

# Australian Cotton Fund

## Financial Statements

For the Year Ended 30 June 2012

# **RFM Australian Cotton Fund**

**For the Year Ended 30 June 2012**

## **CORPORATE DIRECTORY**

Directors

David Bryant  
Michael Carroll  
Guy Paynter

Company Secretary

Stuart Waight

Auditors

Boyce Assurance Services Pty Limited  
36 Bombala Street  
COOMA NSW 2630

Registered Office

Level 2, 2 King Street  
DEAKIN ACT 2600

Responsible Entity

Rural Funds Management Limited  
ABN 65 077 492 838  
Level 2, 2 King Street  
DEAKIN ACT 2600  
Phone: (02) 6203 9700  
Fax: (02) 6281 5077

Custodian

Australian Executor Trustees Limited  
ABN 84 007 869 794  
Level 22  
207 Kent Street  
SYDNEY NSW 2000

## CONTENTS

	<u>Page</u>
<b>Financial Statements</b>	
Directors of the Responsible Entity's Report	1
Independent Audit Report	5
Directors of the Responsible Entity's Declaration	7
Statement of Comprehensive Income	8
Statement of Financial Position	9
Statement of Changes in Net Assets Attributable to Unitholders	10
Statement of Cash Flows	11
Notes to the Financial Statements	12
Auditor's Independence Declaration	24

# **RFM Australian Cotton Fund**

ARSN 099 573 690

## **Directors of the Responsible Entity's Report**

### **For the Year Ended 30 June 2012**

The Directors of Rural Funds Management Limited ('RFM'), Responsible Entity of RFM Australian Cotton Fund ('ACF' or the 'Trust'), present their report on the Trust for the financial year ended 30 June 2012.

#### **Directors**

The names of the directors in office at any time during, or since the end of the year are:

#### **Names**

David Bryant

Michael Carroll

Guy Paynter

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

#### **Principal Activities**

The principal activity of ACF during the financial year was the continued investment of 14,421,824 shares in Lachlan Farming Limited ABN 75 082 230 028 ('LFL'). LFL's activities throughout the year were the largely passive activities of collecting interest payments on bank deposits and collecting interest payments on vendor finance.

#### **Trust Information**

ACF is a registered Australian managed investment Trust, and was constituted in 2002. RFM, the Responsible Entity of the Scheme is incorporated and domiciled in Australia. The registered office of the Responsible Entity is Level 2, 2 King Street, Deakin, ACT 2600.

#### **Review of Results and Operations**

##### **Operating Results**

The profit attributable to unitholders of ACF amounted to \$42,743 (2011: profit \$782,693).

The ACF's sole investment is its 45.68% share of LFL's share capital.

The major transactions during the year were the distributions received from LFL of \$2,055,109 on 4 July 2011 and \$685,037 on 10 January 2012.

##### **Distributions**

On 6 July 2011 the Directors paid a distribution amounting to \$2,058,717 or \$0.2313 per unit. This distribution did not involve a unit buy back or extinguishments of units, therefore it did not alter the number of units on issue.

Further distributions will be made as further distributions are received from LFL. ACF will then be wound up.

# RFM Australian Cotton Fund

ARSN 099 573 690

## Directors of the Responsible Entity's Report

For the Year Ended 30 June 2012

### Review of Results and Operations (continued)

#### Performance

	2012	2011	2010	2009	2008
Distribution Return	47.01%	60.83%	0.00%	0.00%	0.00%
Growth Return	-51.54%	-63.78%	4.62%	9.27%	23.02%
Total Return	-4.53%	-2.95%	4.62%	9.27%	23.02%
Grossed Up Distribution	49.38%	60.83%	0.00%	0.00%	0.00%
Grossed Up Total	-2.16%	-2.95%	4.62%	9.27%	23.02%

The growth return is calculated as the return derived by a unitholder due to changes in capital value over the period. The distribution return is the return derived by a unitholder due to distributions paid by the Trust. The total return is calculated as the investment performance of the Trust assuming the reinvestment of all distributions back into the Trust. Grossed Up Returns include any franking credits distributed to unitholders.

#### Indirect Cost Ratio

The Indirect Cost Ratio (ICR) is the ratio of the Trust's management costs over the Trust's average net assets attributable for the year, expressed as a percentage.

Management costs include management fees and reimbursement of other expenses in relation to the Trust, but do not include transactional and operational costs such as brokerage. Management costs are not paid directly by the unitholders of the Trust.

The ICR for the Trust for the year ended 30 June 2012 is 7.88% (2011: 4.85%). The increase in the ICR results from the reduction in net assets by more than 50% during the year.

#### Fees paid to and interest held by the responsible entity and associates

The following fees were paid to RFM and its associates out of Trust property during the financial year:

- Management fee for the financial year paid to RFM \$44,825 (2011: \$96,887).
- Expenses incurred by RFM and reimbursed by the Trust in accordance with the Trust's constitution \$91,881 (2011: \$146,262)

The interests in the Trust held by RFM and its associates at the end of the year are disclosed in Note 14 to the financial statements.

# RFM Australian Cotton Fund

ARSN 099 573 690

## Directors of the Responsible Entity's Report

For the Year Ended 30 June 2012

### Unit Prices

The ex-distribution exit prices and the highest and lowest exit prices for the ACF for the past five years are shown below. All exit prices are exclusive of exit fees.

The Trust has taken advantage of Class Order 04/1575 that enables the assets and liability values of the Trust for unit pricing purposes to be calculated under previous GAAP and the Constitution has been amended accordingly.

	2012	2011	2010	2009	2008
As at 30th June	0.2384	0.5031	1.3891	1.3278	1.2151
Year to 30th June					
High	0.4920	0.5242	1.4084	1.3278	1.2151
Low	0.2342	0.5014	1.3377	1.2579	0.9878

In accordance with RFM's policies, the exit prices quoted above are based on the unit prices published on 15 July 2012 and prevailing at 30 June 2012, less a 1% sell spread.

### Units on issue

8,928,923 Units of ACF were on issue at 30 June 2012 (2011: 8,900,635). During the year 28,288 (2011: 13,089) units were issued by the Trust. No units were redeemed in either year.

### Trust assets

At 30 June 2012 ACF held assets to a total value of \$2,133,191 (2011:\$4,428,371). The basis for valuation of the assets is disclosed in Note 1 to the financial statements.

### Significant changes in the state of affairs

There have been no significant changes during the period.

### After balance date events

On 12 July 2012 the vendor finance lent by LFL was repaid and on 15 August 2012 LFL paid a distribution of \$0.095 per share resulting in ACF receiving a distribution of \$1,370,073. On 5 September 2012 ACF paid a distribution of \$1,500,631 or \$0.168 per unit with a record date 1 September 2012. LFL is now in the process of selling its remaining water asset and will be wound up when this is completed.

No other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Trust, the results of those operations or the state of affairs of the Trust in future financial years.

### Likely developments and expected results

The ultimate windup of ACF will occur once LFL has distributed the proceeds of the sale of the water entitlements and has been wound up.

# **RFM Australian Cotton Fund**

ARSN 099 573 690

## **Directors of the Responsible Entity's Report**

**For the Year Ended 30 June 2012**

### **Environmental regulation and performance**

The operations of the Trust are not subject to any particular or significant environmental regulation under a law of the Commonwealth or of a State or Territory. There have been no known significant breaches of any other environmental requirements applicable to the Trust.

### **Indemnification of Responsible Entity and Custodian**

In accordance with the constitution of ACF, the Trust indemnifies the directors, company secretary and all other officers of the Responsible Entity and custodian, when acting in those capacities, against costs and expenses in defending certain proceedings.

ACF has not otherwise, during or since the financial year, indemnified or agreed to indemnify an officer of the Responsible Entity or of any related body corporate against a liability incurred as such by an officer.

### **Auditors Independence Declaration**

An independence declaration has been provided to the Directors by the auditor of the ACF, Boyce Assurance Services Pty Limited, and can be found on page 24 of the Financial Report.

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



David Bryant  
Director

Dated: 5 September 2012

# RFM Australian Cotton Fund

## Independent Audit Report to the Unitholders of RFM Australian Cotton Fund

### Report on the Financial Report

We have audited the accompanying financial report of RFM Australian Cotton Fund, which comprises the statement of financial position as at 30 June 2012, and the statement of comprehensive income, statement of changes in net assets attributable to unitholders and statement of cash flows for the year ended that date, a summary of significant accounting policies, other explanatory notes and the Directors of the Responsible Entity's declaration.

### Directors' Responsibility for the Financial Report

The Directors of the Responsible Entity of the Trust are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

In Note 1, the Directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

### 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 Trust'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.

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

### Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001* has been provided to the Directors of the Responsible Entity of RFM Australian Cotton Fund on the date of this auditor's report.

36 Bombala Street  
PO Box 56  
Cooma NSW 2630

P 02 6452 3344  
F 02 6452 4060  
E [info@cooma@boyceca.com](mailto:info@cooma@boyceca.com)

[www.boyceca.com](http://www.boyceca.com)

Cooma Moree Dubbo Goulburn Orange Wagga Wagga





# RFM Australian Cotton Fund

## Independent Audit Report to the Unitholders of RFM Australian Cotton Fund

### Auditor's Opinion

In our opinion:

- (a) the financial report of RFM Australian Cotton Fund is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the Trust's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

### Uncertainty in regard to asset realisation timing and values

Without qualification to the opinion expressed above, attention is drawn to the following matters. As described in Note 2, Going Concern, the Trust has prepared the financial report on a liquidation basis as it intends to realise its assets and wind the Trust up in due course.

Further as detailed in Note 2 ACF is dependent on LFL, which needs to realise its water licence asset prior to winding up. Accordingly there is doubt over the expected timing for the wind up of Lachlan Farming Limited and subsequently ACF, and of the final values that will be achieved for ACF unitholders. The financial report does not consider the impact of any adjustments that would be required if the recoverability of the remaining assets are not achieved within their carrying values.



Katherine M Kelly  
Director  
Boyce Assurance Services Pty Limited

Cooma

Dated: 5 September 2012

36 Bombala Street  
PO Box 56  
Cooma NSW 2630

P 02 6452 3344  
F 02 6452 4060  
E [infocooma@boyceca.com](mailto:infocooma@boyceca.com)

[www.boyceca.com](http://www.boyceca.com)

Cooma Moree Dubbo Goulburn Orange Wagga Wagga



# **RFM Australian Cotton Fund**

**ARSN 099 573 690**

## **Directors of the Responsible Entity's Declaration**

In accordance with a resolution of the Directors of the Responsible Entity of RFM Australian Cotton Fund

In the opinion of the Directors

- (a) The financial statements and notes of the Trust are in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the Trust's financial position as at 30 June 2012 and of the performance for the year ended on that date; and
  - (ii) complying with Accounting Standards, Corporations Regulations 2001 and the Trust's constitution; and
- (b) there are reasonable grounds to believe that the Trust will be able to pay its debts as and when they become due and payable.

On behalf of the board



David Bryant  
Director

Dated: 5 September 2012

# RFM Australian Cotton Fund

ARSN 099 573 690

## Statement of Comprehensive Income

For the Year Ended 30 June 2012

	Note	2012 \$	2011 \$
Revenue	3	254,616	1,112,587
Management fees	13(a)	(44,825)	(96,887)
Wind up costs		(25,000)	(25,000)
Insurance		(15,770)	(17,647)
Accounting, audit and legal		(39,607)	(98,474)
Other RFM cost recoveries		(80,444)	(81,309)
Other expenses		(6,227)	(9,837)
Finance costs		-	(740)
<b>Profit before income tax</b>		<b>42,743</b>	<b>782,693</b>
Income tax expense		-	-
<b>Profit after income tax</b>		<b>42,743</b>	<b>782,693</b>
<b>Other comprehensive income</b>			
(Devaluation)/revaluation - Available-for-sale financial assets		(295,037)	(1,165,909)
<b>Other comprehensive income for the period, net of tax</b>		<b>(295,037)</b>	<b>(1,165,909)</b>
<b>Total comprehensive income for the period, representing changes in net assets attributable to unitholders</b>		<b>(252,294)</b>	<b>(383,216)</b>

The accompanying notes form part of these financial statements.

# RFM Australian Cotton Fund

ARSN 099 573 690

## Statement of Financial Position

30 June 2012

	Note	2012 \$	2011 \$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	5	584,231	77,641
Trade and other receivables	6	973	3,516
Other current assets	7	3,410	9,755
Financial assets	8	1,544,577	4,337,459
<b>Total current assets</b>		<b>2,133,191</b>	<b>4,428,371</b>
<b>TOTAL ASSETS</b>		<b>2,133,191</b>	<b>4,428,371</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	9	73,641	65,035
<b>Total current liabilities</b>		<b>73,641</b>	<b>65,035</b>
<b>TOTAL LIABILITIES (excluding net assets attributable to unitholders)</b>		<b>73,641</b>	<b>65,035</b>
Net assets attributable to unitholders		<b>2,059,550</b>	<b>4,363,336</b>
<b>TOTAL LIABILITIES</b>		<b>2,133,191</b>	<b>4,428,371</b>

The accompanying notes form part of these financial statements.

# RFM Australian Cotton Fund

ARSN 099 573 690

## Statement of Changes in Net Assets Attributable to Unitholders

For the Year Ended 30 June 2012

	Issued units	Asset Revaluation Reserve	Retained Earnings	Net Assets Attributable to Unitholders
	\$	\$	\$	\$
Balance at 1 July 2011	18,459	1,192,801	3,152,076	4,363,336
Net profit/(loss) attributable to unitholders	-	-	42,743	42,743
Transfer to retained earnings on receipt of capital distribution from Lachlan Farming Limited	-	(648,586)	648,586	-
Other comprehensive income	-	(295,037)	-	(295,037)
<b>Total income and expense for the period directly recognised in equity</b>	-	(295,037)	-	(295,037)
<b>Total income and expense for the period</b>	-	(295,037)	-	(295,037)
<b>Equity transactions</b>				
Rebated units	7,225	-	-	7,225
<b>Total equity transactions</b>	7,225	-	-	7,225
<b>Sub-total</b>	7,225	(943,623)	691,329	(245,069)
Distribution to unitholders	-	-	(2,058,717)	(2,058,717)
<b>Balance at 30 June 2012</b>	<b>25,684</b>	<b>249,178</b>	<b>1,784,688</b>	<b>2,059,550</b>

  

	Issued units	Asset Revaluation Reserve	Retained Earnings	Net Assets Attributable to Unitholders
	\$	\$	\$	\$
Balance at 1 July 2010	7,759,343	5,739,515	(1,011,422)	12,487,436
Net profit/(loss) attributable to unitholders	-	-	782,693	782,693
Transfer to retained earnings on receipt of capital distribution from Lachlan Farming Limited	-	(3,380,805)	3,380,805	-
Other comprehensive income	-	(1,165,909)	-	(1,165,909)
<b>Total income and expense for the period directly recognised in equity</b>	-	(1,165,909)	-	(1,165,909)
<b>Total income and expense for the period</b>	-	(1,165,909)	-	(1,165,909)
<b>Equity transactions</b>				
Rebated units	7,093	-	-	7,093
<b>Total equity transactions</b>	7,093	-	-	7,093
<b>Sub-total</b>	7,093	(4,546,714)	4,163,498	(376,123)
Distribution to unitholders	(7,747,977)	-	-	(7,747,977)
<b>Balance at 30 June 2011</b>	<b>18,459</b>	<b>1,192,801</b>	<b>3,152,076</b>	<b>4,363,336</b>

The accompanying notes form part of these financial statements.

# RFM Australian Cotton Fund

ARSN 099 573 690

## Statement of Cash Flows

For the Year Ended 30 June 2012

	Note	2012 \$	2011 \$
<b>Cash from operating activities:</b>			
Payments to suppliers and employees		(194,382)	(656,440)
Interest received		12,318	10,770
Interest paid		-	(740)
Distributions received		242,298	1,101,817
<b>Net cash provided by operating activities</b>	15	<b>60,234</b>	<b>455,407</b>
<b>Cash flows from investing activities:</b>			
Distributions received		2,497,848	7,394,069
<b>Net cash provided by investing activities</b>		<b>2,497,848</b>	<b>7,394,069</b>
<b>Cash flows from financing activities:</b>			
Receipts from the issue of units		7,225	7,092
Repayment of borrowings		-	(54,300)
Distributions paid		(2,058,717)	(7,747,977)
<b>Net cash used in financing activities</b>		<b>(2,051,492)</b>	<b>(7,795,185)</b>
<b>Net cash increase in cash and cash equivalents</b>		<b>506,590</b>	<b>54,291</b>
Cash and cash equivalents at beginning of year		77,641	23,350
<b>Cash and cash equivalents at end of year</b>	5(a)	<b>584,231</b>	<b>77,641</b>

The accompanying notes form part of these financial statements.

# **RFM Australian Cotton Fund**

ARSN 099 573 690

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2012**

### **1 Summary of Significant Accounting Policies**

#### **(a) Basis of preparation**

The financial report is a general purpose financial report that has been prepared in accordance with:

1. The Trust's constitution and the requirements of the Corporations Act 2001; and
2. Australian Accounting Standards, interpretations and other authoritative pronouncements of the Australian Accounting Standards Board. The Trust is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

The financial report covers RFM Australian Cotton Fund ("ACF") as an individual entity. ACF is a Trust, established and domiciled in Australia. The financial report is presented in Australian dollars and all values are rounded to the nearest dollar.

The financial report of ACF for the year ended 30 June 2012 was authorised for issue in accordance with a resolution of the directors of the Responsible Entity on 5 September 2012.

ACF is a registered Australian managed investment Trust, and was constituted in 2002. RFM, the Responsible Entity of the Scheme is incorporated and domiciled in Australia. The registered office of the Responsible Entity is Level 2, 2 King Street, Deakin, ACT 2600.

The nature of the operations and principal activities of the Trust are described in the Directors of the Responsible Entity's Report.

#### **(b) Statement of Compliance**

The financial report of ACF complies with Australian Accounting Standards and International Financial Reporting Standards.

#### **(c) Reporting Basis and Conventions**

The financial report has been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities. The financial report has not been prepared on a going concern basis due to the intentions of the Directors' to subsequently wind up in the Trust with an orderly realisation of assets. Refer to Note 2 for information on the intentions of the Directors'.

#### **(d) Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities in the statement of financial position.

# RFM Australian Cotton Fund

ARSN 099 573 690

## Notes to the Financial Statements

For the Year Ended 30 June 2012

### 1 Summary of Significant Accounting Policies (continued)

#### (e) Trade and other receivables

Receivables are recognised and carried at original amount, less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of an amount is no longer probable. Financial difficulties of the debtor, default payments or debts more than 180 days are considered objective evidence of impairment. Amounts are generally received within 30 days of being recorded as receivables.

#### (f) Investments (financial assets)

##### Recognition

Financial assets are initially measured at cost of trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

##### Available-for-sale financial assets

All investments are classified as available-for-sale financial assets. Available-for-sale financial assets are reflected at fair value unless their fair value cannot be reliably measured. After initial recognition available-for-sale securities are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in the profit or loss.

##### Fair value

The fair values of investments that are actively traded in organised financial markets are determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments with no active market, fair values are determined using valuation techniques. Such techniques include: using recent arms length market transactions, reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models making as much use of available and supportable market data as possible and keeping judgmental inputs to a minimum.

#### (g) Impairment of assets

At each reporting date, the Trust reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is first applied against any previous revaluation of that asset and where the revaluation reserve has been fully utilised the balance is expensed to the statement of comprehensive income.



# RFM Australian Cotton Fund

ARSN 099 573 690

## Notes to the Financial Statements

For the Year Ended 30 June 2012

### 1 Summary of Significant Accounting Policies (continued)

#### (h) Derecognition of financial instruments

The derecognition of a financial instrument takes place when the Trust no longer controls the contractual rights that comprise the financial instrument, which is normally the case when the instrument is sold, or the cash flows attributable to the instrument are passed through to an independent third party.

#### (i) Trade and other payables

Liabilities for creditors are carried at amortised cost, which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Trust.

Payables include outstanding settlements on the purchase of investments and distributions payable. The carrying period is dictated by market conditions and is generally less than 30 days.

#### (j) Unitholders' funds

Under AASB132:Financial instruments: Presentation, unitholders' funds must be regarded as liabilities where a Trust's constitution contains a perpetuity clause requiring the Trust to be terminated at a particular date.

#### (k) Terms and conditions on units

Each unit issued confers upon the unitholder an equal interest in the Trust, and is of equal value. A unit does not confer any interest in any particular asset or investment of the Trust. Unitholders have various rights under the Constitution and the Corporations Act 2001, including the right to:

- have their units redeemed;
- receive income distributions;
- attend and vote at meetings of unitholders: and
- participate in the termination and winding up of the Trust.

The rights, obligations and restrictions attached to each unit are identical in all respects.

#### (l) Revenue

Interest revenue is recognised using the effective interest rate method, which for floating rate financial assets, is the rate inherent in the instrument. Dividend revenue is recognised when the right to receive a dividend has been established.

All revenue is stated net of the amount of goods and services tax (GST).

# RFM Australian Cotton Fund

ARSN 099 573 690

## Notes to the Financial Statements

For the Year Ended 30 June 2012

### 1 Summary of Significant Accounting Policies (continued)

#### (m) 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 statement of financial position are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

#### (n) Income Tax

Under current legislation the entity is not subject to income tax provided the distributable income is fully distributed either by way of cash or reinvestment (i.e. unitholders are presently entitled to the taxable income of the Trust).

#### (o) Distributions

In accordance with the Trust's Constitution, the Manager of the Trust has the discretion to distribute both income and capital.

#### (p) New Accounting Standards for Application in Future Periods

Australian Accounting Standards and Urgent Issues Group Interpretations that have been issued or amended and are effective from 1 July 2011 have resulted in no material changes in accounting policies therefore no material impact on financial performance or position for the year ended 30 June 2012.

The AASB has issued new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods. The Trust has decided against early adoption of these Standards. The following table summarises those future requirements, and their impact on the Trust:

Standard name	Effective date for entity	Requirements	Impact
AASB 9 Financial Instruments and amending standards AASB 2009-11 / AASB 2010-7	30 June 2016	- Changes to the classification and measurement requirements for financial assets and financial liabilities. - New rules relating to derecognition of financial instruments.	The impact of AASB 9 has not yet been determined as the entire standard has not been released.
AASB 2010-8 Amendment to Australian Accounting Standards – Deferred tax: Recovery of underlying assets	30 June 2013	Adds a presumption to AASB 112 that the recovery of the carrying amount of an investment property at fair value will be through sale.	No impact expected.

# RFM Australian Cotton Fund

ARSN 099 573 690

## Notes to the Financial Statements

For the Year Ended 30 June 2012

### 1 Summary of Significant Accounting Policies (continued)

#### (p) New Accounting Standards for Application in Future Periods (continued)

Standard name	Effective date for entity	Requirements	Impact
<p>AASB 13 Fair Value Measurement.</p> <p>AASB 2011-8 - Amendments to Australian Accounting Standards arising from AASB 13</p> <p>[AASB 1, 2, 3, 4, 5, 7, 9, 2009-11, 2010-7, 101, 102, 108, 110, 116, 117, 118, 119, 120, 121, 128, 131, 132, 133, 134, 136, 138, 139, 140, 141, 1004, 1023 &amp; 1038 and Interpretations 2, 4, 12, 13, 14, 17, 19, 131 &amp; 132]</p>	30 June 2014	<p>AASB 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across Accounting Standards but does not change when fair value is required or permitted.</p> <p>There are a number of additional disclosure requirements.</p>	<p>Fair value estimates currently made by the entity will be revised and potential changes to reported values may be required.</p> <p>The entity has not yet determined the magnitude of any changes which may be needed.</p> <p>Some additional disclosures will be needed.</p>
<p>AASB 2011 – 4 - Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements [AASB 124]</p>	30 June 2014	<p>Remove individual key management personnel disclosure requirements (i.e. components of remuneration) for disclosing entities.</p>	<p>Since the entity is a disclosing entity, the KMP remuneration note in the financial statements will not include individual components of remuneration.</p>
<p>AASB 2011-9 - Amendments to Australian Accounting Standards - Presentation of Items of Other Comprehensive Income.</p>	30 June 2013	<p>Entities will be required to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments).</p>	<p>The items shown in other comprehensive income will be separated into two categories.</p>
<p>AASB 119 Employee Benefits (September 2011)</p> <p>AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (September 2011) and AASB 2011-11 Amendments to AASB 119 (September 2011) arising from Reduced Disclosure Requirements</p>	30 June 2014	<p>The main changes in this standard relate to the accounting for defined benefit plans and are as follows:</p> <ul style="list-style-type: none"> <li>- elimination of the option to defer the recognition of gains and losses (the 'corridor method');</li> <li>- requiring remeasurements to be presented in other comprehensive income; and</li> <li>- enhancing the disclosure requirements.</li> </ul>	<p>Since the entity does not have a defined benefit plan, the adoption of these standards will not have any impact.</p>

# RFM Australian Cotton Fund

ARSN 099 573 690

## Notes to the Financial Statements

For the Year Ended 30 June 2012

### 1 Summary of Significant Accounting Policies (continued)

#### (p) New Accounting Standards for Application in Future Periods (continued)

Standard name	Effective date for entity	Requirements	Impact
AASB 2010-10	30 June 2014	Makes amendments to AASB 1.	No impact since the entity is not a first-time adopter of IFRS.

The Trust does not anticipate early adoption of any of the above reporting requirements and does not expect these requirements to have any material effect on the Trust's financial statements.

### 2 Going Concern

ACF is dependent on LFL, who needs to realise its water licence assets prior to winding up. Accordingly there is doubt over the expected timing for the wind up of Lachlan Farming Limited and subsequently ACF, and of the final value that will be achieved for ACF unitholders.

### 3 Revenue

	2012	2011
	\$	\$
Interest received	12,318	10,770
Dividends received	242,298	1,101,817
<b>Total</b>	<b>254,616</b>	<b>1,112,587</b>

# RFM Australian Cotton Fund

ARSN 099 573 690

## Notes to the Financial Statements

For the Year Ended 30 June 2012

### 4 Auditor's Remuneration

	2012 \$	2011 \$
Remuneration of the auditor of the Trust for;		
- Auditing or reviewing the financial report	16,749	16,643
- Taxation and other services	2,678	6,007
<b>Total</b>	<b>19,427</b>	<b>22,650</b>

### 5 Cash and Cash Equivalents

Cash at bank	584,231	77,641
	<b>584,231</b>	<b>77,641</b>

#### (a) Reconciliation of cash

Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to items in the Statement of Financial Position as follows:

Cash and cash equivalents	584,231	77,641
	<b>584,231</b>	<b>77,641</b>

### 6 Trade and Other Receivables

#### CURRENT

Sundry receivables	973	3,516
	<b>973</b>	<b>3,516</b>

Sundry receivables are non-interest bearing and are generally on 30 days terms. There were no past due or impaired receivables at the reporting date.

### 7 Other Assets

#### CURRENT

Prepayments	3,410	9,755
	<b>3,410</b>	<b>9,755</b>

# RFM Australian Cotton Fund

ARSN 099 573 690

## Notes to the Financial Statements

For the Year Ended 30 June 2012

### 8 Financial Assets

#### Available-for-sale Financial Assets

	2012 \$	2011 \$
CURRENT		
Unlisted shares - Lachlan Farming Limited	1,544,577	4,337,459
<b>Total</b>	<b>1,544,577</b>	<b>4,337,459</b>

The fair value of ACF's unlisted available-for-sale shares in Lachlan Farming Limited can be reliably measured based on the entities Net Asset Value and ACF's shareholding. As a result, unlisted investments are reflected at valuation.

### 9 Trade and Other Payables

CURRENT		
Unsecured liabilities		
Trade payables	5,441	26,570
Sundry payables and accrued expenses	68,200	38,465
	<b>73,641</b>	<b>65,035</b>

Trade payables are non-interest bearing and are generally on 30 day terms.

### 10 Financial instruments

#### (a) Financial Risk Management Policies

Financial instruments of the Trust comprise, cash and cash equivalents, net assets attributable to unitholders, and other financial instruments such as trade debtors and creditors, which arise directly from its operations. The Responsible Entity is responsible for identifying and controlling the risks that arise from these financial instruments.

The risks are measured using a method that reflects the expected impact on the results and net assets attributable to unitholders of the Trust from reasonably possible changes in the relevant risk variables. Information about these risk exposures at the reporting date, measured on this basis, is disclosed below.

This information is prepared and reported to relevant parties within the Responsible Entity on a regular basis as deemed appropriate, ultimately to the Board of Directors of the Responsible Entity.

Concentrations of risk arise when a number of financial instruments or contracts are entered into with the same counterparty. In order to avoid excessive concentrations of risk, the Trust monitors its exposure to ensure concentrations of risk remain within acceptable levels.

# RFM Australian Cotton Fund

ARSN 099 573 690

## Notes to the Financial Statements

For the Year Ended 30 June 2012

### **10 Financial instruments (continued)**

#### **(b) Liquidity risk**

Liquidity risk is the risk that the Trust will encounter difficulty in meeting obligations associated with financial liabilities. This risk is controlled as the Trust maintains sufficient cash and cash equivalents to meet normal operating requirements.

Under the terms of its Constitution, the Trust has the ability to manage liquidity risk by delaying distributions to unitholders, if necessary, until the funds are available to pay them.

Financial liabilities of the Trust comprise trade and other payables and net assets attributable to unitholders. Trade and other payables have no contractual maturities but are typically settled within 30 days.

Net assets attributable to unitholders are payable when distributable profit meets the criteria for a distribution according to the Trust's Constitution.

#### **(c) Market risk**

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates. Market risk is not considered to be significant to the Trust.

#### **(d) Fair values**

The Trust's financial assets and liabilities included in the Statement of Financial Position are carried at their fair value or at amounts that approximate their fair values.

# RFM Australian Cotton Fund

ARSN 099 573 690

## Notes to the Financial Statements

For the Year Ended 30 June 2012

### 11 Issued units

	2012 No.	2011 No.
Units on issue at the beginning of the financial year	8,900,635	8,887,546
Units issued during the financial year	28,288	13,089
At reporting date	8,928,923	8,900,635

The terms and conditions attached to units in the Trust can be found at Note 1(k).

At balance sheet date, the unit exit price was \$0.2384 (2011: \$0.5031) representing \$2,128,655 (2011: \$4,477,909).

### 12 Key Management Personnel Compensation

#### (a) Details for Key Management Personnel - Directors

The Directors of RFM are considered to be Key Management Personnel of the Trust. The Directors of the Responsible Entity in office during the year and up to the date of the report are:

David Bryant  
Michael Carroll  
Guy Paynter

#### (b) Other Key Management Personnel

In addition to the Directors noted above, RFM, the Responsible Entity of the Trust is considered to be Key Management Personnel with the authority for the strategic direction and management of the Trust.

The constitution of ACF is a legally binding document between the unit holders of the Trust and RFM as Responsible Entity. Under the constitution, RFM is entitled to the following remuneration:

Application Fee – 3% of the value of each application for units in the Trust.

Management Fee – up to a maximum of 2.5% per annum of the value of Trust assets. Currently the management fee is charged at 1.75% as shown in Note 13.

Performance Bonus – 11% of the amount by which return on equity in a year exceeds an amount equal to 10% per annum of the total application price of units on issue.

Expenses – all expenses incurred by RFM in relation to the proper performance of its duties in respect of the Trust are payable or reimbursable out of the Trust assets to the extent that such reimbursement is not prohibited by Corporations Law.

RFM may retire as the Responsible Entity of the Trust as permitted by law. However, RFM must retire as the Responsible Entity of the Trust when required by law. When retired or removed, RFM will be released from all obligations and remuneration in relation to the Trust arising after the time of retirement or being removed.



# RFM Australian Cotton Fund

ARSN 099 573 690

## Notes to the Financial Statements

For the Year Ended 30 June 2012

### 12 Key Management Personnel Compensation (continued)

#### (c) Compensation of Key Management Personnel

No amount is paid by the Trust directly to the Directors of the Responsible Entity. Consequently, no compensation as defined in AASB 124 "Related Party Disclosures" is paid by the Trust to the Directors as Key Management Personnel.

### 13 Related Party Transactions

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

#### (a) Transactions with Related Parties

Transactions between the Trust and the Responsible Entity and any entities under the control of the Responsible Entity:

	2012	2011
	\$	\$
Management fees	44,825	96,887
Expenses reimbursed to RFM	91,881	146,262
<b>Total amount paid to RFM</b>	<b>136,706</b>	<b>243,149</b>
Custodian fee - AETL	10,020	13,678

#### (b) Balances with Related Parties

Balances between the Trust and the Responsible Entity and any entities under the control of the Responsible Entity at the reporting date are as follows:

Creditor - RFM	5,441	26,570
<b>Total</b>	<b>5,441</b>	<b>26,570</b>

The terms of trade of the related party trade creditors is 30 day terms.

#### (c) Custodian fees

The custodian fee is a fixed annual fee. The custodian fees were paid to Australian Executor Trustees Limited ("AETL").

### 14 Entities with influence over the Trust

	2012		2011	
	units held	%	units held	%
DAF	0	0	1,502,935	16.89
RFM	91,884	1.03	100	0

# RFM Australian Cotton Fund

ARSN 099 573 690

## Notes to the Financial Statements

For the Year Ended 30 June 2012

### 15 Cash Flow Information

#### Reconciliation of Cash Flow from Operations with Profit after Income Tax

	2012	2011
	\$	\$
Profit for the year	42,743	782,693
Changes in assets and liabilities:		
Decrease/(increase) in trade and term receivables	2,541	2,109
Decrease/(increase) in prepayments	6,345	4,809
Increase/(decrease) in trade payables and accruals	8,605	(334,204)
Cashflow provided from operations	60,234	455,407

### 16 Events After the Balance Sheet Date

On 12 July 2012 the vendor finance lent by LFL was repaid and on 15 August 2012 LFL paid a distribution of \$0.095 per share resulting in ACF receiving a distribution of \$1,370,073. On 5 September 2012 ACF paid a distribution of \$1,500,631 or \$0.168 per unit with a record date of 1 September 2012. LFL is now in the process of selling its remaining water licence assets and will be wound up when this is completed.

## RFM Australian Cotton Fund

ARSN 099 573 690

### Auditors Independence Declaration under Section 307C of the Corporations Act 2001

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2012 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.



Katherine M Kelly  
Director  
Boyce Assurance Services Pty Limited

Cooma

Dated: 5 September 2012

36 Bombala Street  
PO Box 56  
Cooma NSW 2630

P 02 6452 3344  
F 02 6452 4060  
E [infocooma@boyceca.com](mailto:infocooma@boyceca.com)

[www.boyceca.com](http://www.boyceca.com)

Cooma Moree Dubbo Goulburn Orange Wagga Wagga



Knowledge. Insight. Experience.

### Responsible Entity

Rural Funds Management Limited  
ABN 65 077 492 838  
AFSL 226 701

Level 2, 2 King Street  
Deakin Act 2600

[www.ruralfunds.com.au](http://www.ruralfunds.com.au)

Telephone (Investor Services)  
1800 026 665

Telephone (Adviser Services)  
1300 880 295

Facsimile  
1800 625 518