

ROYAL

REHABILITATION CENTRE SYDNEY

ANNUAL FINANCIAL REPORT

30 JUNE 2010

Maximising Abilities – Optimising Lifeskills

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This financial report covers Royal Rehabilitation Centre Sydney as an individual entity. This financial report is presented in Australian currency.

This financial report was authorised for issue by the Directors on 15 November 2010. The Board has the power to amend and reissue the financial report.

ABN 34 000 025 794 Incorporated in Australia

ROYAL REHABILITATION CENTRE SYDNEY

DIRECTORS' REPORT

The directors present their report together with the accounts of Royal Rehabilitation Centre Sydney (RRCS) for the financial year ended 30 June 2010.

Mr Clive Austin LLM, FAICD

Chairman Consolo Limited (Group) and consultant to Sydney legal practice, Hardings Solicitors, of which he was Senior Partner. Former President of The Royal Life Saving Society of Australia (NSW) and the N.S.W. Regional Council Redkite. Chairman of the Royal Botanic Gardens Foundation. Director since 1993. Chairman since February 2003.

Mr Anthony Staveley MComm, Grad Dip (Land Econ), FAPI, JP

Director Balance Group Pty Limited and Balance Corporate Property, Board Member and Chairman of the Regulatory Reform Working Group for the Australian Government's Facilities Management Action Agenda. Director since 2000. Chairman, Planning & Development Committee since February 2004. Vice Chairman since January 2005.

Professor Trevor Parmenter AM, BA, PhD, FACE, FAAIDD, FIASSID, FASSID

Professor Emeritus, Sydney School of Medicine; former Foundation Professor of Developmental Disability in the Sydney School of Medicine; Honorary Professor in the Faculty of Education & Social Work and the Faculty of Health Sciences, at the University of Sydney. Adjunct Professor, School of Rural Medicine, University of New England. Past President of the International Association for the Scientific Study of Intellectual Disabilities (IASSID). Member of Planning & Development Committee and Client Outcomes & Participation Committee. Director since 2000.

Professor Gwynnyth Llewellyn PhD, DipOT, BA, MEd, DipContEd, NE, NSW Coll OT GAICD

Dean, Faculty of Health Sciences, University of Sydney. Member of the NSW Children's Court Advisory Committee and the Department of Community Services, Research Advisory Committee. Chair of the Special Interest Research Group on Parents and Parenting with Intellectual Disability and Member of Council of the International Association for the Scientific Study of Intellectual Disability. Director since September 2004.

Mr David Piper OAM

Retired insurance company executive, specialising recently in marketing. Involved in a number of charitable positions, as a Director of NSW Wheelchair Sports and a member of the Board's fundraising committee. President and life member of Queenscliff Surf Life Saving Club Inc. Life governor of Wheelchair Sports and life member of Surf Life Saving Sydney Northern Beaches, and Surf Life Saving NSW. Director since November 2004.

Mr Bruce Hatchman FCA, MAICD, JP

Former Chief Executive, WHK Horwath. Has nearly 40 years experience in providing audit and assurance services to listed companies and large private enterprises. Chairman of Darwin Clean Fuels Ltd, Director of Avastra Sleep Centres Limited. Director since February 2006. Chairman, Audit & Finance Committee since February 2006.

Ms Bronwyn Connolly LLB, BA (Juris), MAICD

Has held a number of legal counsel and other senior positions for organisations including Olympic Roads and Transport Authority, NSW Department of Ageing, Disability and Home Care, SA Department of Transport, SA Consumer Affairs, SA Health Commission, SA Department of Administrative and Information Services, and the WA Health Department and Acting Deputy Chief Executive Officer of The Queen Elizabeth Hospital. Has been a part-time member of the Migration Review Tribunal and the Refugee Review Tribunal. Director, South, Land & Property Management Authority. Joined the Board in May 2008.

Mr John Cullity Grad Dip Mngt

Until recently was Chief General Manager - Information Technology of Allianz Australia and was Director of a number of Allianz Australia subsidiary companies. Has in excess of 20 years with Allianz (and its predecessor MMI Insurance) and other roles included strategic and business planning and national responsibility for workers compensation and rehabilitation services. Joined the Board on 26 August 2008.

ROYAL REHABILITATION CENTRE SYDNEY

DIRECTORS' REPORT

Mr John Dakin MEdAdmin, BA, DipEd

Director of Directioneering Pty Ltd and Directioneering International. Previously was the Executive Director of the foundation of an independent school. Board member since August 2008 and Chairman of the Royal Rehabilitation Foundation since March 2009.

Professor Richard Madden BSc. PhD, FIAA

Professor of Health Statistics University of Sydney and Director of National Centre for Classification in Health. Director of the Australian Institute of Health and was for ten years. From 1992 to 1995 Australian Deputy Statistician. Wide experience across Australian health and community services sectors including Deputy Secretary of NSW Health Department and head of Disability Program Division in the then Commonwealth Department of Health and Community Services. Substantial involvement with WHO. Australian Actuary of the Year (2002), Public Service Medal (2003) and Honorary Doctor of Science from the University of Sydney. Chair Client Outcomes and Participation Committee. Chair Medical (and other) Appointments and Credentials Advisory Committee. Joined the Board on October 2008.

Mr Ian Baggie BEc, FCA

Formerly a senior partner in accounting firm of Ernst & Young specializing in audit and with that firm for over 30 years. Advised charities and foundations in accounting matters, regulatory and risk management issues. Director since February 2006. Mr Baggie passed away on 20 September 2009.

BOARD MEETINGS

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

Director	Director's Meetings		Audit & Risk		Consumer Outcomes & Participation		Planning & Development		Royal Rehabilitation Foundation	
	meetings	attended	meetings	attended	meetings	attended	meetings	attended	meetings	attended
C. Austin	15	15	4	4			4	4	5	4
A. Staveley	15	14					4	4	5	5
T. Parmenter	15	9			3	3	4	3		
G. Llewellyn	15	7							5	2
D. Piper	15	13	4	4			4	3	5	5
B Hatchman	15	13	4	4			4	3		
B. Connolly	15	12	4	3	3	2				
J. Cullity	15	12					4	3		
J. Dakin	15	10							5	5
R. Madden	15	10			3	2				
I. Baggie	3*	1	1*							

* No of meeting eligible to attend

PRINCIPAL ACTIVITIES

The principal activities of the Company during the course of the financial year were the provision of rehabilitation, extended care services and supported accommodation services to people with disabilities living in the community.

The Company also receives restricted funds in the form of grants, donations and bequests to support research, teaching and educational activities. These funds are not available for principal activities.

OBJECTIVES, STRATEGY and PERFORMANCE

The Company's mission is to Maximise Abilities and Optimise Lifeskills of people who suffer a disability as the result of trauma, accident or disease. Royal Rehab's Vision is to establish state-of-the-art specialised rehabilitation and research services on our site at Ryde, and to expand our community based services and supported living programs to assist people who have been seriously injured or who have experienced a chronic and disabling illness to regain and maintain their health and wellbeing within the circle of their family, friends and community.

ROYAL REHABILITATION CENTRE SYDNEY

DIRECTORS' REPORT

To achieve these aims, the overarching long-term plan includes the rezoning and sale of a section of the land at Ryde and the redevelopment of the remaining site, including new accommodation for our long-term Weemala residents, a new inpatient rehabilitation centre, community health facilities, research and teaching facilities and community parkland. This plan is now being realised with the sale of the land in 2010, and the commencement of construction of the new Weemala facility, due for completion in 2011.

The principal business activities during the year have remained largely as they were in previous years, although the principal funding sources and the respective bases of payment have materially changed. Rehabilitation services include inpatient, outpatient and home based services and are funded predominantly by NSW Health. Disability services include the Weemala Extended Care Service, which is funded by both NSW Health and NSW Department of Ageing, Disability & Home Care (ADHC); and the Community Accommodation and Support Services and the Independent Living Service, both funded predominantly by ADHC. A new Neurobehavioural Rehabilitation Service (NRS) was commenced in 2009-10 in collaboration with the Brain Injury Rehabilitation Trust of the UK (BIRT), with initial clients funded mainly under the Commonwealth/State Young Persons In Residential Aged Care program (YPIRAC). The Company has a number of clients in both its inpatient and community programs that are funded under the Lifetime Care and Support Scheme (LTCSS).

NSW Health has recently changed the basis upon which they pay for health services. This new method of assessment has resulted in a significant reduction in recurrent funding (recurrent funding impact in this context means, less subsidy for the same level of services provided) from NSW Health being received in 2009-10 and with further reductions to come in 2010-11, the immediate strategy is to review staffing levels and resource utilisation across all services whilst maintaining contractual obligations and appropriate clinical standards. In particular, focus is being applied to reduce Company indirect overheads to help meet the impact of the revised level of funding.

It was confirmed last year that with the eventual construction of the Graythwaite Rehabilitation Centre as part of Ryde Hospital, that Royal Rehab will also lose funding for 30 General Rehabilitation beds once the facility is completed, expected to be sometime in mid to late 2012.

This makes most critical the need for the Company to develop new revenue sources which utilise our existing resources and expertise.

The NRS program will be a joint venture with BIRT, and when fully operational is expected to attract a broader base of government (principally ADHC) funded clientele and LTCSS clients with acquired brain injury. Expansion of the Company's Community Accommodation and Support Services, which has been steadily expanding, will be significantly facilitated by the Company's Attendant Care Industry Association (ACIA) accreditation in 2009-10. Planning and design work for a new inpatient facility to provide specialist Statewide spinal and brain injury rehabilitation services is underway, and business modeling for a collocated private rehabilitation hospital is being conducted. Marketing initiatives to launch the Diploma in Disability and Diploma of Rehabilitation through the Company's Registered Training Organisation in early 2011 are being developed, and are expected to attract significant enrollments.

The Board has developed a conservative financial plan to manage its investments and capital, and is particularly focused on preserving its capital from the sale of land for use in the fulfillment of its strategic objectives rather than to support uneconomic and unsustainably funded services.

The Royal Rehabilitation Foundation has also been established to undertake all of the fund raising activities of Royal Rehab to support the Company's research activities, and to assist in major capital purchases

To address the long term sustainability of services at the Royal Rehabilitation Centre the Board has engaged KPMG to assist in the strategic planning process. The outcomes of this review process will enable the Board to implement a more sustainable service and business model.

To measure our performance and to ensure strategies are planned and implemented correctly the Board has a separate planning and development committee that meets quarterly. The Board monitoring of operational performance and risk management activities is also assisted through the work of the executive and other board committees.

As an organisation, key performance indicators, such as variation to budget, bed day occupancy, complaints, occasions of service and staff movement, are kept and monitored as part of the management of the organisation and to meet funder and other accreditation requirements.

ROYAL REHABILITATION CENTRE SYDNEY

DIRECTORS' REPORT

LIMITED GUARANTEE

RRCS is a Company limited by guarantee. Every member of the Company undertakes to contribute to the assets of the Company in the event of the Company being wound up during the time that he/she is a member or within one year afterwards for payments of the debts and liabilities of the Company contracted before the time at which he/she ceased to be a member and the costs, charges and expenses of winding up the same for such amount as may be required not exceeding \$2.00.

AUDITOR'S INDEPENDENCE DECLARATION

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

This report is made in accordance with a resolution of the Directors.

C. Austin
Chairman

B. Hatchman
Director

Sydney, 15 November 2010

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AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of Royal Rehabilitation Centre Sydney for the year ended 30 June 2010,
I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Royal Rehabilitation Centre Sydney during the period.

Peter Buchholz

Partner
PricewaterhouseCoopers

Sydney, 15 November 2010

ROYAL REHABILITATION CENTRE SYDNEY

INCOME STATEMENT

for the year ended 30 June 2010

	NOTE	2010 \$	2009 \$
Revenue from continuing operations	3	41,598,630	47,723,912
Other income	4	3,797,446	1,931,737
		45,396,076	49,655,649
Employment and related expenses		(40,987,444)	(37,436,483)
Goods and services expenses		(6,330,296)	(7,287,696)
Renewals, repairs and maintenance expenses		(1,550,615)	(1,726,324)
Depreciation expense		(1,560,424)	(1,702,842)
Net Profit/(Loss)		(5,032,703)	1,502,304
Allocated as follows:			
General Fund - net profit/(loss) for the year	15(a)	(6,914,143)	2,907,341
Special Purposes and Trust Funds - net profit/(loss) for the year	15(b)	1,881,440	(1,405,037)
Net Profit/(Loss)		(5,032,703)	1,502,304

The above Income Statement should be read in conjunction with the accompanying notes.

STATEMENT of COMPREHENSIVE INCOME

for the year ended 30 June 2010

	2010 \$	2009 \$
(Loss)/Profit for the year	(5,032,703)	1,502,304
Revaluation increment during the year	265,497	(500,877)
	(4,767,206)	1,001,427

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

ROYAL REHABILITATION CENTRE SYDNEY

BALANCE SHEET

as at 30 June 2010

	NOTE	2010 \$	2009 \$
CURRENT ASSETS			
Cash and cash equivalents	6	11,079,039	8,329,532
Trade and other receivables	7	3,253,876	2,345,477
Inventories	8	130,279	128,219
TOTAL CURRENT ASSETS		14,463,194	10,803,228
NON-CURRENT ASSETS			
Trade and other receivables	9	250,238	249,255
Available for sale financial assets	10	4,279,563	4,528,091
Property, plant and equipment	11	36,799,470	41,919,819
TOTAL NON-CURRENT ASSETS		41,329,271	46,697,165
TOTAL ASSETS		55,792,465	57,500,393
CURRENT LIABILITIES			
Trade and other payables	12	5,550,281	3,301,920
Non interest bearing liability	13	176,320	166,340
Provisions	14	9,514,461	8,956,932
TOTAL CURRENT LIABILITIES		15,241,062	12,425,192
NON-CURRENT LIABILITIES			
Non interest bearing liability	13	635,012	811,332
Provisions	14	556,004	136,276
TOTAL NON-CURRENT LIABILITIES		1,191,016	947,608
TOTAL LIABILITIES		16,432,078	13,372,800
NET ASSETS		39,360,387	44,127,593
EQUITY			
Accumulated losses - General Fund	15(a)	(9,607,358)	(2,693,215)
Retained earnings - Special Purpose and Trust Funds	15(b)	10,051,233	8,169,793
Reserves	15	38,916,512	38,651,015
TOTAL EQUITY		39,360,387	44,127,593

The above Balance Sheet should be read in conjunction with the accompanying notes.

ROYAL REHABILITATION CENTRE SYDNEY

STATEMENT of CHANGES in EQUITY

for the year ended 30 June 2010

	Note	Retained earnings \$	Asset revaluation reserve \$	Investment revaluation reserve \$	Total equity \$
Balance at 1 July 2008		3,974,274	37,592,874	1,559,018	43,126,166
General Fund	15(a)	2,907,341			2,907,341
Special Purpose & Trust Account	15(b)	(1,405,037)			(1,405,037)
Net (Loss)/Profit for the year		1,502,304	-	-	1,502,304
Changes in fair value available for sale assets		-	-	(500,877)	(500,877)
Balance at 30 June 2009		5,476,578	37,592,874	1,058,141	44,127,593
General Fund	15(a)	(6,914,143)			(6,914,143)
Special Purpose & Trust Account	15(b)	1,881,440			1,881,440
Net (Loss)/Profit for the year		(5,032,703)	-	-	(5,032,703)
Changes in fair value available for sale assets	15(d)	-	-	265,497	265,497
Balance at 30 June 2010		443,875	37,592,874	1,323,638	39,360,387

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

ROYAL REHABILITATION CENTRE SYDNEY

STATEMENT OF CASH FLOWS

for the year ended 30 June 2010

	NOTE	2010 \$	2009 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts in the course of operations (inclusive of GST)		46,410,029	53,722,970
Cash payments in the course of operations (inclusive of GST)		(49,739,729)	(48,413,660)
		(3,329,700)	5,309,310
Interest received		442,357	328,874
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES		(2,887,343)	5,638,184
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds on sale of investments		724,999	1,455,000
Payments for purchase of investments		(501,395)	-
Proceeds from sale of property, plant and equipment		60,303	12,118
Payments for property, plant and equipment		(1,056,432)	(627,984)
Payment for Spinecare Village		(225,000)	(225,000)
Dividends received		72,295	6,574
Trust Distributions		99,994	-
Proceeds from legal action		6,462,086	-
NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES		5,636,850	620,708
NET INCREASE/(DECREASE) IN CASH HELD		2,749,507	6,258,892
Cash at the beginning of the financial year	6	8,329,532	2,070,640
CASH AT THE END OF THE FINANCIAL YEAR	6	11,079,039	8,329,532

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

ROYAL REHABILITATION CENTRE SYDNEY

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the entity consisting of Royal Rehabilitation Centre Sydney.

1.1 Basis of Preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards – Reduced Disclosure Requirements, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

Compliance with Australian Accounting Standards – Reduced Disclosure Requirements

The financial statements of Royal Rehabilitation Centre Sydney comply with Australian Accounting Standards – Reduced Disclosure Requirements as issued by the Australian Accounting Standards Board (AASB).

Early adoption of standards

The company has elected to apply the following pronouncements to the annual reporting period beginning 1 July 2009:

- AASB 2009-5 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project*
- AASB 1053 *Application of Tiers of Australian Accounting Standards and AASB 2010-2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements*

This includes applying the revised pronouncement to the comparatives in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. The adoption of AASB 1053 and AASB 2010-2 allowed the entity to remove a number of disclosures. There was no other impact on the current or prior year financial statements.

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets.

Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies.

Financial statement presentation

The Company has applied the revised AASB 101 *Presentation of Financial Statements* which became effective on 1 January 2009. The revised standard requires the separate presentation of a statement of comprehensive income and a statement of changes in equity. As a consequence, the Company had to change the presentation of its financial statements. Comparative information has been re-presented so that it is also in conformity with the revised standard.

1.2 Going Concern

The Company's financial position is sound as at 30 June 2010, notwithstanding a net current liability position being shown in the balance sheet. The net current liability position arises due to the classification of available for sale investments as non-current assets as they are not expected to be realised within the next 12 months. These investments can be made available to pay debts where required. In addition certain employee benefits provisions are required to be recorded as current liabilities, notwithstanding that the majority of these balances are not expected to be settled within 12 months. Accordingly, this financial report is prepared on a going concern basis.

1.3 Cash & Cash Equivalents

For the purpose of presentation in the Statement of Cash Flow 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.

ROYAL REHABILITATION CENTRE SYDNEY

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2010

1.4 Trade & Other Receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Collectibility of trade debtors is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful debts is established when there is objective evidence that the company will not be able to collect all amounts due. Debts which form part of patient's accident compensation claims may be subject to settlement or legal proceedings between parties. Accordingly, collection will often take extended periods of time.

Trade and other receivables expected to be recovered within 12 months are recognised at the amounts receivable. Trade and other receivables expected to be recovered over periods exceeding 12 months are discounted using the effective interest rate.

1.5 Revenue Recognition

Revenue is measured at fair value of the consideration received or receivable.

Fee Income:

Fee income from patients and health benefit organisations is recognised as revenue when services are provided.

Government grants:

Government funding and grants are recognised as income in the financial period received or due to be received where there is reasonable assurance that the company will comply with all of the attached conditions. However, expenditure for which Government funding and grants are received is recognised when incurred, which may be in a subsequent financial period.

Interest income:

Interest income is recognised on a time proportion basis using the effective interest method. When a receivable is impaired, the entity reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding discount as interest income. Interest income on impaired receivables is recognised using the original effective interest rate.

Dividends:

Dividends are recognised as revenue when the right to receive payment is established.

1.6 Investments

Classification

The Company classifies its investments as either held to maturity financial assets or available for sale financial assets. The classification depends on the purpose for which the assets were acquired and the type of investments. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held to maturity, re-evaluates this designation at each reporting date.

(i) Held to maturity

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that RRCS management has the positive intention and ability to hold to maturity.

(ii) Available for sale

Available for sale financial assets comprise principally portfolios in managed equity funds. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. Changes in the fair value of available for sale assets are recognised in equity. When financial assets classified as available for sale are sold, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from investments.

ROYAL REHABILITATION CENTRE SYDNEY

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2010

1.7 Inventories

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

1.8 Acquisition of Assets

The purchase method of accounting is used for all acquisitions of assets. Cost is measured as the fair value of assets given up or liabilities undertaken at the date of acquisition plus incidental costs directly attributable to the acquisition. In accordance with NSW Health policies, any item in excess of \$5,000 and a life expectancy of more than two years is capitalised as a fixed asset.

1.9 Land & Buildings

Until 1 July 2000 the Company measured land and buildings at fair value and recognised an asset revaluation reserve for increments in fair value. From 1 July 2000, land and buildings have been carried at deemed cost, being the carrying amount at the date of the change in policy, less accumulated depreciation (where applicable). Under Australian Accounting Standards equivalent to International Financial Reporting Standards (AIFRS) the Company continues to measure land and buildings at deemed cost.

1.10 Plant & Equipment

Plant and equipment is measured at cost less accumulated depreciation.

1.11 Depreciation of Plant & Equipment

Land is not depreciated. Depreciation on other property, plant and equipment is calculated using a straight line method to allocate their cost over their estimated useful life to the Company, as follows:

Buildings	10-40 years
Plant and equipment	3-15 years

1.12 Impairment of Non-Current Assets

Non-current assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and depreciated replacement cost. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

1.13 Leases

Leases under which a significant proportion of the risks and benefits of ownership are retained by the lessor, are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight line basis over the period of the lease.

1.14 Trade & Other Payables

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

1.15 Maintenance & Repairs

Maintenance, repairs and minor renewals are charged as expenses as incurred. In accordance with NSW Health policies, any assets acquired less than \$5,000 are expensed as repairs and maintenance.

ROYAL REHABILITATION CENTRE SYDNEY

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2010

1.16 Employee Benefits

(i) *Wages and Salaries and Annual Leave*

Liabilities for wages and salaries and annual leave expected to be settled within 12 months of the reporting date are recognised in current provisions 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 liabilities for long service leave are 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. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using interest rates on national government guarantee securities with terms to maturity that match, as closely as possible, the estimated future cash outflows.

(iii) *Superannuation*

The employees of RRCS are covered by the State Authorities Superannuation Board. As such the Company's superannuation commitments are the responsibility of the NSW Treasury. Employer contributions for superannuation for the year ended 30 June 2010 were made directly by NSW Treasury.

(iv) *Allocated Days Off*

Employees are entitled to approximately one day off per month provided they have worked sufficient hours to build up a sufficient balance. Employees are able to carry forward a maximum amount of three days off. As employees are entitled to be paid for the days they have accumulated up to a predetermined level upon leaving the Company's employ, a provision has been estimated to provide for this obligation.

1.17 Income Tax

The Company is exempt from income tax under Section 50-5 of the *Income Tax Assessment Act (1997)*.

1.18 Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of the cash flows arising from investing and financing activities, which is recoverable from or payable to the Australian Taxation Office, are classified as operating cash flows.

ROYAL REHABILITATION CENTRE SYDNEY

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2010

2 FINANCIAL RISK MANAGEMENT

Fair value estimation

The fair value of financial instruments traded in active markets (such as publicly traded available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Company is the current bid price.

	2010	2009
	\$	\$
3. REVENUE		
Revenue from continuing activities		
NSW Health subsidy *	20,190,795	27,431,682
ADHC Funding	9,970,335	9,758,551
Patient Fees	9,120,677	8,332,761
Sale of goods	107,241	112,683
Grants	1,594,936	1,752,787
Interest	442,357	328,874
Dividends and distributions	172,289	6,574
Total revenue from continuing activities	41,598,630	47,723,912

* NSW Health subsidy in the current year is based upon budgeted expenditure net of the company's budgeted receipts which is received in accordance with the net appropriation method as directed by NSW Treasury.

4. OTHER INCOME		
Legacies	7,773	89,672
Donations	304,799	224,503
Fundraising	15,928	24,688
Net gain on disposal of non-current assets	1,889,615	12,118
Rental income	159,043	262,121
Course income	183,674	147,237
Consulting income	248,957	236,780
Other income	987,657	934,618
Total other income	3,797,446	1,931,737

5. EXPENSES

Net profit / loss includes the following specific expenses:

Cost of goods sold	107,241	94,200
Rental expenses relating to operating leases	166,162	212,937
Depreciation of buildings	1,083,376	1,197,467
Depreciation of plant and equipment	477,048	505,375
Total depreciation	1,560,424	1,702,842
Provision for annual leave	2,616,899	2,780,785
Provision for long service leave	722,950	726,639
Provision for redundancies	868,930	-

ROYAL REHABILITATION CENTRE SYDNEY

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2010

	2010 \$	2009 \$
6. CURRENT ASSETS - CASH and CASH EQUIVALENTS		
Cash at bank and on hand	179,368	2,399,532
Interest bearing term deposits	10,899,671	5,930,000
	11,079,039	8,329,532

Restricted and Non-Restricted Fund Analysis

Cash and cash equivalents (note 6)	11,079,039	8,329,532
Available for sale assets (note 10)	4,279,563	4,528,091
Total cash and investments	15,358,602	12,857,622

The above assets were allocated as follows:

Externally restricted funds	2,836,997	3,246,159
Internally restricted funds	2,679,072	6,164,778
Unrestricted funds	9,842,533	3,446,685
	15,358,602	12,857,622

Further information relating to the nature of the restrictions is set out below.

(a) Externally restricted funds

These amounts are to be used specifically for funding research projects and various other specific activities and initiatives as prescribed by the donors or granter of the funds and cannot be used for any other purpose.

(b) Internally restricted funds

These amounts have been allocated to fund an unsecured loan (i.e., the Spinecare Village) site, other development costs, research and quality grants, and other projects and are not available for use for any purpose.

(c) Unrestricted funds These funds are unrestricted and can be used by management for any purposes necessary to operate the centre.

7. CURRENT ASSETS - TRADE and OTHER RECEIVABLES

Trade receivables	2,168,449	2,078,893
Provision for doubtful debts	(362,293)	(409,045)
	1,806,156	1,669,848
Other receivables *	1,376,286	597,284
Prepayments	71,434	78,345
	3,253,876	2,345,477

* These amounts generally arise from transactions outside the usual operating activities of the Company in the nature of sundry income, cost recoveries and are GST recoverable.

8. CURRENT ASSETS - INVENTORIES

Supplies on hand - at cost	130,279	128,219
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ROYAL REHABILITATION CENTRE SYDNEY

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2010.

	2010 \$	2009 \$
9. NON-CURRENT ASSETS - TRADE and OTHER RECEIVABLES		
Trade debtors	904,094	1,207,354
Discounting for delayed collection	(32,149)	(50,644)
Provision for doubtful debts	(621,707)	(907,455)
	<u>250,238</u>	<u>249,255</u>
10. NON-CURRENT ASSETS - AVAILABLE FOR SALE FINANCIAL ASSETS		
At Market Value		
Managed investments	4,278,148	4,526,676
Shares and listed unit trusts	1,415	1,415
Unlisted unit trusts	<u>4,279,563</u>	<u>4,528,091</u>
11 NON-CURRENT ASSETS - PROPERTY, PLANT & EQUIPMENT		
Land - at cost	<u>19,935,000</u>	<u>19,935,000</u>
Buildings - at cost	27,122,787	27,946,174
Less: Accumulated depreciation	(11,709,709)	(11,093,833)
	<u>15,413,078</u>	<u>16,852,341</u>
Total Land & Buildings	<u>35,348,078</u>	<u>36,787,341</u>
Plant and Equipment - at cost	6,958,040	7,027,727
Less: Accumulated depreciation	(5,871,887)	(5,540,254)
	<u>1,086,153</u>	<u>1,487,473</u>
Total Plant & Equipment	<u>1,086,153</u>	<u>1,487,473</u>
Work in Progress - at cost	<u>365,239</u>	<u>3,645,005</u>
TOTAL PROPERTY, PLANT AND EQUIPMENT	<u>36,799,470</u>	<u>41,919,819</u>

Reconciliations

Reconciliations of the carrying amounts of each class of property, plant & equipment at the beginning and end of the current financial year are set out below :

	Freehold Land	Buildings	Plant & Equipment	Work in Progress	Total
	\$	\$	\$	\$	\$
Carrying amount at 1 July 2009	19,935,000	16,852,341	1,487,473	3,645,005	41,919,819
Additions/Adjustments	-	26,613	239,179	790,640	1,056,432
Disposals	-	(382,500)	(163,451)	(4,070,406)	(4,616,357)
Depreciation expense	-	(1,083,376)	(477,048)	-	(1,560,424)
Carrying amount at 30 June 2010	<u>19,935,000</u>	<u>15,413,078</u>	<u>1,086,153</u>	<u>365,239</u>	<u>36,799,470</u>

ROYAL REHABILITATION CENTRE SYDNEY

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2010

	2010	2009
	\$	\$
12 CURRENT LIABILITIES - TRADE and OTHER PAYABLES		
Trade creditors	94,505	376,444
Other creditors and accrued charges	5,455,776	2,925,476
	<u>5,550,281</u>	<u>3,301,920</u>
13 BORROWINGS - NON INTEREST BEARING LIABILITY		
Current liability		
Unsecured loan	<u>176,320</u>	<u>166,340</u>
Non-current liability		
Unsecured loan *	<u>635,012</u>	<u>811,332</u>
<p>* The unsecured interest free loan is repayable in instalments over nine years and relates to the deferred purchase of a building for a cost of \$2,500,000. Both the initial liability and the asset were recorded at fair value of \$1,903,356, being the discounted present value of the future payments.</p>		
14 PROVISIONS		
Current liability		
Provision for employee benefits	<u>9,514,461</u>	<u>8,956,932</u>
Non-current liability		
Provision for employee benefits	<u>556,004</u>	<u>136,276</u>
15 RETAINED EARNINGS and RESERVES		
(a) General Fund		
Retained profits at the beginning of the financial year	(2,693,215)	(5,600,556)
Net profit/(loss) for the year	(6,914,143)	2,907,341
Retained accumulated losses at the end of the financial year	<u>(9,607,358)</u>	<u>(2,693,215)</u>
(b) Special Purposes and Trust Funds		
Retained profits at the beginning of the financial year	8,169,793	9,574,830
Net (loss)/profit for the year	1,881,440	(1,405,037)
Retained profits at the end of the financial year	<u>10,051,233</u>	<u>8,169,793</u>
Allocated as follows:		
Development and Endowment Funds	6,934,002	4,457,586
Special Purpose Funds	2,759,666	3,246,159
Miscellaneous Accounts	357,565	466,048
	<u>10,051,233</u>	<u>8,169,793</u>

ROYAL REHABILITATION CENTRE SYDNEY

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2010

	2010 \$	2009 \$
(c) Asset Revaluation Reserve		
Asset revaluation reserve at the beginning of the year	37,592,874	37,592,874
Add: Movements during the year	-	-
Asset revaluation reserve at the end of the year	<u>37,592,874</u>	<u>37,592,874</u>
<p>The asset revaluation reserve was used to record increments and decrements on the revaluation of non-current assets prior to the adoption of a deemed cost measurement basis.</p>		
(d) Investment Revaluation Reserve		
Balance at the beginning of the financial year	1,058,141	1,559,018
Revaluation increment during the year	265,497	(500,877)
Investment revaluation reserve at the end of the financial year	<u>1,323,638</u>	<u>1,058,141</u>
<p>The investment revaluation reserve is used to record the cumulative fair value movements on available for sale financial assets.</p>		
Total Revaluation Reserve	<u>38,916,512</u>	<u>38,651,015</u>

16. DISCLOSURES ON DIRECTORS and other KEY MANAGEMENT PERSONNEL

a. Remuneration of Directors

No remuneration was paid or is payable to Directors. No superannuation contributions were paid or are payable in respect of Directors.

b. Remuneration of Key Management Personnel (KMP)

The aggregate compensation of KMP personnel during the year comprising amounts paid or payable or provided for was as follows:

Total aggregate compensation	<u>1,254,884</u>	<u>1,310,756</u>
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17. PATIENT'S SAFE CUSTODY FUNDS

The Patients' Safe Custody Funds are held in trust on behalf of patients. These funds are not included in the cash disclosed in the Company's balance sheet. The funds are represented by assets disclosed below:

Assets		
Cash on hand	3,000	3,000
Cash at bank	861,613	851,828
Term deposit	49,193	44,934
	<u>913,806</u>	<u>899,762</u>

ROYAL REHABILITATION CENTRE SYDNEY

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2010

18. LIMITED GUARANTEE

Royal Rehabilitation Centre Sydney is a Company limited by guarantee. Every member of the Company undertakes to contribute to the assets of the Company in the event of the Company being wound up during the time that he/she is a member or within one year afterwards for payments of the debts and liabilities of the Company contracted before the time at which he/she ceased to be a member and the costs, charges and expenses of winding up the same for such amount as may be required not exceeding \$2.

19. REMUNERATION OF AUDITORS

Remuneration of the auditors for:

Audit of the Financial Report of the Company	63,800	61,350
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20. RELATED PARTY DISCLOSURES

Directors

The names of Directors who held office during the financial year are as follows:

Mr C. Austin	Prof. T.R. Parmenter AM
Mr A. Stavely	Mr D. Piper OAM
Prof. G. Llewellyn	Mr I Baggie (deceased 20 September 2009)
Mr B Hatchman	Ms B. Connolly
Mr. J. Cullity	Mr. J. Dakin
Prof. R. Madden	

Information on the remuneration and retirement benefits of Directors is disclosed in Note 16.

The following transactions occurred with Director related entities:

a) Receipts

Received from	Details	\$
University of Sydney	Consultancy	18,722
University of Sydney	Research payment	174,669
University of Sydney	Recoupment of expenses	35,716
University of Sydney	Infrastructure distribution	27,277
University of Sydney	Scholarship payment	4,500
University of Sydney	Staff placement	1,155
Youthsafe	Recoupment of expenses	10,692
Wheelchair Sport	Recoupment of expenses	2,296
Centre for Disability Studies	Recoupment of expenses	8,964
Centre for Disability Studies	Management fee	50,000
B. Hatchman	Golf day receipt	682
Balance Group	Golf day receipt	170
Wheelchair sport	Golf day receipt	682
		335,525

b) Purchases and payments

Paid to	Details	\$
University of Sydney	Training course	8,081
Centre for Disability Studies	Training course	2,378
Centre for Disability Studies	Grant	50,000
A. Stavely	Reimbursement of expenses	177
C. Austin	Reimbursement of expenses	95
		60,731

ROYAL REHABILITATION CENTRE SYDNEY

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2010

21. ECONOMIC DEPENDENCY

A significant proportion of the Company's expenditure is funded by subsidies from the NSW Department of Health and the Department of Human Services NSW, Ageing Disability and Home Care (ADHC).

	2010 \$	2009 \$
22. SUPERANNUATION		
NSW Treasury has undertaken to meet the budgeted liability for the superannuation payments on behalf the Company for the current year.	<u>2,656,800</u>	<u>2,430,508</u>

23. COMMITMENTS FOR EXPENDITURE

Lease Commitments –

Commitments for minimum lease payments in relation to cancellable operating leases not recognised as liabilities but payable as follows:

Within one year	56,715	47,073
Later than one year but not later than five years	60,562	79,643
	<u>117,277</u>	<u>126,716</u>

24. CHARITABLE FUNDRAISING ACTIVITIES

RRCS conducts fundraising activities. The income received and the cost of raising income for specific fundraising has been recognised in the Financial Report. A summary of the income raised and expenditure is disclosed below:

Income raised - general donations	304,799	224,503
Income raised - appeals & raffles	15,928	24,688
Total	320,727	249,191
Expenditure incurred in raising fundraising revenue	(219,713)	(151,676)
	<u>101,014</u>	<u>97,515</u>

The net proceeds were used for the following purposes:

Purchase of equipment and improvements	65,485	17,151
Held in Special Purposes & Trust Fund pending purchase	35,529	80,364
	<u>101,014</u>	<u>97,515</u>

25. EVENTS OCCURRING SUBSEQUENT TO BALANCE SHEET DATE

RRCS has been advised by NSW Health that the subsidy it receives from NSW Health will be substantially reduced again for the 2010/11 financial year compared with the subsidy for the previous financial year. For the year ended 30 June 2010 receipts from NSW Health totalled approximately \$20 million. For the 2010/11 financial year the subsidy will be approximately \$19 million.

Prior to year end the Company entered into an arrangement to sell part of its property at its Putney site. There were several conditions which if not met would allow the purchaser to rescind the contract. Subsequent to year end these conditions were satisfied. The arrangement provided for the purchase price to be paid in three tranches: September 2010 (this payment has been made), around March 2011 and March 2014.

Subsequent to year end the construction of Weemala commenced.

ROYAL REHABILITATION CENTRE SYDNEY

DIRECTORS' DECLARATION

for the year ended 30 June 2010

In the Directors' opinion:

- a. the financial statements and notes set out on pages 6 to 20 are in accordance with the *Corporation Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements;
 - (ii) complying with the *Charitable Fundraising Act 1991* and the *Charitable Fundraising Regulations 2008*); and
 - (iii) giving a true and fair view of the Company's financial position as at 30 June 2010 and its performance, for the financial year ended on that date; and
- b. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The declaration is made in accordance with a resolution of the Directors,

C. Austin
Chairman

B. Hatchman
Director

Sydney, 15 November 2010

Independent auditor's report to the members of
Royal Rehabilitation Centre Sydney

PricewaterhouseCoopers
ABN 52 780 433 757

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Report on the financial report

We have audited the accompanying financial report of Royal Rehabilitation Centre Sydney (the company), which comprises the balance sheet as at 30 June 2010, and the income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards – Reduced Disclosure Requirements, the *Corporations Act 2001*, *Charitable Fundraising Act 1991 (NSW)* and *Charitable Fundraising Regulation 2008 (NSW)*. This responsibility includes establishing and maintaining internal controls 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. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards 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 judgement, 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 circumstances, 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 directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

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

**Independent auditor's report to the members of
Royal Rehabilitation Centre Sydney**

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

(a) In our opinion the financial report of Royal Rehabilitation Centre Sydney is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the company's financial position as at 30 June 2010 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards – Reduced Disclosure Requirements and the *Corporations Regulation 2001*.

(b) In our opinion :

(i) the financial report of Royal Rehabilitation Centre Sydney shows a true and fair view of the financial result of fundraising appeals for the year ended 30 June 2010;

(ii) the accounts and associated records have been properly kept in accordance with section 22 (1-2) of the *Charitable Fundraising Act 1991 (NSW)* for the year ended 30 June 2010; and

(iii) money received as a result of fundraising appeals conducted during the year ended 30 June 2010 has been properly accounted for and applied in accordance with Section 20(1) of the *Charitable Fundraising Act 1991 (NSW)* and section 10 of the *Charitable Fundraising Regulation 2008 (NSW)*.

PricewaterhouseCoopers
Chartered Accountants

Peter Buchholz
Partner

Sydney 15 November 2010

ROYAL REHABILITATION CENTRE SYDNEY

DECLARATION BY THE CHIEF EXECUTIVE OFFICER

Declared opinion

I, Stephen Lowndes, Chief Executive Officer of Royal Rehabilitation Centre Sydney declare that in my opinion:

- (a) the report gives a true and fair view of all the income and expenditure of Royal Rehabilitation Centre Sydney with respect to fundraising appeals;
- (b) the balance sheet gives a true and fair view of the state of affairs with respect to fundraising appeals;
- (c) the provisions of the *Charitable Fundraising Act 1991* and the regulations under that Act and the conditions attached to the authority have been complied with for the year ended 30 June 2010; and
- (d) the internal controls exercised by Royal Rehabilitation Centre Sydney are appropriate and effective in accounting for all income received and expenditure incurred.

Stephen Lowndes
Chief Executive Officer

Sydney, 15 November 2010

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ROYAL

REHABILITATION CENTRE SYDNEY

ROYAL REHABILITATION CENTRE SYDNEY

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