

INDEPENDENT AUDITOR'S REPORT

To the Senior Master, Supreme Court of Victoria

The Financial Report

The accompanying financial report for the year ended 30 June 2010 of the Senior Master of the Supreme Court which comprises the comprehensive operating statement, balance sheet, statement of changes in equity, cash flow statement, a summary of significant accounting policies and other explanatory notes to and forming part of the financial report, and the joint declaration of the Senior Master, Office Manager and Accounting Manager, relating to the Common Fund No.1, Common Fund No.2, Common Fund No.3, Common Funds Guarantee and Reserve Account and Assets Held on Separate Account has been audited.

The Senior Master's Responsibility for the Financial Report

The Senior Master is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the financial reporting requirements of the *Supreme Court Act 1986*. 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
- making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

As required by the *Audit Act 1994*, my responsibility is to express an opinion on the financial report based on the audit, which has been conducted in accordance with Australian Auditing Standards. These Standards require compliance with relevant ethical requirements relating to audit engagements and that the audit be planned and performed 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 audit procedures selected depend on 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, consideration is given to the 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 the accounting policies used, and the reasonableness of accounting estimates made by the Senior Master, as well as evaluating the overall presentation of the financial report.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Independent Auditor's Report (continued)

Matters Relating to the Electronic Presentation of the Audited Financial Report

This auditor's report relates to the financial report published in both the annual report and on the website of the Senior Master of the Supreme Court for the year ended 30 June 2010. The Senior Master is responsible for the integrity of the web site. I have not been engaged to report on the integrity of the web site. The auditor's report refers only to the statements named above. An opinion is not provided on any other information which may have been hyperlinked to or from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications, they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on the Senior Master of the Supreme Court web site.

Independence

The Auditor-General's independence is established by the *Constitution Act 1975*. The Auditor-General is not subject to direction by any person about the way in which his powers and responsibilities are to be exercised. In conducting the audit, the Auditor-General, his staff and delegates complied with all applicable independence requirements of the Australian accounting profession.

Auditor's Opinion

In my opinion, the financial report presents fairly, in all material respects, the financial position of Common Fund No.1, Common Fund No.2, Common Fund No.3, Common Funds Guarantee and Reserve Account and Assets Held on Separate Account as at 30 June 2010, the financial performance and cash flows for the year then ended in accordance with applicable Australian Accounting Standards (including the Australian Accounting Interpretations), and the financial reporting requirements of the *Supreme Court Act 1986*.

MELBOURNE
2 August 2010


D D R Pearson
Auditor-General

Senior Master of the Supreme Court

**Financial Report
for the year ended 30 June 2010**

**Financial Report
for the year ended 30 June 2010**

Comprising:

Comprehensive operating statement, balance sheet, statement of changes in equity, cash flow statements and Notes to and forming part of the Financial Report for:

- Common Fund No. 1
- Common Fund No. 2
- Common Fund No. 3
- Common Funds Guarantee and Reserve Account
- Assets Held on Separate Account

Comprehensive operating statement for the year ended 30 June 2010

		Common Fund No. 1		Common Fund No. 2		Common Fund No. 3		Common Funds Guarantee and Reserve Account		Assets Held on Separate Account	
	Note	30 June 2010 \$	30 June 2009 \$	30 June 2010 \$	30 June 2009 \$	30 June 2010 \$	30 June 2009 \$	30 June 2010 \$	30 June 2009 \$	30 June 2010 \$	30 June 2009 \$
Continuing Operations											
Income from transactions											
Interest revenue	2(e)(i),3	1,283,202	804,623	37,944,419	40,060,519	70,322	127,143	2,533,927	2,679,311	-	-
Dividend revenue	2(e)(i)	-	-	-	-	11,773,184	11,958,910	-	-	-	-
Beneficiaries' annuity revenue	2(e)(i)	-	-	-	-	-	-	-	-	1,170,404	1,144,478
Administration cost recovery	4	-	-	-	-	-	-	3,822,551	2,871,685	-	-
Total income from transactions		1,283,202	804,623	37,944,419	40,060,519	11,843,506	12,086,053	6,356,478	5,550,996	1,170,404	1,144,478
Expenses from transactions											
Interest expense	2(d)	-	-	1,517,910	4,344,656	-	-	95,000	522,530	-	-
Interest paid on closed accounts	2(f)	68,302	69,606	455,341	279,094	-	-	-	-	-	-
Beneficiaries' annuity revenue transferred to Common Fund No. 2	2(e)(i)	-	-	-	-	-	-	-	-	1,170,404	1,144,478
Administration cost contribution	4	852,181	547,078	2,970,370	2,324,607	-	-	-	-	-	-
Bank bill interest transferred	5(c)	-	-	-	-	-	-	-	773,024	-	-
Depreciation expense	2(j),13	-	-	-	-	-	-	184,482	29,754	-	-
Administration expenses	2(e)(ii),6	-	-	-	-	-	-	6,053,459	4,874,674	-	-
Total expenses from transactions		920,483	616,684	4,943,621	6,948,357	-	-	6,332,941	6,199,982	1,170,404	1,144,478
Net result from transactions (net operating balance)		362,719	187,939	33,000,798	33,112,162	11,843,506	12,086,053	23,537	(648,986)	-	-
Other economic flows included in net result											
Capital gains on disposal of investments	5(a)	-	-	-	-	-	-	1,249,055	8,681,933	-	-
Capital gains on disposal of shares	11	-	-	-	-	-	1,090,562	-	-	-	-
Capital losses on disposal of investments	5(b)	-	-	(182,504)	(1,029,350)	-	-	-	(65,852)	-	-
Capital losses on disposal of shares	11	-	-	-	-	(1,295,334)	(13,222,509)	-	-	-	-
Total other economic flows included in net result		-	-	(182,504)	(1,029,350)	(1,295,334)	(12,131,947)	1,249,055	8,616,081	-	-
Net result from continuing operations		362,719	187,939	32,818,294	32,082,812	10,548,172	(45,894)	1,272,592	7,967,095	-	-
Net result from discontinued operations		-	-	-	-	-	-	-	-	-	-
Net result		362,719	187,939	32,818,294	32,082,812	10,548,172	(45,894)	1,272,592	7,967,095	-	-
Other economic flows - other changes in equity											
Valuation gain (losses) recognised in financial assets	19	-	-	7,057,897	31,176,007	-	-	166,472	1,843,251	-	-
Cumulative (gains)/losses transferred to net result on sale of financial assets	19	-	-	(967,241)	(6,632,527)	-	-	(99,310)	(727,491)	-	-
Total other economic flows - other changes in equity		-	-	6,090,656	24,543,480	-	-	67,162	1,115,760	-	-
Comprehensive result		362,719	187,939	38,908,950	56,626,292	10,548,172	(45,894)	1,339,754	9,082,855	-	-

The above comprehensive operating statement should be read in conjunction with the accompanying notes.

Balance sheet as at 30 June 2010

		Common Fund No. 1		Common Fund No. 2		Common Fund No. 3		Common Funds Guarantee and Reserve Account		Assets Held on Separate Account	
	Note	30 June 2010	30 June 2009	30 June 2010	30 June 2009	30 June 2010	30 June 2009	30 June 2010	30 June 2009	30 June 2010	30 June 2009
		\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
FINANCIAL ASSETS											
Cash and cash equivalents	2(g)	1,136,637	3,548,005	16,077,224	15,613,182	636,726	948,133	1,656,639	934,433	-	-
Interest receivable	7	131,516	34,471	7,914,247	6,690,865	761	449	342,125	355,963	-	-
Annuity income receivable	7	-	-	-	-	-	-	-	-	48,523	46,874
Trade and other receivables	2(l),9	-	-	-	-	2,446,537	1,652,774	185,693	72,527	-	-
Investments on common account available for sale	10	33,462,325	13,026,582	585,887,856	569,797,075	176,479	169,769	41,416,832	42,580,954	-	-
Shares available for sale	11	-	-	-	-	334,879,256	266,485,169	-	-	-	-
Beneficiaries' annuities held on separate account	12	-	-	-	-	-	-	-	-	3,955,342	4,780,446
		<u>34,730,478</u>	<u>16,609,058</u>	<u>609,879,327</u>	<u>592,101,122</u>	<u>338,139,759</u>	<u>269,256,294</u>	<u>43,601,289</u>	<u>43,943,877</u>	<u>4,003,865</u>	<u>4,827,320</u>
NON FINANCIAL ASSETS											
Prepayments	8	-	-	-	-	-	-	14,457	9,928	-	-
Plant and equipment	2(i),2(j),13	-	-	-	-	-	-	1,703,642	24,649	-	-
Beneficiaries' residential properties	12,20	-	-	-	-	-	-	-	-	167,418,304	146,836,274
		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,718,099</u>	<u>34,577</u>	<u>167,418,304</u>	<u>146,836,274</u>
Total assets		<u>34,730,478</u>	<u>16,609,058</u>	<u>609,879,327</u>	<u>592,101,122</u>	<u>338,139,759</u>	<u>269,256,294</u>	<u>45,319,388</u>	<u>43,978,454</u>	<u>171,422,169</u>	<u>151,663,594</u>
LIABILITIES											
Trade and other payables	2(k),14	-	-	-	-	-	-	217,676	216,496	-	-
Annuity income payable to beneficiaries	14	-	-	-	-	-	-	-	-	48,523	46,874
Amounts owing to beneficiaries	2(d), 15	34,592,554	16,566,947	588,096,426	577,885,081	338,134,121	269,249,382	-	-	171,373,646	151,616,720
Total liabilities		<u>34,592,554</u>	<u>16,566,947</u>	<u>588,096,426</u>	<u>577,885,081</u>	<u>338,134,121</u>	<u>269,249,382</u>	<u>217,676</u>	<u>216,496</u>	<u>171,422,169</u>	<u>151,663,594</u>
Net assets		<u>137,924</u>	<u>42,111</u>	<u>21,782,901</u>	<u>14,216,041</u>	<u>5,638</u>	<u>6,912</u>	<u>45,101,712</u>	<u>43,761,958</u>	<u>-</u>	<u>-</u>
EQUITY											
Accumulated surplus	2(c)	137,924	42,111	8,865,075	7,388,871	5,638	6,912	-	-	-	-
Statutory reserve	17	-	-	-	-	-	-	6,446,098	6,087,102	-	-
General reserve	18	-	-	-	-	-	-	37,965,112	37,051,516	-	-
Investments available for sale revaluation reserve	19	-	-	12,917,826	6,827,170	-	-	690,502	623,340	-	-
Total equity		<u>137,924</u>	<u>42,111</u>	<u>21,782,901</u>	<u>14,216,041</u>	<u>5,638</u>	<u>6,912</u>	<u>45,101,712</u>	<u>43,761,958</u>	<u>-</u>	<u>-</u>
Commitments for expenditure	21										
Contingent liabilities & contingent assets	22										

The above balance sheet should be read in conjunction with the accompanying notes.

Statement of changes in equity
for the year ended 30 June 2010

	Accumulated surplus \$	General reserve \$	Statutory reserve \$	Investments available for sale revaluation reserve \$	Asset Revaluation Reserve \$	TOTAL \$
<u>Common Fund No. 1</u>						
Balance at 1 July 2008	112,665	-	-	-	-	112,665
Net result for period	187,939	-	-	-	-	187,939
Distribution of interest, dividends to beneficiaries	(258,493)	-	-	-	-	(258,493)
Balance as at 30 June 2009	42,111	-	-	-	-	42,111
Net result for period	362,719	-	-	-	-	362,719
Distribution of interest, dividends to beneficiaries	(266,906)	-	-	-	-	(266,906)
Balance as at 30 June 2010	137,924	-	-	-	-	137,924
<u>Common Fund No. 2</u>						
Balance at 1 July 2008	8,314,288	-	-	(17,716,310)	-	(9,402,022)
Net result for period	32,082,812	-	-	-	-	32,082,812
Distribution of interest, dividends to beneficiaries	(33,008,229)	-	-	-	-	(33,008,229)
Investments available for sale revaluation reserve (Note 19):	-	-	-	-	-	-
Unrealised gains/(losses)	-	-	-	31,176,007	-	31,176,007
Realised (gains)/losses	-	-	-	(6,632,527)	-	(6,632,527)
Balance as at 30 June 2009	7,388,871	-	-	6,827,170	-	14,216,041
Net result for period	32,818,294	-	-	-	-	32,818,294
Distribution of interest, dividends to beneficiaries	(31,342,090)	-	-	-	-	(31,342,090)
Investments available for sale revaluation reserve (Note 19):	-	-	-	-	-	-
Unrealised gains/(losses)	-	-	-	7,057,897	-	7,057,897
Realised (gains)/losses	-	-	-	(967,241)	-	(967,241)
Balance as at 30 June 2010	8,865,075	-	-	12,917,826	-	21,782,901
<u>Common Fund No. 3</u>						
Balance at 1 July 2008	5,837	-	-	-	-	5,837
Net result for period	(45,894)	-	-	-	-	(45,894)
Distribution of interest, dividends to beneficiaries	(12,084,978)	-	-	-	-	(12,084,978)
Distribution of realised capital gains on shares	(1,090,562)	-	-	-	-	(1,090,562)
Allocation of realised capital losses on shares	13,222,509	-	-	-	-	13,222,509
Balance as at 30 June 2009	6,912	-	-	-	-	6,912
Net result for period	10,548,172	-	-	-	-	10,548,172
Distribution of interest, dividends to beneficiaries	(11,844,780)	-	-	-	-	(11,844,780)
Distribution of realised capital gains on shares	-	-	-	-	-	-
Allocation of realised capital losses on shares	1,295,334	-	-	-	-	1,295,334
Balance as at 30 June 2010	5,638	-	-	-	-	5,638

The above statement of changes in equity should be read in conjunction with the accompanying notes.

**Statement of changes in equity
for the year ended 30 June 2010
(continued)**

	Accumulated Surplus \$	General Reserve \$	Statutory Reserve \$	Investments Available for Sale Revaluation Reserve \$	Asset Revaluation Reserve \$	TOTAL \$
<u>Common Funds Guarantee and Reserve Account</u>						
Balance at 1 July 2008		29,510,493	5,661,030	(492,420)	-	34,679,103
Net result for period	7,967,095	-	-	-	-	7,967,095
Transfers to/from reserves:						
Transfers from accumulated surplus	-	7,967,095	-	-	-	7,967,095
Transfers to general reserve	(7,967,095)	-	-	-	-	(7,967,095)
Transfer from general reserve	-	-	426,072	-	-	426,072
Transfer to statutory reserve	-	(426,072)	-	-	-	(426,072)
Investments available for sale revaluation reserve (Note 19):						
Unrealised gains/(losses)	-	-	-	1,843,251	-	1,843,251
Realised (gains)/losses	-	-	-	(727,491)	-	(727,491)
Balance as at 30 June 2009	-	37,051,516	6,087,102	623,340	-	43,761,958
Net result for period	1,272,592	-	-	-	-	1,272,592
Transfers to/from reserves:						
Transfers from accumulated surplus	-	1,272,592	-	-	-	1,272,592
Transfers to general reserve	(1,272,592)	-	-	-	-	(1,272,592)
Transfer from general reserve	-	-	358,996	-	-	358,996
Transfer to statutory reserve	-	(358,996)	-	-	-	(358,996)
Investments available for sale revaluation reserve (Note 19):						
Unrealised gains/(losses)	-	-	-	166,472	-	166,472
Realised (gains)/losses	-	-	-	(99,310)	-	(99,310)
Balance as at 30 June 2010	-	37,965,112	6,446,098	690,502	-	45,101,712

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Cash flow statement for the year ended 30 June 2010

	Common Fund No. 1		Common Fund No. 2		Common Fund No. 3		Common Funds Guarantee and Reserve Account		Assets Held on Separate Account	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
	\$	\$	\$	\$	\$		\$	\$	\$	\$
Cash flows from/(used in) operating activities										
Interest and dividends received	1,186,157	856,566	36,538,533	41,644,189	11,049,431	12,153,471	2,547,765	2,791,747	-	-
Administration cost recovery	(852,181)	(547,078)	(2,970,370)	(2,324,607)	-	-	3,822,551	2,871,685	-	-
Interest paid on closed accounts	(68,302)	(69,606)	(455,341)	(279,094)	-	-	-	-	-	-
Administration expenses	-	-	-	-	-	-	(6,169,974)	(5,033,372)	-	-
Bank Bill interest transferred	-	-	-	-	-	-	-	(773,024)	-	-
Interest expense	-	-	(1,517,910)	(4,344,656)	-	-	(95,000)	(522,530)	-	-
Capital gains (losses) on disposal of investments and shares	-	-	-	(1,029,350)	-	-	1,249,055	8,616,081	-	-
Net cash inflow from operating activities	<u>265,674</u>	<u>239,882</u>	<u>31,594,912</u>	<u>33,666,482</u>	<u>11,049,431</u>	<u>12,153,471</u>	<u>1,354,397</u>	<u>7,950,587</u>	<u>-</u>	<u>-</u>
Cash flows from/(used in) investing activities										
Investments available for sale	(20,435,743)	2,023,009	(10,182,630)	(12,055,809)	(24,923,007)	(1,556,968)	1,231,284	(7,946,552)	-	-
Payments for non financial assets	-	-	-	-	-	-	(1,863,475)	(11,898)	(16,416,780)	(20,228,733)
Proceeds from disposal of non-financial assets	-	-	-	-	-	-	-	-	-	-
Net cash flow from (used in) investing activities	<u>(20,435,743)</u>	<u>2,023,009</u>	<u>(10,182,630)</u>	<u>(12,055,809)</u>	<u>(24,923,007)</u>	<u>(1,556,968)</u>	<u>(632,191)</u>	<u>(7,958,450)</u>	<u>(16,416,780)</u>	<u>(20,228,733)</u>
Cash flows from/(used in) financing activities										
Receipts to beneficiaries' accounts	26,657,738	8,184,058	119,174,950	126,770,503	23,449,048	45,888,026	-	-	7,001,068	3,178,821
Transfers - beneficiaries properties held on separate account	-	-	(11,376,950)	(18,992,150)	-	-	-	-	11,376,950	18,992,150
Transfers - annuities held on separate account	-	-	1,961,238	1,942,158	-	-	-	-	(1,961,238)	(1,942,238)
Payments from beneficiaries' accounts	(8,899,037)	(8,616,484)	(130,707,478)	(123,495,160)	(9,796,879)	(55,975,698)	-	-	-	-
	<u>17,758,701</u>	<u>(432,426)</u>	<u>(20,948,240)</u>	<u>(13,774,649)</u>	<u>13,562,169</u>	<u>(10,087,672)</u>	<u>-</u>	<u>-</u>	<u>16,416,780</u>	<u>20,228,733</u>
Net increase/(decrease) in cash held	<u>(2,411,368)</u>	<u>1,830,466</u>	<u>464,042</u>	<u>7,836,024</u>	<u>(311,407)</u>	<u>508,831</u>	<u>722,206</u>	<u>(7,863)</u>	<u>-</u>	<u>-</u>
Cash at beginning of the financial year	3,548,005	1,717,539	15,613,182	7,777,158	948,133	439,302	934,433	942,296	-	-
Cash at the end of the financial year	<u>1,136,637</u>	<u>3,548,005</u>	<u>16,077,224</u>	<u>15,613,182</u>	<u>636,726</u>	<u>948,133</u>	<u>1,656,639</u>	<u>934,433</u>	<u>-</u>	<u>-</u>

Reconciliation of comprehensive result for period to cash flows from operating activities

For the purposes of the cash flow statement, cash includes cash on hand and in banks, net of outstanding overdrafts (nil). Cash at the end of the financial year, as shown in the cash flow statement, is reconciled to the cash in the balance sheet.

Inflow from operating activities

Net result for the period	362,719	187,939	32,818,294	32,082,812	10,548,172	(45,894)	1,272,592	7,967,095	-	-
<i>Plus/(minus) non-cash items:</i>										
Depreciation and amortisation	-	-	-	-	-	-	184,482	29,754	-	-
Capital (gains)/losses on shares at fair value through profit/loss account	-	-	-	-	1,295,334	12,131,947	-	-	-	-
<i>(Increase)/Decrease in Assets</i>										
Prepayments	-	-	-	-	-	-	(4,529)	3,724	-	-
Trade and other receivables	-	-	-	-	(793,763)	66,845	(113,166)	20,932	-	-
Beneficiaries' annuity income receivable	-	-	-	-	-	-	-	-	(1,649)	(2,049)
Interest receivable	(97,045)	51,943	(1,223,382)	1,583,670	(312)	573	13,838	112,436	-	-
<i>Increase/(Decrease) in Liabilities</i>										
Beneficiaries annuity income payable	-	-	-	-	-	-	-	-	1,649	2,049
Trade and other payables	-	-	-	-	-	-	1,180	(183,354)	-	-
Net cash inflow from operating activities	<u>265,674</u>	<u>239,882</u>	<u>31,594,912</u>	<u>33,666,482</u>	<u>11,049,431</u>	<u>12,153,471</u>	<u>1,354,397</u>	<u>7,950,587</u>	<u>-</u>	<u>-</u>

The above cash flow statement should be read in conjunction with the accompanying notes.

Notes to the financial statements

Note 1	Nature and purpose of the Common Funds, Common Funds Guarantee and Reserve Account and Assets Held on Separate Account.....	9
Note 2	Summary of significant accounting policies.....	11
Note 3	Interest revenue.....	18
Note 4	Administration cost recovery/(contribution).....	18
Note 5	Gains and losses on investments.....	19
Note 6	Administration expenses.....	20
Note 7	Interest receivable and beneficiaries' annuity income receivable and payable.....	20
Note 8	Prepayments.....	21
Note 9	Trade and other receivables.....	21
Note 10	Investments on common account available for sale.....	21
Note 11	Shares available for sale – Common Fund No. 3	22
Note 12	Assets Held on Separate Account.....	22
Note 13	Plant and equipment.....	23
Note 14	Trade and other payables.....	24
Note 15	Amounts owing to beneficiaries.....	24
Note 16	Financial instruments.....	25
Note 17	Statutory reserve.....	33
Note 18	General reserve.....	33
Note 19	Investments available for sale revaluation reserve.....	33
Note 20	The application of beneficiaries' funds in the purchase of real estate.....	34
Note 21	Commitments for expenditure.....	35
Note 22	Contingent liabilities and contingent assets.....	35
Note 23	Related party transactions.....	35
Note 24	Events subsequent to reporting date.....	35
Note 25	Remuneration of external auditors.....	35
Note 26	Glossary of terms.....	36

This financial report has been prepared by stating, where appropriate, each of the five discrete funds' activities on common pages. Consolidation or aggregation of results is neither required nor appropriate.

The Senior Master, through the Senior Master's (Funds in Court) Office, administers funds paid into Court on behalf of beneficiaries. The Senior Master is an Associate Judge, and pursuant to section 75 of the *Constitution Act* 1975 (Vic), he along with the Chief Justice, President of the Court of Appeal, Judges and other Associate Judges, constitute the Court. Section 113 of the *Supreme Court Act* 1986 and the *Supreme Court (General Civil Procedure) Rules* 2005 govern how funds paid into Court are to be administered by the Senior Master.

Funds are paid into either Common Fund No.1 (when no beneficiary is entitled presently to any part of the funds) or Common Fund No. 2. (where a beneficiary is under legal disability but entitled presently to their funds). The Senior Master may order that portions of funds held in Common Fund No. 2 be invested in Common Fund No. 3 (that consists of shares in leading companies listed on the Australian Stock Exchange), in accordance with the Senior Master's Investment Policy. The Senior Master may also order that portions of funds held in Common Fund No. 2 be invested as Assets Held on Separate Account. At present, these Assets are limited to indexed annuities and beneficiaries' properties registered in the name trustees appointed by the Senior Master but specifically identifying the individual upon whose behalf the Asset is held.

The Common Funds Guarantee and Reserve Account is used by the Senior Master to pay the administrative expenses of the Senior Master's Office.

1. NATURE AND PURPOSE OF THE COMMON FUNDS, COMMON FUNDS GUARANTEE AND RESERVE ACCOUNT AND ASSETS HELD ON SEPARATE ACCOUNT

Common Fund No. 1

The prime objective of Common Fund No. 1 is to maintain liquid investments with a secure return for the benefit of the beneficiaries who are not entitled presently to any part of the funds that are administered by the Senior Master. The Fund consists of:

- money held in dispute matters;
- money held as security for costs; and,
- other payments made into court under the provisions of the *Trustee Act* and other Acts.

Common Fund No. 2

The prime objective of Common Fund No. 2 is to provide the maximum return achievable subject to acceptable risk criteria through investment in approved securities, in the longer term, for the benefit of beneficiaries who are under legal disability but are entitled presently to their funds that are administered by the Senior Master. The Fund consists of:

- damages awarded and payments pursuant to proceedings brought for persons deemed incapable of managing their own affairs due to disability;
- dependent minors;
- minors having sustained personal injury with entitlement to payment out at age 18; and
- awards under the *Victims of Crime Assistance Act* 1996 to minors and persons incapable of managing their own affairs.

Common Fund No. 3

The prime objective of Common Fund No. 3 is to provide the maximum return achievable subject to acceptable risk criteria through investment in approved shares.

With a view to providing a measure of capital growth, a hedge against inflation, and to offset taxation liability, it is appropriate for part of the assets of certain beneficiaries to be invested outside Common Fund No. 2. During the reporting period, investments held by Common Fund No. 3 consisted of shares in leading companies listed on the Australian Stock Exchange. The shares managed in Common Fund No. 3 are recorded at market value in accordance with daily unit pricing.

Common Funds Guarantee and Reserve Account

The purposes of the Common Funds Guarantee and Reserve Account are the:

- provision of a statutory reserve of 1% of the combined value of Common Fund No. 1 and Common Fund No. 2 under the provisions of the *Supreme Court Act 1986*;
- provision for, and payment of, the administrative expenses of the Senior Master's Office;
- smoothing of the annual crediting rate of interest paid to beneficiaries of the Common Funds; and
- provision for, and payment of, other expenses incurred by the Common Funds as considered appropriate by the Senior Master. Capital losses incurred on the realisation of any Common Fund investment may be met by the Direction of the Senior Master from this account.

Assets Held on Separate Account

Annuities

With a view to providing a measure of capital growth, a hedge against inflation, and to defer taxation liability, it is appropriate for part of the assets of certain beneficiaries to be invested outside Common Fund No. 1, Common Fund No. 2 and Common Fund No. 3.

Investments Held on Separate Account are limited to Indexed Annuities at present. Investments Held on Separate Account are registered in the name of the Senior Master of the Supreme Court but in a manner which specifically identifies the individual upon whose behalf the investment is held.

Beneficiaries' Residences

The Senior Master may use a beneficiary's funds in Court to purchase real estate for the beneficiary to use as a residence. Upon application, the Court (usually constituted by the Associate Judge who is the Senior Master) will decide whether the purchase of a property for the use of a beneficiary is in the best interests of a beneficiary and whether or not it is affordable in the context of the funds in Court and the beneficiaries' future needs. Each property purchased from the funds in Court is held in trust for the beneficiary. Refer to Note 20.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance (refers to all funds)

The Senior Master has prepared these financial statements on the basis that the funds are non-reporting entities because there are no users dependent on general purpose financial statements. These financial statements are therefore special purpose financial statements prepared to meet the requirements of the *Supreme Court Act 1986*.

The financial statements have been prepared on an accrual basis in accordance with the *Supreme Court Act 1986* and applicable Australian Accounting Standards, including interpretations (AASs) with the exception of AASB 116 *Property Plant and Equipment*. Refer to Note 20. AASs include Australian equivalents to International Reporting Standards.

The accounting policies disclosed below have been determined to be appropriate to meet the needs of users.

(b) Basis of preparation (refers to all funds)

The financial statements have been prepared on a historical cost basis, except for: (a) the revaluation of financial instruments that have been recorded on a marked-to-market basis; and (b) the beneficiaries' residential properties which have been recorded at 'restricted' valuation. Refer to Note 2(d) and Note 20.

In the application of the AASs, the Senior Master is required to make judgements, estimates and assumptions about carrying values of some assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis for making the judgements. Actual results may differ from these estimates.

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

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The accounting policies set out below have been applied in preparing the financial report for the year ended 30 June 2010 and the comparative information presented for the year ended 30 June 2009.

..

(c) **Scope and presentation of financial statements (refers to all funds)**

Comprehensive operating statement

Income and expenses in the comprehensive operating statement are separated into either 'transactions' or 'other economic flows'.

Balance sheet

Items of assets and liabilities in the balance sheet are:

- rated in liquidity order;
- aggregated into financial and non-financial assets;
- current versus non-current assets and liabilities are disclosed in the notes where relevant.

Previously, interest revenue included adjustments for the opening and closing balances of interest income unallocated at 30 June. [Refer Note 2(f).] The net results in Common Funds No.1 and No. 2 represented the allocation of all interest payments made on 1 June to beneficiaries. Unallocated interest in Common Fund No. 3 represented interest received or receivable at 30 June that had not been distributed.

Interest revenue for the year ended 30 June 2010 does not contain adjustment for interest income unallocated. The accumulated surplus includes the interest income unallocated at 30 June. Interest income unallocated no longer appears as a liability in the balance sheet.

This change in accounting policy is not material to the balance sheet and an additional year of comparative information is not required in the balance sheet.

The impact of this change in accounting policy is to increase the accumulated surplus and decrease the liability by the following amounts:

	Common Fund No. 1	Common Fund No. 2	Common Fund No. 3
30 June 2008:	\$112,665	\$8,314,288	\$5,837
30 June 2009:	\$42,111	\$7,388,871	\$6,912
30 June 2010:	\$137,924	\$8,865,075	\$5,638

Statement of changes in equity

The statement of changes in equity presents reconciliations of each equity opening balance at the beginning of the year to the closing balance at the end of the year, showing separately movements due to amounts recognised in the comprehensive result and amounts recognised in equity related to transactions.

Cash flow statements

The statement of cash flows classifies flows by operating, investing and financing activities in accordance with AASB 107 *Cash Flow Statements*.

(d) **Investments**

Investments in **Common Fund No. 1** comprise prime bank securities.

Investments in **Common Fund No. 2** and **Common Funds Guarantee and Reserve Account** comprise State Government securities and bonds; and, prime corporate and bank securities.

Investments in **Common Fund No. 3** comprise shares in leading companies listed on the Australian Stock Exchange and prime bank securities.

Investments in **Assets Held on Separate Account** comprise indexed annuities. The indexed annuities are amortised in equal instalments over the period of the annuity contract.

The Senior Master has classified investments in Common Fund No 1, Common Fund No. 2 and Common Funds Guarantee and Reserve Account as “available for sale” financial assets and they are stated at fair value. Gains and losses arising from changes in fair value are recognised directly in Equity on the balance sheet until the investment is disposed of, or detected to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the comprehensive result for the period.

Interest expenses are the premiums paid on negotiable securities at time of purchase.

Investments in Common Fund No. 3 are “available for sale”. Normally this requires unrealised gains and losses to be recognised through the “Available for Sale Revaluation Reserve”. However, both investments and beneficiaries’ liabilities in Common Fund No. 3 have been classified as fair valued in the balance sheet. This is because S113A(8) of the *Supreme Court Act* 1986 requires amounts owing to beneficiaries to be fair valued on a daily basis, effectively establishing the fund’s “unit price”. This is achieved by recognition of unrealised gains and losses daily. This has resulted in an inconsistency with the accounting standards as amounts owing to beneficiaries are otherwise required to be valued at cost. In order to avoid an accounting mismatch, the Senior Master has taken the option in AASB 139.9(b)(i) and has not recognised the unrealised gains and losses through the “Available for Sale Revaluation Reserve” and has adjusted the values of liabilities owed to beneficiaries in the balance sheet to represent fair value.

Capital gains and losses are defined as proceeds from sale or realisation of investments, less purchase cost. Gains from Common Fund No. 1 and Common Fund No. 2 are transferred to the Common Funds Guarantee and Reserve Account pursuant to S113(17) of the *Supreme Court Act* 1986. Losses may be met by the Direction of the Senior Master from the Common Funds Guarantee and Reserve Account pursuant to S113(18)(a) of the Act.

(e) **Comprehensive operating statement – revenue and expenditure**

(i) **Revenue**

For **Common Fund No. 1** and **Common Fund No. 2**, revenue is income earned from investment activities of the funds accounted for on an accruals basis (i.e. a time proportionate basis) plus interest from fixed interest securities and any transfers of interest from the Common Funds Guarantee and Reserve Account to the Common Funds. Distributions are made on 1 June each year.

For **Common Fund No. 3**, revenue is income earned from shares and, to a minor extent, short term investments. In compliance with the Common Fund No. 3 Constitution, dividend income from shares is accounted for on an accruals basis. Interest income from short term investment activities is accounted for on an accruals basis (i.e. on a time proportionate basis). Dividends from shares are recognised on the effective date, as announced (ie “ex-dividend”) in both the daily “unit price” and the balance sheet. Income distributions are made each month to “unit holders” in accordance with the Common Fund No. 3 Constitution.

For the **Common Funds Guarantee and Reserve Account**, revenue is income earned from investment activities of the fund and accounted for on an accruals basis (i.e. a time proportionate basis). Revenue includes gains on sale or maturity of investments made by Common Funds No. 1 and No. 2 which are required by the *Supreme Court Act* 1986 to be transferred to the Common Funds Guarantee and Reserve Account. Revenue may also include contributions from Common Funds No. 1 and No. 2 for administration cost recoveries.

For **Assets Held on Separate Account**, revenue is income earned from the indexed annuities accounted for on an accruals basis. The revenue is recognised when earned and then credited directly to the individual beneficiary’s account in Common Fund No. 2.

(ii) **Expenditure**

The Senior Master of the Supreme Court is not an employer of staff. Reference to contractors in this Report is to staff engaged in the Senior Master’s (Funds in Court) Office who are supplied principally by the Department of Justice where applicable. Salaries and wages are, however, reimbursed by the Senior Master to the Department of Justice. A Memorandum of Understanding was signed on 21 May 2010 for the Senior Master of the Supreme Court of Victoria, the Victorian Department of Justice and the Chief Executive Officer of the Supreme Court of Victoria that established the procedures to enable the Department to be properly reimbursed by the Senior Master for the salaries and certain other employment costs of staff including long service leave.

The Department of Justice carries the values of all long service leave entitlements attributable to the contractors who are its employees.

(f) **Comprehensive result for the period**

Common Fund No. 1 and Common Fund No. 2

The comprehensive results reflect the results for the period from investment activities including:

- the distributions made at 1 June to beneficiaries' accounts are recognised in equity;
- allocations of all unrealised gains and losses are recognised in equity; and
- revaluation reserves are recognised in equity.

The comprehensive results include administration cost contributions transferred to the Common Funds Guarantee and Reserve Account.

At 1 June each year, distributions are made from Common Funds No. 1 and No. 2 to the respective beneficiaries. This is initiated by the declaration of respective interest rates by the Senior Master on the approval of the Chief Justice.

At 30 June each year there are unallocated funds that consist of net investment income (ie interest) earned and either received or receivable during June. This amount is included as accumulated surplus in the equity section of the balance sheet until a distribution is made during the following twelve months. These funds will not be allocated to beneficiaries until the following 1 June although interest paid on closed accounts will be distributed during the year as a result of beneficiaries leaving a Fund. Where interest is paid on closed accounts, the interest is paid on either the last interest rate declared for Common Fund No. 1 or the declared interim rate for Common Fund No. 2.

The accumulated surplus in the statement of changes in equity (refer page 5) represents the unallocated funds at 30 June.

Common Fund No. 3

The comprehensive result for the period reflects the net result attributable to interest from investments, dividends from shares; and, realised capital gains on shares. Interest, dividends and realised capital gains are distributed to beneficiaries during the reporting period.

The accumulated surplus in the statement of changes in equity (refer page 5) represents the unallocated funds at 30 June.

Common Funds Guarantee and Reserve Account

The comprehensive result for the period reflects all investment and operating revenues and expenses and administration cost recoveries transferred from Common Fund No. 1 and Common Fund No. 2.

Assets Held on Separate Account

All revenue received from annuities and beneficiaries' properties is transferred direct to beneficiaries' Common Fund No. 2 accounts.

Distributions (refers to Common Funds)

Distributions to beneficiaries are recognised in equity apart from Common Fund No. 3. Refer to Note 2(d).

(g) Cash and cash equivalents (refers to all funds)

Cash and cash equivalents comprise cash on hand and cash in bank. There were no outstanding bank overdrafts at 30 June 2010 (2009: nil).

(h) Leased assets (refers to Common Funds Guarantee and Reserve Account)

There were no finance lease assets (2009: nil). Operating lease payments are recognised as an expense when incurred over the lease term.

(i) Plant and equipment (refers to Common Funds Guarantee and Reserve Account)

Computer & office equipment and leasehold improvements are stated at historical cost less depreciation and any accumulated impairment losses. Historical cost includes expenditure that is attributable directly to the acquisition of the items. The capitalisation threshold for plant and equipment to be recognised as an asset is \$1,000 (2009: \$1,000). During the reporting period, the staff of the Senior Master's (Funds in Court) Office relocated to new premises at 469 Latrobe Street, Melbourne. This involved purchase of new equipment throughout. Although some components, such as computers and telephones, individually were less than the capitalisation threshold, the Senior Master determined that all such components that have a useful life of two years or more be capitalised as they are parts of complete new systems. These components represented less than ten percent of the total relocation costs that have been capitalised. Not to capitalise such items would have distorted operating costs.

(j) Depreciation (refers to Common Funds Guarantee and Reserve Account)

Depreciation is calculated on a straight line basis to write off the net cost of each item of computer equipment, office equipment and leasehold improvements over expected useful life. Estimates of remaining useful lives are made on a regular basis for all assets. The expected useful lives are as follows:

	2009/10	2008/09
• Office equipment	4-8 years	4 years
• Computer equipment	2-3 years	2-3 years
• Leasehold improvements	8 years	-

(k) Payables (refers to Common Funds Guarantee and Reserve Account)

Payables are recognised when the Senior Master becomes obliged to make future payments resulting from the purchase of goods and services.

(I) Goods and services tax (refers to Common Funds Guarantee and Reserve Account)

Income, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of an asset or as part of the expense item as applicable. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet. Cash flows are included in the cash flow statement on a gross basis.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from activities which are recoverable from, or payable to, the taxation authority are presented as operating cash flows.

**Notes to the financial statements
for the year ended 30 June 2010**

	Common Fund No. 1		Common Fund No. 2		Common Fund No. 3		Common Funds Guarantee and Reserve Account		Assets Held on Separate Account	
	30 June 2010	30 June 2009	30 June 2010	30 June 2009	30 June 2010	30 June 2009	30 June 2010	30 June 2009	30 June 2010	30 June 2009
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
3. INTEREST REVENUE										
Bank account	250,414	162,826	451,774	806,934	63,300	119,107	63,105	100,392	-	-
Bank bills	-	223,803	-	470,838	-	-	-	75,473	-	-
Fixed interest securities	1,032,788	417,994	37,492,645	38,782,747	7,022	8,036	2,470,822	2,503,446	-	-
Total interest revenue	1,283,202	804,623	37,944,419	40,060,519	70,322	127,143	2,533,927	2,679,311	-	-

4. ADMINISTRATION COST RECOVERY/(CONTRIBUTION)

Interest transfer (to)/from pursuant to S113(16) of the Supreme Court Act. Interest was paid from the Common Funds No. 1 and No. 2 to the Common Funds Guarantee and Reserve Account.

Total interest rebate	(852,181)	(547,078)	(2,970,370)	(2,324,607)	-	-	3,822,551	2,871,685	-	-
------------------------------	------------------	------------------	--------------------	--------------------	----------	----------	------------------	------------------	----------	----------

Notes to the financial statements for the year ended 30 June 2010

Common Fund No. 1		Common Fund No. 2		Common Fund No. 3		Common Funds Guarantee and Reserve Account		Assets Held on Separate Account	
30 June 2010	30 June 2009	30 June 2010	30 June 2009	30 June 2010	30 June 2009	30 June 2010	30 June 2009	30 June 2010	30 June 2009
\$	\$	\$	\$	\$	\$	\$	\$	\$	\$

5. GAINS AND LOSSES ON INVESTMENTS

5(a) GAINS ON DISPOSAL OF INVESTMENTS

All capital profits made on the realisation of a Common Fund investment are credited to the Common Funds Guarantee and Reserve Account pursuant to S113(17) of the Supreme Court Act.

Capital gains realised	-	226,713	1,149,745	7,661,877	-	-	99,310	793,343	-	-
Capital gains transferred (to)/from	-	(226,713)	(1,149,745)	(7,661,877)	-	-	1,149,745	7,888,590	-	-
Total Capital Gains on Disposal of Investments	-	-	-	-	-	-	1,249,055	8,681,933	-	-

5(b) LOSS ON DISPOSAL OF INVESTMENTS

Capital losses incurred on realisation of any Common Fund investment may be met by the Direction of the Senior Master from the Common Funds Guarantee and Reserve Account pursuant to S113(18)(a) of the Supreme Court Act.

Capital losses incurred	-	-	(182,504)	(1,029,350)	-	-	-	(65,852)	-	-
Capital losses transferred (to)/from	-	-	-	-	-	-	-	-	-	-
Total capital losses on disposal of investments	-	-	(182,504)	(1,029,350)	-	-	-	(65,852)	-	-

5(c) BANK BILL INTEREST TRANSFERRED

The Senior Master may exercise authority, pursuant to S113(20) of the Supreme Court Act, to transfer capital profits [Note 5(a)] back from the Common Funds Guarantee and Reserve Account to a Common Fund Account. This authority was exercised during the year for Common Fund Bank Bill capital profits, i.e., receipts in the nature of interest. [Bank Bill Interest at Note 3 is different from the disclosure in this Note as Note 3 reports interest on a receivable (accruals) basis while this Note reports the actual transfers of interest made upon maturity.]

Total bank bill interest transferred	-	226,713	-	470,838	-	-	-	(773,024)	-	-
---	----------	----------------	----------	----------------	----------	----------	----------	------------------	----------	----------

**Notes to the financial statements
for the year ended 30 June 2010**

	Common Fund No. 1		Common Fund No. 2		Common Fund No. 3		Common Funds Guarantee and Reserve Account		Assets Held on Separate Account	
	30 June 2010	30 June 2009	30 June 2010	30 June 2009	30 June 2010	30 June 2009	30 June 2010	30 June 2009	30 June 2010	30 June 2009
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
6. ADMINISTRATION EXPENSES										
<i>The following expenses incurred in administering the Common Funds are paid from the Common Funds Guarantee and Reserve Account at the Senior Master's discretion and pursuant to S113(18)(c) of the Supreme Court Act.</i>										
Bank charges	-	-	-	-	-	-	17,821	14,731	-	-
Books publications and subscriptions	-	-	-	-	-	-	28,591	22,306	-	-
Client liaison and office travel	-	-	-	-	-	-	13,291	11,600	-	-
Computer and office equipment	-	-	-	-	-	-	149,411	133,656	-	-
Consultants fees	-	-	-	-	-	-	1,338,816	852,225	-	-
Contractors [Notes 2(e)]	-	-	-	-	-	-	4,070,533	3,554,958	-	-
External audit fees [Note 25]	-	-	-	-	-	-	70,660	54,440	-	-
Motor vehicles [Note 2 (h), 21]	-	-	-	-	-	-	134,330	104,977	-	-
Postage	-	-	-	-	-	-	25,015	24,567	-	-
Stationery and office supplies	-	-	-	-	-	-	48,227	25,761	-	-
Sundries including legal and investment costs	-	-	-	-	-	-	119,583	42,281	-	-
Training	-	-	-	-	-	-	37,181	33,172	-	-
Total administration expenses	-	-	-	-	-	-	6,053,459	4,874,674	-	-
7. INTEREST RECEIVABLE AND BENEFICIARIES' ANNUITY INCOME RECEIVABLE										
Bank bill interest	-	-	-	-	-	-	-	-	-	-
Fixed interest securities	131,516	34,471	7,914,247	6,690,865	761	449	342,125	355,963	-	-
Annuities	-	-	-	-	-	-	-	-	48,523	46,874
Total interest receivable and annuities income receivable	131,516	34,471	7,914,247	6,690,865	761	449	342,125	355,963	48,523	46,874

Notes to the financial statements for the year ended 30 June 2010

	Common Fund No. 1		Common Fund No. 2		Common Fund No. 3		Common Funds Guarantee and Reserve Account		Assets Held on Separate Account	
	30 June 2010	30 June 2009	30 June 2010	30 June 2009	30 June 2010	30 June 2009	30 June 2010	30 June 2009	30 June 2010	30 June 2009
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
8. PREPAYMENTS										
Administration expenses	-	-	-	-	-	-	14,457	9,928	-	-
Total Prepayments	-	-	-	-	-	-	14,457	9,928	-	-
9. TRADE AND OTHER RECEIVABLES										
Dividends	-	-	-	-	2,446,537	1,652,774	-	-	-	-
GST imputation credits	-	-	-	-	-	-	185,693	72,527	-	-
Total trade & other receivables	-	-	-	-	2,446,537	1,652,774	185,693	72,527	-	-
10. INVESTMENTS ON COMMON ACCOUNT AVAILABLE FOR SALE										
Investments	33,462,325	13,026,582	585,887,856	569,797,075	176,479	169,769	41,416,832	42,580,954	-	-
Total investments on common account	33,462,325	13,026,582	585,887,856	569,797,075	176,479	169,769	41,416,832	42,580,954	-	-
Comprised of										
Current (matures < 1 year)	33,462,325	13,026,582	138,671,004	121,706,449	176,769	169,769	17,974,362	11,495,314	-	-
Non current (matures > 1 year)	-	-	447,216,852	448,090,626	-	-	23,442,470	31,085,640	-	-
	33,462,325	13,026,582	585,887,856	569,797,075	176,769	169,769	41,416,832	42,580,954	-	-

Refer to Note 16 for the nature and extent of risks arising from financial assets.

**Notes to the financial statements
for the year ended 30 June 2010**

11. SHARES AVAILABLE FOR SALE - COMMON FUND NO. 3

	2010	2009
	\$	\$
Opening balance	266,485,169	264,836,810
Shares purchased during the year	35,556,587	52,499,907
Dividends reinvested during the year	5,619,656	3,470,674
Shares disposed of during the year - cost	(4,376,440)	(6,983,108)
Capital gains from shares disposed of during the year	-	1,090,562
Capital losses from shares disposed of during the year	(1,295,334)	(13,222,509)
Unrealised gains/(losses) in the market value of shares throughout the year	32,889,618	(35,207,167)
Closing balance at 30 June	334,879,256	266,485,169

A corresponding liability is booked to reflect the Senior Master's responsibility for management of beneficiaries' funds. Consequently any movements during the year are adjusted against the value of the shares and the liabilities owed to beneficiaries. Refer to Note 16 for the nature and extent of risks arising from financial assets.

12. ASSETS HELD ON SEPARATE ACCOUNT

	2010	2009
	\$	\$
Annuities		
Opening balance	4,780,446	5,578,206
Annuities purchased during the year	-	-
Annuities disposed of during the year	(34,488)	-
Amortisation of annuities in current year	(790,616)	(797,760)
Closing balance at 30 June (historical cost)	3,955,342	4,780,446
Beneficiaries' Residential Properties		
Opening balance (at 'restricted' valuation)	146,836,274	122,157,806
Properties purchased during the year	16,416,780	20,228,733
Properties disposed during the year	(5,039,830)	(1,236,583)
Revaluation increment/(decrement)	9,205,080	5,686,318
Closing balance at 30 June (at 'restricted' values)	167,418,304	146,836,274

These investments do not form part of a Common Fund. (Refer Note 1.) Refer to Note 16 for the nature and extent of risks arising from financial assets.

**Notes to the financial statements
for the year ended 30 June 2010**

	Common Fund No. 1		Common Fund No. 2		Common Fund No. 3		Common Funds Guarantee and Reserve Account		Assets Held on Separate Account	
	30 June 2010	30 June 2009	30 June 2010	30 June 2009	30 June 2010	30 June 2009	30 June 2010	30 June 2009	30 June 2010	30 June 2009
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
13. PLANT AND EQUIPMENT										
Computer equipment	-	-	-	-	-	-	351,805	281,560	-	-
Less: accumulated depreciation	-	-	-	-	-	-	(192,403)	(258,328)	-	-
Computer equipment written down value	-	-	-	-	-	-	159,402	23,232	-	-
Office equipment	-	-	-	-	-	-	1,114,623	91,623	-	-
Less: accumulated depreciation	-	-	-	-	-	-	(86,078)	(90,206)	-	-
Office equipment written down value	-	-	-	-	-	-	1,028,545	1,417	-	-
Leasehold improvements	-	-	-	-	-	-	556,255	-	-	-
Less: accumulated depreciation	-	-	-	-	-	-	(40,560)	-	-	-
Leasehold improvements written down value	-	-	-	-	-	-	515,695	-	-	-
Total plant and equipment written down value	-	-	-	-	-	-	1,703,642	24,649	-	-

**Reconciliations of the carrying amounts for each class
of plant and equipment:**

	Computer equipment \$	Office equipment \$	Leasehold improvements \$	Total \$
Gross carrying amount:				
Balance as at 1 July 2008	285,175	91,623	-	376,798
Additions	11,898	-	-	11,898
Disposals	(15,513)	-	-	(15,513)
Balance as at 1 July 2009	281,560	91,623	-	373,183
Additions	198,044	1,109,176	556,255	1,863,475
Disposals	(127,799)	(86,176)	-	(213,975)
Balance as at 30 June 2010	351,805	1,114,623	556,255	2,022,683
Accumulated Depreciation:				
Balance as at 1 July 2008	(244,602)	(89,691)	-	(334,293)
Disposals	15,513	-	-	15,513
Depreciation	(29,239)	(515)	-	(29,754)
Balance as at 1 July 2009	(258,328)	(90,206)	-	(348,534)
Disposals	127,799	86,176	-	213,975
Depreciation	(61,874)	(82,048)	(40,560)	(184,482)
Balance as at 30 June 2010	(192,403)	(86,078)	(40,560)	(319,041)
Net book value				
As at 30 June 2009	23,232	1,417	-	24,649
As at 30 June 2010	159,402	1,028,545	515,695	1,703,642

**Notes to the financial statements
for the year ended 30 June 2010**

	Common Fund No. 1		Common Fund No. 2		Common Fund No. 3		Common Funds Guarante and Reserve Account		Assets Held on Separate Account	
	30 June 2010	30 June 2009	30 June 2010	30 June 2009	30 June 2010	30 June 2009	30 June 2010	30 June 2009	30 June 2010	30 June 2009
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
14. TRADE AND OTHER PAYABLES										
Audit fees	-	-	-	-	-	-	38,280	18,040	-	-
Computer related	-	-	-	-	-	-	311	5,013	-	-
Consultancy	-	-	-	-	-	-	34,823	27,415	-	-
Contractors	-	-	-	-	-	-	131,224	149,028	-	-
Other	-	-	-	-	-	-	13,038	17,000	-	-
Annuity interest	-	-	-	-	-	-	-	-	48,523	46,874
Total trade & other payables	-	-	-	-	-	-	217,676	216,496	48,523	46,874

Refer to Note 16 for the maturity analysis and the nature and extent of risks arising from payables.

15. AMOUNTS OWING TO BENEFICIARIES

Current (payable < 1 year)	34,592,554	16,566,947	17,417,270	18,332,266	2,410,764	1,486,754	-	-	-	-
Non current (payable > 1 year)	-	-	570,679,156	559,552,815	335,723,357	267,762,628	-	-	171,373,646	151,616,720
Total amounts owing to beneficiaries	34,592,554	16,566,947	588,096,426	577,885,081	338,134,121	269,249,382	-	-	171,373,646	151,616,720

Refer to Note 16 for the maturity analysis and the nature and extent of risks arising from financial liabilities.

**Notes to and forming part of the accounts
for the year ended 30 June 2010**

16. FINANCIAL INSTRUMENTS

(a) Financial risk management objectives and policies

The principal financial instruments of the Senior Master comprise:

- . cash assets;
- . state government securities;
- . prime corporate and bank securities;
- . term deposits;
- . investments in equities;
- . indexed annuities;
- . receivables; and
- . payables.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement, and the basis on which incomes and expenses are recognised, with respect to each class of financial asset, financial liability and equity instrument and disclosed in Note 2 to the financial statements

The main purpose in holding financial instruments is to manage prudently the financial risks within the Senior Master's Asset Management Policy.

Notes to and forming part of the accounts
for the year ended 30 June 2010

16. FINANCIAL INSTRUMENTS (continued)

(b) Table 16.1: Categorisation of financial investments

	Note	Category	Carrying amount	
			2010	2009
			\$	\$
<u>Common Fund No. 1</u>				
<i>Financial assets:</i>				
Cash and cash equivalents	2(g)	Not applicable	1,136,637	3,548,005
Investments on common account	10	Available-for-sale financial assets at fair value	33,462,325	13,026,582
Interest receivable	7	Receivables (at cost)	131,516	34,471
<i>Financial liabilities:</i>				
Amounts owing to beneficiaries	15	Financial liabilities measured at cost	34,592,554	16,566,947
<u>Common Fund No. 2</u>				
<i>Financial assets:</i>				
Cash and cash equivalents	2(g)	Not applicable	16,077,224	15,613,182
Investments on common account	10	Available-for-sale financial assets at fair value	585,887,856	569,797,075
Interest receivable	7	Receivables (at cost)	7,914,247	6,690,865
<i>Financial liabilities:</i>				
Amounts owing to beneficiaries	15	Financial liabilities measured at cost	588,096,426	577,885,081
<u>Common Fund No. 3</u>				
<i>Financial assets:</i>				
Cash and cash equivalents	2(g)	Not applicable	636,726	948,133
Investments on common account	10	Available-for-sale financial assets at fair value	176,479	169,769
Shares	11	Available-for-sale financial assets at fair value	334,879,256	266,485,169
Trade & other receivables	2(l),9	Receivables (at cost)	2,446,537	1,652,774
Interest receivable	7	Receivable (at cost)	761	449
<i>Financial liabilities:</i>				
Amounts owing to beneficiaries	15	Financial liabilities measured at cost	338,134,121	269,249,382
<u>Common Funds Guarantee & Reserve Account</u>				
<i>Financial assets:</i>				
Cash and cash equivalents	2(g)	Not applicable	1,656,639	934,433
Investments on common account	10	Available-for-sale financial assets at fair value	41,416,832	42,580,954
Interest receivable	7	Receivables (at cost)	342,125	355,963
Trade and other payables	2(k),14	Financial liabilities measured at cost	217,676	216,496
<u>Assets Held on Separate Account</u>				
<i>Financial assets:</i>				
Annuities held on separate account	12	Financial assets (at amortised cost)	3,955,342	4,780,446
Annuity income receivable	7	Receivables (at cost)	48,523	46,874
<i>Financial liabilities:</i>				
Annuities owing to beneficiaries	12	Financial liabilities measured at cost	3,955,342	4,780,446
Annuity income payable	2(k),14	Financial liabilities measured at cost	48,523	46,874

Note: The amount of receivables disclosed here in the Common Fund Guarantee Reserve Account excludes statutory receivables (i.e. GST input tax credit recoverable).

**Notes to and forming part of the accounts
for the year ended 30 June 2010**

16. FINANCIAL INSTRUMENTS (continued)

(b) Credit risk

Credit risk arises from the financial assets of the Senior Master, which comprise cash and cash equivalents, trade and other receivables, available-for-sale financial assets, shares and indexed annuities.

Credit risk associated with the cash at bank has been assessed as minimal, because all the amounts are held by Westpac Banking Corporation which is considered as one of the major banking corporations in Australia.

Credit risk associated with the Senior Master's available-for-sale financial assets, shares and indexed annuities is minimal because it is the Senior Master's policy to deal only with entities with high credit ratings. The shares held are limited to leading Australian public companies. In addition, the Senior Master does not engage in hedging.

Credit risk associated with receivables has been assessed as minimal, because all of the balance is related to accrued interest from creditworthy investments and ex-dividends from shares in leading Australian public companies.

The Senior Master does not hold any collateral as security nor credit enhancements relating to any of the financial assets.

As at reporting date there is no event to indicate that any of the financial assets were impaired. Consideration of provision of impairment for financial assets is calculated based on past experience, and current and expected changes in client credit ratings.

There are no financial assets that have had their terms renegotiated so as to prevent them from becoming past due or impaired. There are no financial assets that are past due or impaired.

The following table 16.2 discloses the interest rate exposure and the maturity ageing analysis of financial assets. Table 16.3 discloses the interest rate exposure and maturity ageing analysis of financial liabilities.

The carrying amount of financial assets recorded in the financial report, net of any allowances for losses, represents the Senior Master's maximum exposure to credit risk.

(c) Liquidity risk

Liquidity risk arises when the Senior Master is unable to liquidate assets in sufficient time to meet obligations as they fall due.

The Senior Master's objective in managing the liquidity risk is to invest with care, skill, prudence and diligence, with the view to ensuring that funds will have sufficient liquidity to meet expected cash flow requirements, while ensuring maximum funds are available for investment.

To achieve this objective, the Senior Master's policy is that the future cash flows are monitored continuously. Due to the unpredictable nature of the cash flows, as payments required to be made into and out of Court cannot be known in advance, high quality investments are held to enable dealings in highly liquid markets.

Apart from dispute and security amounts held in Common Fund No.1, the overwhelming amount of funds held on behalf of the beneficiaries are administered by the Senior Master for their long term interests and can only be paid out of court pursuant to Court order.

The Senior Master's exposure to liquidity is deemed insignificant based on prior period's data and the current policy of continuous monitoring. At present, the Senior Master has significant holdings in short term investments that attract interest rates superior to 30 day bank bill rates. The levels of these short term investments deposits held are in accordance with the Senior Master's investment policy and further minimise liquidity risk exposure.

Notes to the financial statements
for the year ended 30 June 2010

16. FINANCIAL INSTRUMENTS (continued)

Table 16.2: Interest rate exposure and ageing analysis of financial assets

2010	Weighted average effective interest rate %	Carrying amount \$	INTEREST RATE EXPOSURE			Not past due and not impaired \$	MATURITY AGEING ANALYSIS						Past due and not impaired \$	Impaired Financial Assets \$
			Fixed	Variable	Non-		Less than 1 year \$	1 - 2 years \$	2 - 3 years \$	3 - 4 years \$	4 - 5 years \$	5 + years \$		
			interest	interest	interest									
			rate	rate	bearing									
Common Fund No. 1														
Financial assets:														
Cash and cash equivalents	3.46	1,136,637	-	1,136,637	-	1,136,637	1,136,637	-	-	-	-	-	-	-
Investments on common account	4.27	33,462,325	33,462,325	-	-	33,462,325	33,462,325	-	-	-	-	-	-	-
Interest receivable		131,516	-	-	131,516	131,516	131,516	-	-	-	-	-	-	-
		34,730,478	33,462,325	1,136,637	131,516	34,730,478	34,730,478	-	-	-	-	-	-	-
Common Fund No. 2														
Financial assets:														
Cash and cash equivalents	3.55	16,077,224	-	16,077,224	-	16,077,224	16,077,224	-	-	-	-	-	-	-
Investments on common account	5.71	585,887,856	585,887,856	-	-	585,887,856	138,671,004	93,297,363	215,573,790	38,862,899	29,055,900	70,426,900	-	-
Interest receivable		7,914,247	-	-	7,914,247	7,914,247	7,914,247	-	-	-	-	-	-	-
		609,879,327	585,887,856	16,077,224	7,914,247	609,879,327	162,662,475	93,297,363	215,573,790	38,862,899	29,055,900	70,426,900	-	-
Common Fund No. 3														
Financial assets:														
Cash and cash equivalents	3.53	636,726	-	636,726	-	636,726	636,726	-	-	-	-	-	-	-
Investments on common account	4.14	176,479	176,479	-	-	176,479	176,479	-	-	-	-	-	-	-
Shares		334,879,256	-	-	334,879,256	334,879,256	-	-	-	-	-	334,879,256	-	-
Interest receivable		761	-	-	761	761	761	-	-	-	-	-	-	-
Trade and other receivables		2,446,537	-	-	2,446,537	2,446,537	2,446,537	-	-	-	-	-	-	-
		338,139,759	176,479	636,726	337,326,554	338,139,759	3,260,503	-	-	-	-	334,879,256	-	-
Common Funds Guarantee & Reserve Account														
Financial assets:														
Cash and cash equivalents	3.68	1,656,639	-	1,656,639	-	1,656,639	1,656,639	-	-	-	-	-	-	-
Investments on common account	5.25	41,416,832	41,416,832	-	-	41,416,832	17,974,362	8,064,580	5,318,290	7,048,880	986,780	2,023,940	-	-
Interest receivable		342,125	-	-	342,125	342,125	342,125	-	-	-	-	-	-	-
Trade and other receivables		72,527	-	-	72,527	72,527	72,527	-	-	-	-	-	-	-
		43,488,123	41,416,832	1,656,639	414,652	43,488,123	20,045,653	8,064,580	5,318,290	7,048,880	986,780	2,023,940	-	-
Assets Held on Separate Account														
Financial assets:														
Annuities held on separate account		3,955,342	-	3,955,342	-	3,955,342	-	549,425	-	-	-	3,405,917	-	-
Annuity income receivable		48,523	-	-	48,523	48,523	48,523	-	-	-	-	-	-	-
		4,003,865	-	3,955,342	48,523	4,003,865	48,523	549,425	-	-	-	3,405,917	-	-

Notes to the financial statements for the year ended 30 June 2010

16. FINANCIAL INSTRUMENTS (continued)

Table 16.2: Interest rate exposure and ageing analysis of financial assets (continued)

2009	Weighted average effective interest rate %	Carrying amount \$	INTEREST RATE EXPOSURE			Not past due and not impaired \$	MATURITY AGEING ANALYSIS						Past due and not impaired \$	Impaired Financial Impaired \$
			Fixed interest rate \$	Variable interest rate \$	Non-interest bearing \$		Less than 1 year \$	1 - 2 years \$	2 - 3 years \$	3 - 4 years \$	4 - 5 years \$	5 + years \$		
Common Fund No. 1														
<i>Financial assets:</i>														
Cash and cash equivalents	4.44	3,548,005	-	3,548,005	-	3,548,005	3,548,005	-	-	-	-	-	-	-
Investments on common account	4.89	13,026,582	13,026,582	-	-	13,026,582	13,026,582	-	-	-	-	-	-	-
Interest receivable		34,471	-	-	34,471	34,471	34,471	-	-	-	-	-	-	-
		16,609,058	13,026,582	3,548,005	34,471	16,609,058	16,609,058	-	-	-	-	-	-	-
Common Fund No. 2														
<i>Financial assets:</i>														
Cash and cash equivalents	4.08	15,613,182	-	15,613,182	-	15,613,182	15,613,182	-	-	-	-	-	-	-
Investments on common account	5.57	569,797,075	569,797,075	-	-	569,797,075	121,706,448	75,019,100	116,131,580	103,182,146	81,616,050	72,141,751	-	-
Interest receivable		6,690,865	-	-	6,690,865	6,690,865	6,690,865	-	-	-	-	-	-	-
		592,101,122	569,797,075	15,613,182	6,690,865	592,101,122	144,010,495	75,019,100	116,131,580	103,182,146	81,616,050	72,141,751	-	-
Common Fund No. 3														
<i>Financial assets:</i>														
Cash and cash equivalents	4.73	948,133	-	948,133	-	948,133	948,133	-	-	-	-	-	-	-
Investments on common account	4.64	169,769	169,769	-	-	169,769	169,769	-	-	-	-	-	-	-
Shares		266,485,169	-	-	266,485,169	266,485,169	-	-	-	-	-	266,485,169	-	-
Interest receivable		449	-	-	449	449	449	-	-	-	-	-	-	-
Trade and other receivables		1,652,774	-	-	1,652,774	1,652,774	1,652,774	-	-	-	-	-	-	-
		269,256,294	169,769	948,133	268,138,392	269,256,294	2,771,125	-	-	-	-	266,485,169	-	-
Common Funds Guarantee & Reserve Account														
<i>Financial assets:</i>														
Cash and cash equivalents	3.97	934,433	-	934,433	-	934,433	934,433	-	-	-	-	-	-	-
Investments on common account	5.36	42,580,954	42,580,954	-	-	42,580,954	17,954,222	11,250,710	7,374,280	2,992,950	9,467,700	-	-	-
Interest receivable		355,963	-	-	355,963	355,963	355,963	-	-	-	-	-	-	-
Trade and other receivables		93,459	-	-	93,459	93,459	93,459	-	-	-	-	-	-	-
		43,964,809	42,580,954	934,433	449,422	43,964,809	19,338,077	11,250,710	7,374,280	2,992,950	9,467,700	-	-	-
Assets Held on Separate Account														
<i>Financial assets:</i>														
Annuities held on separate account		4,780,446	-	4,780,446	-	4,780,446	-	-	928,643	-	-	3,851,803	-	-
Annuity income receivable		46,874	-	-	46,874	46,874	46,874	-	-	-	-	-	-	-
		4,827,320	-	4,780,446	46,874	4,827,320	46,874	-	928,643	-	-	3,851,803	-	-

Notes to the financial statements
for the year ended 30 June 2010

16. FINANCIAL INSTRUMENTS (continued)

Table 16.3: Interest rate exposure and maturity analysis of financial liabilities

<u>2010</u>	Weighted average effective interest rate %	Carrying amount \$	INTEREST RATE EXPOSURE			Nominal amount \$	MATURITY AGEING ANALYSIS		
			Fixed interest rate	Variable interest rate	Non- interest bearing		Less than 1 month	Less than 1 month to 1 year	1 year and beyond
			\$	\$	\$	\$	\$	\$	\$
<u>Common Fund No. 1</u>									
<i>Financial liabilities</i>									
Amounts owing to beneficiaries (Note 15)	-	34,592,554	-	-	34,592,554	34,592,554	-	34,592,554	-
		<u>34,592,554</u>	<u>-</u>	<u>-</u>	<u>34,592,554</u>	<u>34,592,554</u>	<u>-</u>	<u>34,592,554</u>	<u>-</u>
<u>Common Fund No. 2</u>									
<i>Financial liabilities</i>									
Amounts owing to beneficiaries (Note 15)	-	588,096,426	-	-	588,096,426	588,096,426	-	17,417,270	570,679,156
		<u>588,096,426</u>	<u>-</u>	<u>-</u>	<u>588,096,426</u>	<u>588,096,426</u>	<u>-</u>	<u>17,417,270</u>	<u>570,679,156</u>
<u>Common Fund No. 3</u>									
<i>Financial liabilities</i>									
Amounts owing to beneficiaries (Note 15)	-	338,134,121	-	-	338,134,121	338,134,121	-	2,410,764	335,723,357
		<u>338,134,121</u>	<u>-</u>	<u>-</u>	<u>338,134,121</u>	<u>338,134,121</u>	<u>-</u>	<u>2,410,764</u>	<u>335,723,357</u>
<u>Common Funds Guarantee & Reserve Account</u>									
<i>Financial liabilities & other payables</i>									
Trade and other payables (Note 14)	-	217,676	-	-	217,676	217,676	217,676	-	-
		<u>217,676</u>	<u>-</u>	<u>-</u>	<u>217,676</u>	<u>217,676</u>	<u>217,676</u>	<u>-</u>	<u>-</u>
<u>Assets Held on Separate Account</u>									
<i>Financial liabilities</i>									
Amounts owing to beneficiaries	-	3,955,342	-	-	3,955,342	3,955,342	-	-	3,955,342
Annuity income payable (Note 7)	-	48,523	-	-	48,523	48,523	-	48,523	-
		<u>4,003,865</u>	<u>-</u>	<u>-</u>	<u>4,003,865</u>	<u>4,003,865</u>	<u>-</u>	<u>48,523</u>	<u>3,955,342</u>

Notes to the financial statements for the year ended 30 June 2010

16. FINANCIAL INSTRUMENTS (continued)

Table 16.3: Interest rate exposure and maturity analysis of financial liabilities (continued)

2009	Weighted average effective interest rate %	Carrying amount	INTEREST RATE EXPOSURE			Nominal amount	MATURITY AGEING ANALYSIS		
			Fixed interest rate	Variable interest rate	Non-interest bearing		Less than 1 month	Less than 1 month to 1 year	1 year and beyond
		\$	\$	\$	\$	\$	\$	\$	
Common Fund No. 1									
<i>Financial liabilities</i>									
Amounts owing to beneficiaries (Note 15)	-	16,566,947	-	-	16,566,947	16,566,947	-	16,566,947	-
		<u>16,566,947</u>	<u>-</u>	<u>-</u>	<u>16,566,947</u>	<u>16,566,947</u>	<u>-</u>	<u>16,566,947</u>	<u>-</u>
Common Fund No. 2									
<i>Financial liabilities</i>									
Amounts owing to beneficiaries (Note 15)	-	577,885,081	-	-	577,885,081	577,885,081	-	18,332,266	559,552,815
		<u>577,885,081</u>	<u>-</u>	<u>-</u>	<u>577,885,081</u>	<u>577,885,081</u>	<u>-</u>	<u>18,332,266</u>	<u>559,552,815</u>
Common Fund No. 3									
<i>Financial liabilities</i>									
Amounts owing to beneficiaries (Note 15)	-	269,249,382	-	-	269,249,382	269,249,382	-	338,134,121	269,249,382
		<u>269,249,382</u>	<u>-</u>	<u>-</u>	<u>269,249,382</u>	<u>269,249,382</u>	<u>-</u>	<u>338,134,121</u>	<u>269,249,382</u>
Common Funds Guarantee & Reserve Account									
<i>Financial liabilities & other payables</i>									
Trade and other payables (Note 14)	-	216,496	-	-	216,496	216,496	216,496	-	-
		<u>216,496</u>	<u>-</u>	<u>-</u>	<u>216,496</u>	<u>216,496</u>	<u>216,496</u>	<u>-</u>	<u>-</u>
Assets Held on Separate Account									
<i>Financial liabilities</i>									
Amounts owing to beneficiaries	-	4,780,446	-	-	4,780,446	4,780,446	-	-	4,780,446
Annuity income payable (Note 7)	-	46,874	-	-	46,874	46,874	-	46,874	-
		<u>4,827,320</u>	<u>-</u>	<u>-</u>	<u>4,827,320</u>	<u>4,827,320</u>	<u>-</u>	<u>46,874</u>	<u>4,780,446</u>

(d) Market risk

The Senior Master's exposure to market risk is through interest rate risk and other price risk associated with shares. There is no exposure to foreign currency. Objectives, policies and processes used to manage each of the risks, are disclosed as follows:

(i) Interest rate risk (Table 16.4)

Exposure to interest rate risk arises through the Senior Master's available-for sale financial investments in Common Fund No. 2 and Common Fund Guarantee & Reserve Account. Minimisation of risk is achieved by maintaining a portfolio with varying maturity profiles. The Senior Master monitors the possibility that the fair value of these financial instruments could fluctuate as a result of changes in market interest rates. The Senior Master engages external professional advisers to assist with the investment decisions, as well as monitoring the true effect of the implementation of those decisions.

The objective of managing interest rate risk is to minimise and control the risks of losses due to interest rate changes and to take advantage of potential profits. The Senior Master's sources of investment advice also include an Investment Review Panel that provides advice and oversight of appropriate investment strategies. The panel includes three independent, highly respected experts on fixed interest and equity investments, each having over 20 years' experience in the funds management industry.

(ii) Other price risk (Table 16.4)

The Senior Master is exposed to equity price risk arising from equity investments in leading Australian public companies. Equity investments are held for strategic rather than trading purposes. The Senior Master limits price risk through diversification of the equity investment portfolio. The portfolio is maintained in accordance with the model set by the Senior Master based on the recommendation of the Investment Review Panel.

Notes to the financial statements for the year ended 30 June 2010

16. FINANCIAL INSTRUMENTS (continued)

(iii) Sensitivity Analysis

Taking into account past performance and future expectations, economic forecasts, and knowledge and experience of the financial markets, it is believed the following movements are 'reasonably possible' over the next 12 months.

- (a) A parallel shift of +0.5 per cent and -0.5 per cent in market interest rates (AUD); and
(b) A parallel shift of +10 per cent and -10 per cent in the equity investments in leading Australian public companies.

Table 16.4 below discloses the impact on net result and equity for each category of financial instrument held by the Senior Master at year end as presented to key management personnel, if the above movements were to occur.

Table 16.4: Market risk exposure

2010

	Carrying amount	INTEREST RATE RISK *				SHARE PRICE RISK			
		-0.5%		0.5%		-10%		10%	
		Net result	Equity	Net result	Equity	Net result	Operating statement	Net result	Operating statement
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Common Fund No. 2									
<i>Financial assets</i>									
Investments on common account	585,887,856	7,227,452	7,227,452	(7,125,737)	(7,125,737)	-	-	-	-
Common Fund No. 3									
<i>Financial assets</i>									
Shares	334,879,256	-	-	-	-	(33,487,926)	(33,487,926)	33,487,926	33,487,926
Common Funds Guarantee & Reserve Account									
<i>Financial assets</i>									
Investments on common account	41,416,832	329,033	329,033	(329,427)	(329,427)	-	-	-	-

2009

	Carrying amount	INTEREST RATE RISK *				SHARE PRICE RISK			
		-0.5%		0.5%		-10%		10%	
		Net result	Equity	Net result	Equity	Net result	Operating statement	Net result	Operating statement
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Common Fund No. 2									
<i>Financial assets</i>									
Investments on common account	569,797,075	8,477,490	8,477,490	(8,266,160)	(8,266,160)	-	-	-	-
Common Fund No. 3									
<i>Financial assets</i>									
Shares	266,485,169	-	-	-	-	(26,648,517)	(26,648,517)	26,483,681	26,483,681
Common Funds Guarantee & Reserve Account									
<i>Financial Assets</i>									
Investments on common account	42,580,954	544,550	544,550	(532,930)	(532,930)	-	-	-	-

*(Sourced from the external professional advisers)

(f) Fair Value

The Senior Master believes that there are no differences between the fair values and the carrying amounts reported in the financial report for financial assets and financial liabilities as at 30 June 2010 and 30 June 2009, respectively.

Notes to the financial statements for the year ended 30 June 2010

Common Fund No. 1		Common Fund No. 2		Common Fund No. 3		Common Funds Guarantee and Reserve Account		Assets Held on Separate Account	
30 June 2010	30 June 2009	30 June 2010	30 June 2009	30 June 2010	30 June 2009	30 June 2010	30 June 2009	30 June 2010	30 June 2009
\$	\$	\$	\$	\$	\$	\$	\$	\$	\$

17. STATUTORY RESERVE

The Common Funds Guarantee and Reserve Account maintains a Statutory Reserve at 1% of the Common Funds No.1 & No. 2 pursuant to S113(20) of the Supreme Court Act.

Opening balance at 1 July	-	-	-	-	-	6,087,102	5,661,030	-	-
Add: transferred from general reserve (Note 18)	-	-	-	-	-	358,996	426,072	-	-
Closing Balance at 30 June	-	-	-	-	-	6,446,098	6,087,102	-	-

18. GENERAL RESERVE

Equity in the assets of the Common Funds Guarantee and Reserve Account is shown as a General Reserve against potential capital losses on realisation of Common Fund investments and to supplement interest distributions to Common Fund beneficiaries pursuant to S113(20) of the Supreme Court Act.

Opening balance at 1 July	-	-	-	-	-	37,051,516	29,510,493	-	-
Less: transferred (to) statutory reserve (Note 17)	-	-	-	-	-	(358,996)	(426,072)	-	-
	-	-	-	-	-	36,692,520	29,084,421	-	-
Add: net result	-	-	-	-	-	1,272,592	7,967,095	-	-
Closing balance at 30 June	-	-	-	-	-	37,965,112	37,051,516	-	-

19. INVESTMENTS AVAILABLE FOR SALE REVALUATION RESERVE

Opening balance at 1 July	-	-	6,827,170	(17,716,310)	-	-	623,340	(492,420)	-	-
Unrealised gain/(loss) of financial assets	-	-	7,057,897	31,176,007	-	-	166,472	1,843,251	-	-
Cumulative (gain)/loss transferred to the net result on sale of financial assets:	-	-	(967,241)	(6,632,527)	-	-	(99,310)	(727,491)	-	-
Cumulative (gain)/loss transferred to the net result on impairment of financial assets:	-	-	-	-	-	-	-	-	-	-
Closing balance at 30 June	-	-	12,917,826	6,827,170	-	-	690,502	623,340	-	-

20 THE APPLICATION OF BENEFICIARIES' FUNDS IN THE PURCHASE OF REAL ESTATE

As part of the administration of funds in Court for persons under disability, a request may be made to the Court for the release of funds to contribute either fully or partially towards the purchase of real estate. Upon being satisfied that the purchase is in the best interests of the person for whom the funds are held, the Court may order that a property be purchased for a particular beneficiary. Beneficiaries' properties are predominantly residential land and dwellings, which are held on trust for beneficiaries.

The properties are each held in the name of trustees (usually two), who are the registered legal owners. While the owners in law, they hold the property on trust for the beneficiary. The trust is created or evidenced by a declaration of trust approved by the Court. The trustees may act only in accordance with the Senior Master's instructions. External solicitors are requested to act as trustees, and usually the trustees' firm performs the legal work involved in and following purchases. The Certificate of Title is retained by the Senior Master's Office for safe keeping.

The properties are purchased, pursuant to the *Supreme Court Act* 1986 and the *Supreme Court (General Civil Procedure) Rules* 2005, as residences for individual beneficiaries and their families.

Property purchased from funds in Court must be insured, and kept insured at a value representing full market cost of replacement. To that end, house insurance valuations for each house are carried out by qualified valuers at least once every three year period.

The qualified valuers concurrently perform a 'restricted' valuation of the entire property (i.e. land and buildings), which is a valuation made on location without access to the house itself. The value of the property is not determined in accordance with AASB 116 *Property, Plant and Equipment*. The Senior Master believes the use of 'restricted' valuations for financial reporting purposes is sufficient for the preparation of these special purpose financial statements. 'Restricted' valuations are made, instead of full valuations, to avoid unnecessary cost to beneficiaries and to allow them 'quiet enjoyment' of their property. These 'restricted' valuations take into account local government valuations and recent sales data. It is expected that there would be no material differences between the 'restricted' valuations and full valuations if they were to be carried out. However, full sworn valuations for all properties are obtained prior to their purchase or sale.

As at 30 June 2010 there were 518 trust properties of which the beneficiaries' component was valued at \$167,418,304 (2009: 493 properties valued at \$146,836,274).

25 GLOSSARY OF TERMS

Comprehensive result

Total comprehensive result is the net result from operations for the period including all gains and losses recognised direct in equity.

Commitments

Commitments include those operating, capital and other outsourcing commitments arising from non-cancellable contractual or statutory sources.

Financial asset

A financial asset is any asset that is:

- (a) cash;
- (b) an equity instrument of another equity;
- (c) a contractual right:
 - to receive cash or another financial asset from another entity; or
 - to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or
- (d) a contract that will or may be settled in the entity's own equity instruments and is:
 - a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or
 - a derivative that will nor may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

Financial statements

Depending on the context of the sentence where the term 'financial statements' is used, it may include only the main financial statements (i.e. comprehensive operating statement, balance sheet, statement of changes in equity, and cash flow statements); or it may also be used to replace the old term 'financial report' under the revised AASB 101 (Sept 2007), which means it may include the main financial statements and the notes.

Net result

Net result is a measure of financial performance of the operations for the period. It is the net result of items of revenue, gains and expenses (including losses) recognised for the period, excluding those that are classified as 'other changes in equity'.

Non-financial assets

Non-financial assets are all assets that are not 'financial assets'.

Other economic flows

Other economic flows are changes in the volume or value of an asset or liability that do not result from transactions. It includes gains and losses from disposals, revaluations and impairments of non-current physical assets; fair value changes of financial instruments. In simple terms other economic flows are changes arising from market remeasurements.

Payables

Includes short and long term trade debt and accounts payable and interest payable.

Receivables

Includes short and long term trade credit and accounts receivable, taxes and interest receivable.

Supplies and services

Supplies and services generally represent day-to-day running costs in the normal operations of the entity.

Transactions

Transactions are those economic flows that are considered to arise as a result of policy decisions, usually an interaction between two entities by mutual agreement. They also include flows within an entity such as depreciation where the owner is simultaneously acting as the owner of the depreciating asset and as the consumer of the service provided by the asset. Taxation is regarded as mutually agreed interactions between the government and taxpayers. Transactions can be in kind (e.g. assets provided/given free of charge or for nominal consideration) or where the final consideration is cash. In simple terms, transactions arise from the *Supreme Court Act 1986*.

Joint Declaration of the Senior Master, Office Manager and Accounting Manager

We certify that the attached special purpose financial statements for Common Fund No.1, Common Fund No. 2, Common Fund No.3, Common Funds Guarantee and Reserve Account and the Assets Held on Separate Account have been prepared in accordance with the *Supreme Court Act 1986* and applicable Australian Accounting Standards, including interpretations, and other mandatory professional reporting requirements with the exception of AASB 116 *Property Plant and Equipment* in relation to the measurement of beneficiaries' residential properties.

We further state that, in our opinion, the information set out in the comprehensive operating statement, balance sheet, statement of changes in equity, cash flow statement and notes forming part of the financial statements for the Common Fund No.1, Common Fund No. 2, Common Fund No.3, Common Funds Guarantee and Reserve Account and the Assets Held on Separate Account presents fairly the financial transactions during the year ended 30 June 2010 and the financial position at 30 June 2010. We are not aware of any circumstance which would render any particulars included in the financial report to be misleading or inaccurate.

We authorise the attached financial report for issue on 30 July 2010.



K J MAHONY
Senior Master

Melbourne
30 July 2010



MICHAEL KARABOGIAS
Acting Manager
Senior Master's (Funds in Court) Office

Melbourne
30 July 2010



TIM COULSTON
Accounting Manager
Senior Master's (Funds in Court) Office

Melbourne
30 July 2010