loss) on sale of investments | 846,640 | (217,425) |
| Depreciation | 1,089 | 1,763 |
| | 4,541,518 | 4,491,109 |
| Change in receivables | 200,276 | 47,232 |
| Change in payables | (53,928) | 27,363 |
| Net cash from operating activities | 4,687,866 | 4,565,704 |
| **(b) Cash and cash equivalents** | | |
| Cash on hand | 335 | 518 |
| Cash at bank - cash management account | 5,003,582 | 2,338,909 |
| Cash at bank | 155,668 | 138,990 |
| Bank bills | | 1,988,817 |
| | 5,159,585 | 4,467,234 |

## NOTES TO THE FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 30 JUNE 2008

### 8. Financial instruments

### (a) Terms, conditions and accounting policies

The Company's accounting policies, including terms and conditions of each class of financial asset and financial liability, both recognised and unrecognised at balance date are as follows:

*(i) Financial assets*

Cash assets

| | |
|---|---|
| Cash at bank is stated at cost. Interest is recognised when earned. | Cash at bank is at call with effective interest rate of 6.82% (2007: 5.34%) |

Receivables

| | |
|---|---|
| Amounts receivable are carried at nominal amount due. | No interest is charged on outstanding balances. |

Investments

Investments are measured at fair value through the income statement.

*(ii) Financial liabilities*

Payables

| | |
|---|---|
| Liabilities are recognised for amounts to be paid in the future for goods and services received. | Trade liabilities are normally settled on 30 day terms. |

### (b) Exposure to credit risk

The carrying amount of the Fund's financial assets represents the maximum credit exposure. The Fund's maximum exposure to credit risk at the reporting date was:

| | | Carrying amount | |
|---|---|---|---|
| | Note | 2008 | 2007 |
| | | $ | $ |
| Financial assets at fair value through profit or loss | | 24,919,244 | 27,462,605 |
| Trade and other receivables | | 615,192 | 815,468 |
| Cash and cash equivalents | | 5,159,585 | 4,467,234 |
| | | **30,694,021** | **32,745,307** |

The Fund's maximum exposure to credit risk at the reporting date is $30,694,021 (2007: $32,744,989). The Fund operates within Australia with the maximum exposure in the Australian geographic region.

The Fund's most significant trade receivable, the Australian Tax Office, accounts for $390,848 of the Trade receivable carrying amount at 30 June 2008 (2007: $552,238).

## NOTES TO THE FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 30 JUNE 2008

The Fund's maximum exposure to credit risk for instrument type at the reporting date was:

| | Carrying amount | |
|---|---|---|
| | 2008 | 2007 |
| | $ | $ |
| Ordinary shares | 17,460,409 | 17,517,117 |
| Property trusts | 939,394 | 1,696,730 |
| Interest Bearing | 4,284,340 | 4,324,154 |
| International shares | 112,716 | 186,648 |
| Managed funds | 1,849,441 | 3,482,807 |
| Enhanced cash | 272,944 | 255,149 |
| | **24,919,244** | **27,462,605** |

### (c ) Interest rate risk

At the reporting date the interest rate profile of the Fund's interest bearing financial instruments were:

| | Carrying amount | |
|---|---|---|
| | 2008 | 2007 |
| | $ | $ |
| **Fixed rate instruments** | | |
| Financial assets | - | 133,988 |
| | - | 133,988 |
| **Variable rate instruments** | | |
| Financial assets | 9,443,926 | 8,657,401 |
| | 9,443,926 | 8,657,401 |

**Fair value sensitivity for variable rate instruments**

A change of 100 basis points in interest rates at the reporting date would increase the profit and loss by the amounts shown below. The analysis is performed on the same basis for 2007.

| | Profit or loss | |
|---|---|---|
| **30 June 2008** | 100bp increase | 100bp decrease |
| | $ | $ |
| Variable rate instruments | 94,439 | (94,439) |
| Cash flow sensitivity (net) | 94,439 | (94,439) |

| | Profit or loss | |
|---|---|---|
| **30 June 2007** | 100bp increase | 100bp decrease |
| | $ | $ |
| Variable rate instruments | | |
| Cash flow sensitivity (net) | 86,574 | (86,574) |
| | 86,574 | (86,574) |

## NOTES TO THE FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 30 JUNE 2008

**(d) Liquidity risk**

The following are the contractual maturities of financial liabilities of the Fund:

| 30 June 2008 | Carrying amount | Contractual cash flows | 6 mths or less | 6-12 mths | 1-2 years | 2-5 years | More than 5 years |
|---|---|---|---|---|---|---|---|
| Trade and other payables | 72,251 | 72,251 | 72,251 | | | | |

**(e) Fair values**

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

| | 30 June 2008 | |
|---|---|---|
| | **Carrying amount** | **Fair value** |
| | **$** | **$** |
| Financial assets designated at fair value through profit or loss | 24,919,244 | 24,919,244 |
| Trade and other receivables | 615,192 | 615,192 |
| Cash and cash equivalents | 5,159,585 | 5,159,585 |
| Trade and other payables | 72,251 | 72,251 |
| | 30,766,272 | 30,766,272 |

| | 30 June 2007 | |
|---|---|---|
| | **Carrying amount** | **Fair value** |
| | **$** | **$** |
| Financial assets designated at fair value through profit or loss | 27,462,605 | 27,462,605 |
| Trade and other receivables | 815,468 | 815,468 |
| Cash and cash equivalents | 4,467,234 | 4,467,234 |
| Trade and other payables | 126,179 | 126,179 |
| | 32,871,486 | 32,871,486 |

**(f) Market price risk**

Market price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices whether caused by factors specific to an individual security or all factors affecting all securities traded in the market.

As the majority of financial instruments are carried at fair value with fair values changes recognised in the income statement, all changes in market conditions will directly affect Net investment income.

Under normal circumstances the Fund will invest in the following instruments:

| Asset Class | Investment Range |
|---|---|
| Property (Direct/Listed and Unlisted) | 0%-20% |
| Australian equities | 25%-75% |
| International and Alternative Investments | 0%-20% |
| Fixed interest | 0%-50% |
| Cash | 0%-90% |

Sensitivity analysis

More than 90% of the Fund's equity instruments are listed on the Australian Stock Exchange. A 3 percent increase in the Australian Stock Exchange at the reporting date would have increased net assets attributable to unitholders and the profit from operating activities by $683,906 (2007: an increase of $711,739); an equal change in the opposite direction would have decrease the net assets attributable to unitholders by an equal but opposite amount.

# NOTES TO THE FINANCIAL STATEMENTS
# FOR THE YEAR ENDED 30 JUNE 2008

## 9. Related parties

### (a) Directors' and key management personnel

Directors of Community Foundation Network Ltd, the Trustee of the Fund, since the beginning of the financial year to the date of this report:

Marion Webster OAM BA Monash, DipSocStud (Chairperson) - appointed 12 March 1997
Chris Arnold BCom, MBA - appointed 9 July 2002
Sam Chandler - appointed 30 March 2006
Annie Duncan PhD - appointed 30 March 2006
Peter Griffin AM BCom - appointed 18 August 2004
Jo Grigg appointed 16 June 2007
Peter Hero BA, MC, MBA - appointed 31 May 2007
Greg Larsen BCA - appointed 30 June 2005
Chris Lovell LLB, BA, LLM - appointed 1 February 2005
Karen Mahlab BEcon - appointed 12 June 2001
Ian McHutchison LLB - appointed 30 March 2006
Lucy O'Brien LLB BA - appointed 1 February 2007 - retired 1 February 2008
His Honourable Judge David Parsons SC LLB - appointed 11 September 1997
Jac Phillips - appointed 22 February 2008
Jill Reichstein OAM BA - appointed 16 October 1998
Casey Tan BCom - appointed 1 July 2007
Mike Zafiropoulos BA - appointed 13 July 1999

**Finance Committee**
Ian McHutchison LLB (Chair)
Michael Gilmore B Econ, GradDip Fin. Planning
Peter Griffin AM Bcom
Casey Tan BCom
Peter Walsh

**Audit Committee**
Hugh Parkes BA MBA, FCA, CISA (Chair)
Chris Arnold BCom, MBA
Hayden Raysmith DipSocStud

### (b) Directors' compensation

The Directors act in an honorary capacity unless otherwise stated. During the financial year, no Director of the Trustee has received or become entitled to receive a benefit because of a contract that the Director, or firm of which the Director is a member, or an entity in which the Director has a substantial financial interest, made with the Fund, or an entity that the Fund controlled, or a body corporate that was related to the Fund, when the contract was made or when the Director received, or became entitled to receive the benefit.

## 10. Segment reporting

The Fund is organised into one main segment which operates solely as a charitable organisation in Australia.

# NOTES TO THE FINANCIAL STATEMENTS
# FOR THE YEAR ENDED 30 JUNE 2008

## 11. Contingent assets and liabilities and commitments

There are no outstanding contingent assets and liabilities or commitments as at 30 June 2008.

## 12. Events subsequent to reporting date

Due to the volatility in global equity markets, the fair value of investments have deteriorated further since 30 June 2008.

## NOTES TO THE FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 30 JUNE 2008

### 13. Other information

| | Community Funds 2008 $ | Administration Fund 2008 $ | Adjustment (Note A) 2008 $ | Total 2008 $ |
|---|---|---|---|---|
| **REVENUE** | | | | |
| Donations | 4,978,682 | | | 4,978,682 |
| Investment income | 2,042,788 | | | 2,042,788 |
| Administration fee income | | 436,976 | (420,870) | 16,106 |
| Other income | | 58,435 | | 58,435 |
| Net loss on sale of investments | (846,640) | | | (846,640) |
| Net changes in fair value of investments | (5,664,643) | | | (5,664,643) |
| | 510,187 | 495,411 | (420,870) | 584,728 |
| **EXPENSES** | | | | |
| Employee benefits expense | | (314,194) | - | (314,194) |
| Administration fee | (420,870) | | 420,870 | - |
| Investment fee | (91,991) | | - | (91,991) |
| Consulting costs | | (27,730) | - | (27,730) |
| Marketing costs | | (32,052) | - | (32,052) |
| Occupancy costs | | (30,576) | - | (30,576) |
| Depreciation expense | | (1,089) | - | (1,089) |
| Other expenses | | (105,348) | - | (105,348) |
| | (512,861) | (510,989) | 420,870 | (602,980) |
| **PROFIT FROM OPERATING ACTIVITIES** | (2,674) | (15,578) | - | (18,252) |
| Distributions paid | (1,952,602) | - | - | (1,952,602) |
| **PROFIT FOR THE YEAR** | (1,955,276) | (15,578) | - | (1,970,854) |

**Note A** - The Administration Fund charges the Community Funds an administration fee of 1.35% of total portfolio value and accrued income (calculated daily).

## NOTES TO THE FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 30 JUNE 2008

### 13. Other information (continued)

| | Community Funds 2007 $ | Administration Fund 2007 $ | Adjustment (Note A) 2007 $ | Total 2007 $ |
|---|---|---|---|---|
| **REVENUE** | | | | |
| Donations | 4,893,897 | 28,005 | - | 4,921,902 |
| Investment income | 1,391,999 | 3,611 | - | 1,395,610 |
| Administration fee income | - | 362,961 | (349,183) | 13,778 |
| Other income | - | 40,174 | - | 40,174 |
| Net gain on sale of investments | 217,425 | - | - | 217,425 |
| Net changes in fair value of investments | 3,878,347 | - | - | 3,878,347 |
| | 10,381,668 | 434,751 | (349,183) | 10,467,236 |
| **EXPENSES** | | | | |
| Employee benefits expense | - | (178,035) | - | (178,035) |
| Administration fee | (349,183) | - | 349,183 | - |
| Investment fee | (68,921) | - | - | (68,921) |
| Consulting costs | - | (21,855) | - | (21,855) |
| Marketing costs | - | (57,655) | - | (57,655) |
| Occupancy costs | - | (16,467) | - | (16,467) |
| Depreciation expense | - | (1,763) | - | (1,763) |
| Other expenses | - | (99,632) | - | (99,632) |
| | (418,104) | (375,407) | 349,183 | (444,328) |
| **PROFIT FROM OPERATING ACTIVITIES** | 9,963,564 | 59,344 | - | 10,022,908 |
| Distributions paid | (1,449,615) | - | - | (1,449,615) |
| **PROFIT FOR THE YEAR** | 8,513,949 | 59,344 | - | 8,573,293 |

**Note A** - The Administration Fund charges the Community Funds an administration fee of 1.35% of total portfolio value and accrued income (calculated daily).

## NOTES TO THE FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 30 JUNE 2008

| | 2008<br>$ | 2007<br>$ |
|---|---|---|
| **13. Other information (continued)** | | |
| **COMMUNITY FUNDS** | | |
| Opening retained earnings | 32,402,397 | 23,888,448 |
| Profit / (Loss) for the year | (1,955,276) | 8,513,949 |
| Closing retained earnings | 30,447,121 | 32,402,397 |
| **ADMINISTRATION FUND** | | |
| Opening retained earnings | 222,507 | 163,163 |
| Profit / (Loss) for the year | (15,578) | 59,344 |
| Closing retained earnings | 206,929 | 222,507 |

## MELBOURNE COMMUNITY FOUNDATION

## DIRECTORS' DECLARATION

In the opinion of the Directors of Community Foundation Network Ltd, the Trustee of the Melbourne Community Foundation (the "Fund"):

(a) the financial statements and notes, set out on pages 5 to 23, are drawn up in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations), so as to present fairly the financial position of the Fund as at 30 June 2008 and its performance, as represented by the results of its operations and its cash flows, for the financial year ended on that date;

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1(a); and

(c) there are reasonable grounds to believe that the Fund will be able to pays its debts as and when they become due and payable.

Signed in accordance with a resolution of the Board of Directors:

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**M Webster OAM**
**Director**

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**I McHutchison**
**Director**

**Melbourne**
**18 November 2008**