

**Australian Ethical Property Trust (AEPT)**  
**ARSN 138 276 623**

**Annual Financial Report for the year ended 30 June 2015**

# **Australian Ethical Property Trust (AEPT)**

## **Annual Financial Report for the year ended 30 June 2015**

<b>Contents</b>	<b>Page</b>
<b>Directors' Report</b>	<b>1</b>
<b>Statement of Profit or Loss and Other Comprehensive Income</b>	<b>3</b>
<b>Statement of Financial Position</b>	<b>4</b>
<b>Statement of Changes in Equity</b>	<b>5</b>
<b>Statement of Cash Flows</b>	<b>6</b>
<b>Notes to the Financial Statements</b>	<b>7</b>
<b>Directors' Declaration</b>	<b>21</b>
<b>Lead Independent Auditor's Declaration</b>	<b>22</b>
<b>Independent Auditor's Report</b>	<b>23</b>

## Australian Ethical Property Trust

### Directors' Report

For the year ended 30 June 2015

Australian Ethical Investment Limited, the "Responsible Entity" of the Australian Ethical Property Trust ("AEPT" or "the Scheme") presents its directors' report together with the financial report of the Scheme for the year ended 30 June 2015 and the accompanying independent auditor's report.

#### Responsible Entity

Australian Ethical Investment Limited (ABN 47 003 188 930) serves as the Responsible Entity for the Scheme. The registered office and principal place of business for the Responsible Entity is:

Registered office

Trevor Pearcey House (Block E)  
Traeger Court, 34 Thynne Street  
Bruce ACT 2617

Principal place of business

Level 8, 130 Pitt St  
Sydney,  
NSW 2000

The following persons were directors of Australian Ethical Investment Limited during the whole of the financial year and up to the date of this report unless otherwise indicated:

Phil Vernon  
Kate Greenhill  
Stephen Gibbs  
Mara Bun  
Tony Cole

#### Principal activities and state of affairs

The principal activity of the Scheme is to pool investors' savings to invest in direct property. The constitution of the Scheme authorises investments in properties. Investments are sought to pursue the goal of a just and sustainable society and the protection of the natural environment as well as providing unitholders (the Scheme's investors) with a competitive financial return.

The Responsible Entity determined to sell the remaining property asset with a contract for sale signed on 10 July 2015. Proceeds from the sale will be used to repay borrowings. The sale will allow for unitholder redemptions within the redemption window. The remaining funds will be used to purchase units in unlisted property trusts.

The Trust is closed to retail investors. Redemption windows are only available twice a year and are at the Responsible Entity's sole discretion.

#### Review of operations

##### Overview

The underlying fundamentals of the Scheme are consistent with those set out in the Scheme's Constitution dated 17 July 2009.

##### Fee Changes

At 1 July 2014 all Responsible Entity fees were consolidated under a single management fee of 2.50%. Fees for the comparable 2014 period were 2.172% (1.28% management fee and a 0.892% administration fee).

##### Results

Total return is the percentage change of a unitholder's financial interest in the Scheme assuming all distributions are reinvested in the Scheme. These returns are calculated in accordance with FSC Standard 6 Product Performance-Calculation of Return. The Scheme achieved a total return of 1.0% for the financial year (2014: -5.0%).

##### Distributions paid and/or payable

Distributions paid and/or payable by the Scheme during the year are shown in the accompanying Statement of Profit or Loss and Other Comprehensive Income.

No income distributions were paid or payable by the Scheme during the year (June 2014: No distribution).

## Australian Ethical Property Trust

### Directors' Report

For the year ended 30 June 2015

#### Net Assets

The value of the Scheme's net assets attributable to unitholders as at 30 June 2015 was \$10,807,976 (30 June 2014: \$10,581,648).

#### **Likely developments**

The Responsible Entity continually reviews the Scheme and depending on that review may, during the course of the financial year, make decisions to change the offerings of products to investors.

#### **Events occurring after the reporting date**

A contract for Sale of the remaining property asset of the Scheme was signed on 10 July 2015. All proceeds from the sale were received by August 2015. Proceeds from the sale have been used to repay borrowings. The sale will allow for unitholder redemptions within the redemption window. The remaining funds will be used to purchase units in unlisted property trusts.

As the Scheme is 98.69% owned by related parties (see note 15) management have removed management fees effective 1 July 2015. A management fee is applied at the related party level which will capture the full value of their investment in this Scheme.

Except as outlined above, during the period between the end of the financial year and the date of this report, there were no items, transactions or events of a material and unusual nature likely in the opinion of the Responsible Entity, to affect significantly the operations of the Scheme, the results of those operations, or the state of affairs of the Scheme in future financial years.

#### **Indemnities and insurance premiums for the Responsible Entity and auditors**

No insurance premiums are paid out of the assets of the Scheme for insurance cover provided to the Responsible Entity, its officers or auditor of the Scheme. Where the Responsible Entity acts in accordance with the Scheme's constitution and the law, it is generally entitled to an indemnity out of the assets of the Scheme against losses incurred while acting on behalf of the Scheme. The auditor of the Scheme is not indemnified out of the assets of the Scheme.

#### **Interest of the Responsible Entity**

Fees paid to the Responsible Entity and its associates out of Scheme property and interests held in the Scheme is shown in note 15 of the attached financial statements.

#### **Environmental regulation**

The operations of the Scheme are subject to environment regulations under both Commonwealth and State legislation in relation to property developments. Approvals for commercial property developments are required by state planning authorities and environmental protection agencies. The license requirements relate to air, noise, water and waste disposal. The Scheme is responsible for compliance and reporting under the government legislation.

The Scheme is not aware of any material non-compliance in relation to the license during the year.

The Scheme has determined that it is not required to register to report under the National Greenhouse and Energy Reporting Act 2007, which is Commonwealth environmental legislation that imposes reporting obligations on entities that reach reporting thresholds during the year.

The property held in the Scheme is required to have a minimum of a 5 Green star rating or be in respect to social infrastructure.

#### **Auditor's declaration**

The auditor's independence declaration is included on page 22 of the annual report and forms part of the Directors report for the financial year ended 30 June 2015.

Signed in accordance with a resolution of the directors of Australian Ethical Investment Limited.



Phillip Vernon  
Managing Director  
Australian Ethical Investment Limited  
25 September 2015



**Australian Ethical Property Trust**

**Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2015**

	Note	2015 \$	2014 \$
<b>Investment income</b>			
Interest income	4	11,341	244,502
Net change in investment property held at fair value	5	(859,984)	(445,494)
Rental income	8	1,773,171	3,352,245
Other income		305,138	15,020
<b>Net investment income</b>		<b>1,229,666</b>	<b>3,166,273</b>
<b>Operating expenses</b>			
Management fees	15	247,059	526,892
Administration fees	15	-	69,385
Amortisation of software	10(a)	32,826	32,826
Amortisation of lease fees	10(b)	9,209	-
Interest expense	8(a)	292,814	1,843,779
Investment property expenses	8(a)	414,988	626,742
<b>Operating expenses before finance costs</b>		<b>996,896</b>	<b>3,099,624</b>
<b>Profit from operating activities</b>		<b>232,770</b>	<b>66,649</b>
<b>Finance costs</b>			
Distributions paid and payable to unitholders of the Scheme		-	-
<b>Change in net assets attributable to unitholders (total comprehensive income)</b>	<b>3</b>	<b>232,770</b>	<b>66,649</b>

The accompanying notes form part of these financial statements.

## Australian Ethical Property Trust

### Statement of Financial Position as at 30 June 2015

	Note	2015 \$	2014 \$
<b>Assets</b>			
Cash and cash equivalents	6	220,377	968,706
Income and other receivables	7	251	16,279
Investment property held at fair value	8	16,140,016	17,000,000
Lease Incentive	9	598,868	-
Other assets	10	74,794	46,504
<b>Total assets</b>		<b>17,034,306</b>	<b>18,031,489</b>
 <b>Liabilities</b>			
Other payables	11	48,196	61,092
Borrowings	12	6,178,134	7,388,749
<b>Total liabilities excluding net assets attributable to unitholders</b>		<b>6,226,330</b>	<b>7,449,841</b>
<b>Net assets attributable to unitholders</b>	3	<b>10,807,976</b>	<b>10,581,648</b>

The accompanying notes form part of these financial statements.

**Australian Ethical Property Trust**

**Statement of Changes in Equity for the year ended 30 June 2015**

The Scheme's net assets attributable to unitholders are classified as a liability under AASB 132 Financial Instruments: Presentation. As such the Scheme has no equity, and no items of changes in equity have been presented for the current or comparative year.

The accompanying notes form part of these financial statements.

**Australian Ethical Property Trust**

**Statement of Cash Flows for the year ended 30 June 2015**

	Note	2015 \$	2014 \$
<b>Cash flows from operating activities</b>			
Income received from investment properties		1,192,518	3,796,425
Expenses paid		(678,752)	(1,227,222)
Interest received		12,963	242,629
Interest paid		(292,814)	(1,843,779)
Other Income		305,138	-
<b>Net cash provided by operating activities</b>	14	<b>539,053</b>	<b>968,053</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of investments		-	31,746,779
Purchase of investments		-	(7,217)
Payment of lease fees		(70,325)	-
Payment of borrowings		(1,210,615)	(12,440,093)
Proceeds from borrowing		-	67,934
<b>Net cash (used in)/provided by investing activities</b>		<b>(1,280,940)</b>	<b>19,367,403</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of units		-	-
Payment of redemption of units		(6,442)	(100,172)
Capital returned to unitholders		-	(22,248,814)
<b>Net cash used in financing activities</b>		<b>(6,442)</b>	<b>(22,348,986)</b>
Net decrease in cash and cash equivalents		(748,329)	(2,013,530)
Cash and cash equivalents at 1 July		968,706	2,982,236
Cash and cash equivalents at 30 June	6	<b>220,377</b>	<b>968,706</b>

The accompanying notes form part of these financial statements.



## Australian Ethical Property Trust

### Notes to the Financial Statements for the year ended 30 June 2015

#### Note 1 - Statement of significant accounting policies

##### Reporting Entity

The Australian Ethical Property Trust (the "Scheme") is a registered managed investment scheme under the Corporations Act 2001. The Scheme was constituted on 17 July 2009. The Scheme will terminate on 16 July 2089 unless terminated earlier in accordance with the provisions of the Scheme constitution. The Scheme is domiciled in Australia and is a for profit entity. The financial statements of the Scheme are for the year ended 30 June 2015.

##### Statement of compliance

The financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The financial statements of the Scheme complies with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

The financial statements were approved by the Board of Directors of the Responsible Entity on 25 September 2015.

##### Basis of preparation

These financial statements are presented in Australian dollars which is the functional currency are prepared on a fair value basis with financial assets designated at fair value through profit and loss and derivatives which are measured at fair value, with the exception of receivables and payables which are measured at amortised cost.

The statement of financial position is prepared on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and are not distinguished between current and non-current. All balances are expected to be recovered within twelve months, except for instruments in financial assets and net assets attributable to unitholders.

##### Estimates and Judgements

The preparation of financial statements in conformity with AASBs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses and the disclosure of contingent assets and liabilities. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. These accounting policies have been applied consistently.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Refer to note 16 (g) Financial risk management and financial instruments - fair values, which contains information about estimation of fair values of financial instruments.

##### Accounting policies

There were no changes in accounting policies.

##### (a) Cash and cash equivalents

Cash and cash equivalents comprise deposits with banks and highly liquid financial assets with maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value and are used by the Scheme in the management of short-term commitments.

##### (b) Financial instruments

Financial instruments comprise financial assets held at fair value through profit or loss, trade and other receivables, cash and cash equivalents, trade and other payables, and distributions payable.

##### Recognition and initial measurement

A financial instrument is recognised when the Scheme becomes a party to the contractual provisions of the instrument. Regular way purchase and sales of financial assets are accounted for at trade date (i.e. the date the Scheme commits itself to purchase or sell the asset).

Financial assets and liabilities at fair value through profit or loss are recognised initially at fair value, with transaction costs recognised in the Statement of Profit or Loss and Other Comprehensive Income. Financial assets and liabilities not at fair value through profit or loss are initially recognised at fair value plus any directly attributable transaction costs.

##### Derecognition

The Scheme derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Scheme neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control of the financial asset.



Notes to the Financial Statements for the year ended 30 June 2015

Note 1 - Statement of significant accounting policies - continued

*Derecognition - continued*

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset that is derecognised) and the consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss. Any interest in such transferred financial assets that is created or retained by the Scheme is recognised as a separate asset or liability.

The Scheme derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

*Classification*

Financial assets and financial liabilities held at fair value through profit or loss are classified as either held for trading or are designated at fair value through profit or loss. Financial assets and liabilities held for trading include derivative financial instruments. Financial assets and liabilities designated at fair value through profit or loss include equity securities, investments in unit trusts and fixed interest securities.

*Measurement*

Subsequent to initial recognition, all instruments classified at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the Statement of Profit or Loss and Other Comprehensive Income. All other financial instruments are carried at amortised cost using the effective interest rate method less any recognised impairment.

Financial liabilities arising from redeemable units issued by the Scheme are carried at the redemption amount representing the unitholders' rights to the residual interest in the Scheme's assets, effectively the fair value at the reporting date.

*Fair value measurement principles*

The Scheme can invest into a variety of assets, including cash, equities, fixed and floating rate interest securities, unit trusts and derivative contracts. Generally, valuation information is obtained from third party industry standard service providers to ensure that the most recent security prices are obtained. The prices used to value investments include, but are not limited to:

- independent prices obtained for each security;
- quoted 'bid' prices on long securities and quoted 'ask' prices on securities sold short;
- redemption prices published by the relevant Responsible Entity, for investments into unlisted unit trusts.

For certain investments, prices cannot be obtained from the above sources. In these instances, valuations obtained from service providers are estimated through the use of valuation models which are consistent with accepted industry practice and incorporate the best available information regarding assumptions that market participants would use when pricing the assets or liabilities. Irrespective of the method used by third party industry standard service providers to obtain valuations, prices achieved in actual transactions may be different.

*Impairment of financial assets held at amortised cost*

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss. If an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, then the decrease in impairment loss is reversed through profit or loss.

*Offsetting*

Financial assets and liabilities are offset and the net amount reported in the Statements of Financial Position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

*Derivative financial instruments*

In accordance with the Investment Mandate, the Scheme may invest in derivative financial instruments to gain or hedge exposure to equities, interest rates or foreign currencies. Derivative financial instruments are recognised initially at cost. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the Statement of Profit or Loss and Other Comprehensive Income.

**(c) Investment property**

Investment property, which is property held to earn rentals and/or for capital appreciation (including property under construction for such purposes), is measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value. Gains and losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.



## Australian Ethical Property Trust

### Notes to the Financial Statements for the year ended 30 June 2015

#### Note 1 - Statement of significant accounting policies - continued

##### (d) Borrowings

This liability is measured at amortised cost using the effective interest rate method.

##### (e) Trade and other receivables

Receivables are carried at amortised cost and may include accrued income and other receivables such as Reduced Input Tax Credits (RITC).

##### (f) Trade and other payables

Payables are carried at amortised cost and may include amounts for unsettled purchases, accrued expenses and other payables such as GST and redemption monies owing by the Scheme. Unsettled purchases are amounts due to brokers for securities purchased that have not been paid at reporting date. Trades are recorded on trade date and normally settle within three business days. Accrued expenses include management fees payable.

##### (g) Distributions paid and payable

In accordance with the Constitution, the Scheme fully distributes its net income to unitholders. The distributions are determined by reference to the net taxable income of the Scheme. Distributable income includes capital gains arising from the disposal of investments. Unrealised gains and losses are transferred to net assets attributable to unitholders and are not assessable or distributable until realised. Realised capital losses are not distributed to unitholders but are retained to be offset against any future realised capital gains. Distributions paid and payable to unitholders are recognised in the Statement of Profit or Loss and Comprehensive Income as 'Finance costs'. Distributions paid are included in the Statement of Cash Flows as 'Net cash flows (used in)/ provided by financing activities'.

##### (h) Change in net assets attributable to unitholders

Change in net assets attributable to unitholders may consist of realised net capital losses and unrealised increments and decrements arising from fluctuations in the value of investments. They are included in the determination of distributable income when assessable for taxation purposes.

##### (i) Revenue

###### *Interest income*

Interest income is recognised in the Statement of Profit or Loss and Other Comprehensive Income as it accrues. Interest income is recognised on a gross basis, including withholding tax, if any.

###### *Dividend and distribution income*

Dividend income relating to exchange-traded equity investments is recognised in the Statement of Profit or Loss and Other Comprehensive Income on the ex-dividend date. Income distributions from other managed investment schemes are recognised in the Statement of Comprehensive Income as dividend income on a present entitlement basis.

In some cases, the Scheme may receive or choose to receive dividends in the form of additional shares rather than cash. In such cases the Scheme recognises the dividend income of a dividend alternative with the corresponding increase in investments.

###### *Rental income*

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

In the event that lease incentives are paid to enter into operating leases, such incentives are recognised as an asset. The aggregate benefit of incentives is recognised as a reduction of rental income on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

##### (j) Goods and Services Tax (GST)

The Scheme qualifies for Reduced Input Tax Credits (RITC's) at a rate of between 55% to 75% depending on the service.

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 Tax Office (ATO). 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. The net amount of GST recoverable from the ATO is included in receivables in the Statement of Financial Position.

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

##### (k) Income tax

Under current income tax legislation the Scheme is not liable to pay income tax as the net income of the Scheme is assessable in the hands of the beneficiaries (the unitholders) who are 'presently entitled' to the income of the Scheme. There is no income of the Scheme to which the unitholders are not presently entitled and additionally, the Scheme's Constitution requires the distribution of the full amount of the net income of the Scheme to the unitholders each period.



Notes to the Financial Statements for the year ended 30 June 2015

Note 1 - Statement of significant accounting policies - continued

**(k) Income tax - continued**

As a result, deferred taxes have not been recognised in the financial statements in relation to differences between the carrying amounts of assets and liabilities and their respective tax bases, including taxes on capital gains which could arise in the event of a sale of investments for the amount at which they are stated in the financial statements. In the event that taxable gains are realised by the Scheme, these gains would be included in the taxable income that is assessable in the hands of the unitholders as noted above.

Realised capital losses are not distributed to unitholders but are retained within the Scheme to be offset against any realised capital gains. The benefit of any carried forward capital losses are also not recognised in the financial statements. If in any period realised capital gains exceed realised capital losses, including those carried forward from earlier periods and eligible for offset, the excess is included in taxable income that is assessable in the hands of unitholders in that period and is distributed to unitholders in accordance with the requirements of the Scheme's Constitution.

**(l) Net assets attributable to unitholders**

In accordance with AASB 132, unitholders' funds are classified as a financial liability and disclosed as such in the Statement of Financial Position, being referred to as 'Net assets attributable to unitholders'. The units can be put back to the Scheme at any time for cash equal to the proportionate share of the Scheme's net asset values. The value of redeemable units is measured at the redemption amount that is payable (based on the redemption unit price) at the Statement of Financial Position date if unitholders exercised their right to put the units back to the Scheme. Changes in the value of this financial liability are recognised in the Statement of Profit or Loss and Other Comprehensive Income.

**(m) Expenses**

All expenses, including management fees, are recognised in the profit or loss on an accruals basis.

**(n) Foreign currency transactions and balances**

Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the date of the transactions. Assets and liabilities denominated in foreign currency are translated at the rates of exchange ruling at the reporting date. Unrealised foreign exchange gains or losses, arising on translation of assets and liabilities denominated in foreign currency at reporting date, are recognised as part of the 'Net change in fair value of investments' in the Statement of Profit or Loss and Comprehensive Income. Realised gains and losses on amounts denominated in foreign currencies are also brought to account as part of 'Net change in fair value of investments' in the Statement of Profit or Loss and Other Comprehensive Income and as part of 'Other income received' in the Statement of Cash Flows.

**(o) Capitalised software**

Intangible assets are held at cost less accumulated amortisation. The amortisable amount of all intangible assets are amortised over their estimated useful lives to the entity commencing from the time the asset is held ready for use.

A straight line basis of amortisation has been adopted for capitalised software. The amortisation rates are 3 - 5 years. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the Statement of Profit or Loss and Other Comprehensive Income. When re-valued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

**(p) Standards and interpretations in issue not yet adopted**

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2015 reporting period and have not yet been early adopted by the Scheme. The assessment of the impact of these new standards (to the extent relevant to the Scheme) and interpretations is set out below:

*AASB 9 Financial Instruments (effective from 1 January 2018)*

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. It has also now introduced revised rules around hedge accounting. The standard is available for early adoption but management does not expect this to have a significant impact on the recognition and measurement of the Scheme's financial instruments as they are carried at fair value through profit or loss. Further, the derecognition rules have not been changed from the previous requirements, and the Scheme does not apply hedge accounting. The Scheme has not yet decided when to adopt AASB 9.

*AASB 15 Revenue from Contracts with Customers (effective from 1 January 2017)*

The Scheme has also not yet adopted AASB 15 *Revenue from Contracts with Customers* which looks at the nature, timing and uncertainty of revenue and cash flows arising from a contract. The Scheme has not yet decided when to adopt AASB 15 but management does not expect it will have a significant impact on the recognition and measurement of the Scheme's financial instruments.



## Australian Ethical Property Trust

### Notes to the Financial Statements for the year ended 30 June 2015

#### Note 2 - Number of issued units

Each unit represents a right to an individual share in the Scheme per the Constitution. There are no separate classes of units and each unit has the same rights attaching to it as all other units in the Scheme.

The Trust is closed to retail investors. Redemption windows are only available twice a year and are at the Responsible Entity's sole discretion.

	2015	2014
	Units	Units
On issue at beginning of year	34,600,518	34,778,765
Issued	-	-
Redeemed	(21,337)	(178,247)
On issue at year end	34,579,181	34,600,518

#### Note 3 - Net assets attributable to unitholders

The Scheme manages its net assets attributable to unitholders as capital, notwithstanding net assets attributable to unitholders are classified as a liability. The amount of net assets attributable to unitholders can change significantly on a half yearly basis as the Scheme is subject to half yearly applications and redemptions at the discretion of unitholders. Half yearly applications and redemptions are reviewed relative to the liquidity of the Scheme's underlying assets by the Responsible Entity. Under the terms of the Scheme's Constitution, the responsible entity has the discretion to reject an application for units and to defer a redemptions of units if the exercise of such discretion is in the best interest of the unitholders.

The objective of the Scheme is to provide unitholders with returns in accordance with the Product Disclosure Statement. The Scheme aims to deliver income and capital appreciation through investing in equities. The Scheme is not subject to any externally imposed capital requirements.

	2015	2014
	\$	\$
Opening balance	10,581,648	32,863,985
Issued	-	-
Redeemed	(6,442)	(100,172)
Return of Capital	-	(22,248,814)
Change in net assets attributable to unitholders	232,770	66,649
Net assets attributable to unitholders	10,807,976	10,581,648

#### Note 4 - Interest income

Interest income from financial assets carried at amortised cost:

Cash and cash equivalents	11,341	244,502
	11,341	244,502

#### Note 5 - Gains/(losses) on investment properties

Realised loss on disposal of investment property		
Agreed sale price	-	32,100,000
Cost of sale	-	(353,221)
Net proceeds from sale	-	31,746,779
Amortised cost of property sold	-	32,142,273
Realised loss in from disposal of investment property	-	(395,494)
Unrealised gain/(loss) in fair value of investment properties	(859,984)	(50,000)
	(859,984)	(445,494)

#### Note 6 - Cash and cash equivalents

Cash at bank	220,377	968,626
Cash on Deposit - Property Manager	-	80
	220,377	968,706

Cash at bank earns interest at floating rates based on daily bank deposit rates. For the purposes of the Statement of Cash Flows, cash includes cash at bank and cash on deposit.

**Australian Ethical Property Trust**

**Notes to the Financial Statements for the year ended 30 June 2015**

**Note 7 - Income and other receivables**

Interest receivable	251	1,873
Other receivables	-	14,406
	<u>251</u>	<u>16,279</u>

**Note 8 - Investment properties**

	Note	2015	2014
		\$	\$
Commercial property at fair value	15	<u>16,140,016</u>	<u>17,000,000</u>

**At Fair Value**

*Leasehold improvements*

Opening balance at 1 July	-	1,352,908
Additions	-	7,217
Disposals	-	(1,345,182)
Amortisation	-	(14,943)
Closing balance at 30 June	<u>-</u>	<u>-</u>

*Investment property*

Opening balance at 1 July	17,000,000	47,847,092
Disposals	-	(30,797,092)
Net loss on property revaluation	(859,984)	(50,000)
Closing balance at 30 June	<u>16,140,016</u>	<u>17,000,000</u>

Investment property - fair value		16,800,000	17,000,000
Less: assets classified as separate assets:			
Lease incentive	9	(598,868)	-
Capitalised lease fees paid	10(b)	(61,116)	-
		<u>16,140,016</u>	<u>17,000,000</u>

**(a) Amounts recognised in profit or loss for investment property**

Rental income	1,773,171	3,352,245
Direct operating expenses from property that generate rental income	(707,802)	(2,470,521)
	<u>1,065,369</u>	<u>881,724</u>

**(b) Valuation basis**

Property investment is an investment in property which are held either to earn rental income or for capital appreciation, or for both. The property investment is carried at fair value. An external valuation company, having an appropriately recognised professional qualification and recent experience in the location and category of property being valued, values the investment property annually. The fair value is based on market value, being the estimated amount for which the property could be exchanged on the date of valuation between a willing buyer and a willing seller, in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

An agreement was reached in April 2015 to sell the remaining property. The official date of the Contract for sale was 10 July 2015. The asset has been valued at the agreed sale price of \$16,800,000. All proceeds from the sale were received by 5 August 2015. The property asset is considered to comprise of 3 assets recognised on the Statement of Financial Position, being the investment property, lease incentive, and capital lease fees. This has been factored into the valuation adopted by the Directors at balance date.

An independent valuation as at 30 June 2014 was performed by Jones Lang LaSalle. Although the capitalisation rate (8%) utilised for this valuation equated to that used in December 2013, Jones Lang LaSalle determined that the applicable rental market was lower than in December 2013 resulting in a reduced valuation. This independent valuation of \$17,000,000 was adopted in the Statement of Financial Position as 30 June 2014.

**(c) Leasing arrangements**

Minimum lease payments under non-cancellable operating leases of investment properties not recognised in the financial statements are receivable as follows:

Within one year	117,997	1,161,515
Later than one year but not later than 5 years	-	5,241,022
Later than 5 years	-	1,833,793
	<u>117,997</u>	<u>8,236,330</u>

**Australian Ethical Property Trust**

**Notes to the Financial Statements for the year ended 30 June 2015**

**Note 9 - Lease incentive**

Opening balance at 1 July	-	-
Additions	600,000	-
Amortisation	(1,132)	-
Closing balance at 30 June	<u>598,868</u>	<u>-</u>

A new tenancy agreement signed on 1 August stipulated a 7 year arrangement which includes a rent free 10 month inducement. This lease incentive has been valued at \$600,000 and will be amortised over the term of the lease. This has been taken into account when valuing the property.

**Note 10 - Other assets**

	2015	2014
	\$	\$
Capitalised project costs (a)	13,678	46,504
Prepayments - leasing fee (b)	61,116	-
	<u>74,794</u>	<u>46,504</u>

**(a) Capitalised project costs**

<i>At cost</i>		
Balance as at 1 July	127,749	127,749
Additions	-	-
Balance as at 30 June	<u>127,749</u>	<u>127,749</u>

*Accumulated amortisation and impairment*

Balance as at 1 July	81,245	48,419
Amortisation	32,826	32,826
Balance as at 30 June	<u>114,071</u>	<u>81,245</u>

**(b) Leasing fee**

Opening balance at 1 July	-	-
Additions	70,325	-
Disposals	-	-
Amortisation	(9,209)	-
Closing balance at 30 June	<u>61,116</u>	<u>-</u>

Agreed fee paid to Jones Lang LaSalle for successful introduction of a new tenant to a 7 year lease to be amortised over the term of the lease. This has been taken into account when valuing the property.

**Note 11 - Trade and other payables**

Other payables	48,196	61,092
	<u>48,196</u>	<u>61,092</u>

**Note 12 - Borrowings**

Bank bill (secured)		
Current	6,178,134	7,388,749
	<u>6,178,134</u>	<u>7,388,749</u>

*Summary of borrowing arrangements:*

On 31 July 2014 a replacement loan facility was agreed with NAB at a margin of 1.51% above the bank bill rate for a term of 3 years maturing on 30 June 2017. Loan agreements were signed on 31 August 2014.

Following the sale of the property, the loan was repaid in full.

**Note 13 - Auditor's remuneration**

Audit fees in relation to the Scheme are paid directly by the Responsible Entity. During the year the following fees were paid or payable by the Responsible Entity for services in relation to the audit of the Scheme.

Auditing the financial statements	6,550	6,600
Compliance plan audit	4,003	3,425
	<u>10,553</u>	<u>10,025</u>



## Australian Ethical Property Trust

### Notes to the Financial Statements for the year ended 30 June 2015

#### Note 14 - Reconciliation of profit for the period to net cash provided by operating activities

	2015	2014
	\$	\$
Profit from operating activities	232,770	66,649
<i>Adjustments for:</i>		
Net losses on revaluation of investments	859,984	445,494
Amortisation of capital costs	42,035	47,770
Lease incentive	(598,868)	-
<i>Changes in assets and liabilities:</i>		
Decrease in trade and other receivables	16,028	372,705
Decrease in prepayments	-	66,506
Decrease in trade and other payables	(12,896)	(31,071)
Net cash provided by operating activities	539,053	968,053

#### Note 15 - Related party disclosures

Australian Ethical Investment Limited (AEIL), as Responsible Entity of the Scheme, provides investment services for the Scheme in accordance with Scheme's constitution. Transactions with the Responsible Entity are undertaken on commercial terms and conditions.

The Scheme does not employ personnel in its own right. However it is required to have an incorporated Responsible Entity to manage the activities of the Scheme and this is considered the key management personnel.

The following persons were directors of Australian Ethical Investment Limited during the whole of the financial year and up to the date of this report unless otherwise indicated:

Phil Vernon  
 Kate Greenhill  
 Stephen Gibbs  
 Mara Bun  
 Tony Cole

None of the directors has an investment in the Scheme.

There were no other persons with responsibility for planning, directing and controlling the activities of the Scheme, directly and indirectly during or since the end of the financial year.

At 1 July 2014 all Responsible Entity fees were consolidated under a single management fee of 2.50%. Fees for the comparable 2014 period were 2.172% (1.28% management fee and a 0.892% administration fee).

Management fees	247,059	526,892
Administration fees	0	69,385
	247,059	596,277

Fees payable to the Responsible Entity at 30 June 2015 were \$21,024 (2014: \$23,455) and are included in other payables. As the Scheme is 98.69% owned by related parties management have removed management fees effective 1 July 2015. A management fee is applied at the related party level which will capture the full value of their investment in this Scheme.

Australian Ethical Superannuation Pty Ltd (ABN 43 079 259 733), a subsidiary of AEIL, is the Trustee of the Australian Ethical Retail Superannuation Fund (AERSF). Transactions with the AERSF are undertaken on commercial terms and conditions.



## Australian Ethical Property Trust

### Notes to the Financial Statements for the year ended 30 June 2015

#### Note 15 - Related party disclosures - continued

Parties related to the Scheme (including the Responsible Entity, its related parties and other Schemes managed by the Responsible Entity), held units in the Scheme as follows:

30 June 2015	Units held opening \$	Units held closing \$	Interest held %	Capital returned \$	Distributions paid/payable by the Scheme \$
AERSF	5,218,899	5,333,844	49.35%	-	-
<b>Australian Ethical Balance Fund (formerly Australian Ethical Balanced Trust)</b>	<b>5,217,817</b>	<b>5,332,655</b>	<b>49.34%</b>	-	-
30 June 2014	Units held opening \$	Units held closing \$	Interest held %	Capital returned \$	Distributions paid/payable by the Scheme \$
AERSF	16,121,099	5,218,899	49.32%	10,938,712	-
Australian Ethical Balance Fund (formerly Australian Ethical Balanced Trust)	16,122,085	5,217,817	49.31%	10,936,446	-

#### Note 16 - Financial risk management and financial instruments

The Scheme is exposed to a variety of financial risks from investments in financial instruments, including operational risk, market risk, credit risk and liquidity risk.

This note presents information about the Scheme's exposure to each of the above risks, the Scheme's objectives, policies and processes for measuring and managing risks and the management of unitholder funds.

##### (a) Categories of financial instruments

	2015	2014
<i>Financial assets</i>	\$	\$
Cash and cash equivalents	220,377	968,706
Income and other receivables	251	16,279
Lease incentive	598,868	-
Leasing fee	61,116	-
	<u>880,612</u>	<u>984,985</u>
<i>Financial liabilities</i>		
Other financial liabilities		
Trade and other payables	48,196	61,092
Borrowings	6,178,134	7,388,749
Net assets attributable to unitholders	<u>10,807,976</u>	<u>10,581,648</u>
	<u>17,034,306</u>	<u>18,031,489</u>

##### (b) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the processes, technology and infrastructure supporting the Scheme's activities with financial instruments, either internally within the Scheme or externally at the Scheme's service providers, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of investment management behaviour.

The Scheme's objective is to manage operational risk so as to balance the limiting of financial losses and damage to its reputation with achieving its investment objective of generating returns to investors.

This responsibility is supported by the development of overall standards for the management of operational risk, which encompasses the controls and processes at the service providers and the establishment of service levels with the service providers, in the following areas:

Notes to the Financial Statements for the year ended 30 June 2015

Note 16 - Financial risk management and financial instruments - continued

**(b) Operational risk - continued**

- requirements for:
  - appropriate segregation of duties between various functions, roles and responsibilities;
  - reconciliation and monitoring of transactions; and
  - periodic assessment of operational risk faced;
- documentation of controls and procedures;
- the adequacy of controls and procedures to address the risks identified;
- compliance with regulatory and other legal requirements;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation, including insurance if this is effective.

Assessment of the adequacy of the controls and processes in place at the service providers with respect to operational risk is carried out via regular discussions and a review of the service providers' Controls Reports (GS007) on internal controls.

Substantially all of the assets of the Scheme are held by external custodian National Australia Bank Limited. The fund accounting manager monitors the credit ratings and capital adequacy of its custodian on a quarterly basis, and reviews the findings documented in the GS007 report on the internal controls annually.

**(c) Financial risk management objectives**

The Scheme is exposed to a number of risks due to the nature of its activities as further set out in its Product Disclosure Statement. These risks include market risk (including currency risk, interest rate risk and price risk), credit risk, and liquidity risk. The Scheme's objective in managing these risks is the protection and enhancement of unitholder value.

The Scheme's risk management policies are approved by the Responsible Entity and seek to minimise the potential adverse effects of these risks on the Scheme's financial performance. The risk management system is an ongoing process of identification, measurement, monitoring and controlling risk.

The Investment Committee's Charter requires it to oversee the processes which govern the investment of money of the Scheme for which Australian Ethical Investment Limited is the responsible entity. The Investment Committee bears primary responsibility for the oversight of processes for the management of the above financial risks. It meets on a regular basis to analyse financial risk exposure and to evaluate management strategies in the context of the most recent economic conditions and forecasts.

**(d)(i) Market risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign exchange (currency risk), market interest rates (interest rate risk) and market prices (price risk). The portfolio manager manages the financial risks relating to the operations of the Scheme in accordance with an investment mandate set out in accordance with the Scheme's constitution. The Scheme's investment mandate is to invest in a diversified portfolio of direct property in major Australian cities. There has been no change to the Scheme's exposure to market risks or the manner in which it manages and measures the risk.

**(d)(ii) Interest rate risk management**

Interest rate risk represents the risk that the Scheme's financial performance will be adversely affected by fluctuations in interest rates.

The Scheme's interest rate risk is managed on a daily basis by the portfolio managers in accordance with the defined investment process and within the guidelines and restrictions outlined in the Scheme's investment mandate. The Scheme is monitored for mandate compliance. Where the interest rate risk exposure moves outside the Scheme's mandate restrictions or guidelines, the portfolio managers will rebalance the portfolio.

The Scheme's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

Management has performed a sensitivity analysis relating to the Scheme's exposure to interest rate risk at balance sheet date. This sensitivity analysis demonstrates the effect on the current year results and net assets attributable to unitholders which could result from a change in interest rates by 1% (2014: 1%). In the analysis it is assumed that the amount of financial assets exposed to fluctuations in interest rates as at balance sheet date is representative of balances held throughout the financial year. No other flow on effects of fluctuations in interest rates have been taken into account.



## Australian Ethical Property Trust

### Notes to the Financial Statements for the year ended 30 June 2015

#### Note 16 - Financial risk management and financial instruments - continued

##### (d)(ii) Interest rate risk management - continued

At balance date, the effect on profit and net assets attributable to unitholders, as a result of changes in the interest rate, with all other variables remaining constant would be as follows:

	2015	2014
	\$	\$
Increase in interest rate by 1%	(59,578)	(64,200)
Decrease in interest rate by 1%	59,578	64,200

##### (d)(iii) Price risk

Price risk is the risk that the total value of investments will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market. The Scheme has investments in equity instruments which exposes it to price risk. The investment manager manages the Scheme's market risk on a daily basis in accordance with the Scheme's investment objectives and policies.

As the majority of the Scheme's financial instruments are carried at its carrying value which is deemed comparable to its fair value, the Scheme's financial assets and liabilities are not exposed to price risk.

##### (e) Credit risk management

Credit risk is the risk of financial loss from a counterparty failing to meet its contractual commitments. The Scheme is predominately exposed to credit risk through its deposits at banks and trade and other receivables. The Scheme's policy over credit risk is to minimise its exposure to counterparties, holding cash and cash equivalents at financial institutions with a credit rating of 'A' or higher and settling trades (3 business days) and other receivables (normally within a month).

At the balance sheet date, all cash was held with National Australia Bank, which carries a Standard & Poor's rating of AA- at 30 June 2015 (2014: AA-). No financial assets carried at amortised cost were past due or impaired at 30 June 2015 (2014: nil).

The maximum credit risk exposure is represented by the respective carrying amounts of the relevant financial asset in the Statement of Financial Position.

The table below details the maximum exposure to credit risk for the assets held by the Scheme.

	2015	2014
	\$	\$
Cash and cash equivalents	220,377	968,706
Income receivables	251	16,279
	220,628	984,985

**Australian Ethical Property Trust**

**Notes to the Financial Statements for the year ended 30 June 2015**

**Note 16 - Financial risk management and financial instruments - continued**

**(f) Liquidity risk management**

Liquidity risk is the risk that the Scheme will encounter difficulty in realising assets or otherwise raising funds to meet commitments associated with financial instruments.

The Scheme's constitution allows for the redemption of units twice a year. In order to meet possible redemptions, the Scheme holds 5% of the total investments in cash and cash equivalents. In the event of significant redemptions, the Scheme has the ability to suspend redemptions until it can realise investments.

All payables of the Scheme are classed as normal operating obligations and are to be paid within three months of balance date.

Financial instrument composition and maturity analysis.

	Weighted average interest rate %	2015				Total \$
		1-3 months	3 months to 1 year	1 to 5 years	5+ years	
		\$	\$	\$	\$	
Variable interest-bearing assets						
Cash and cash equivalents	1.90	220,377	-	-	-	220,377
Non-interest bearing						
Income and other receivables	N/A	251	-	-	-	251
Lease incentive	N/A	598,868	-	-	-	598,868
Leasing fee	N/A	61,116	-	-	-	61,116
<b>Total financial assets</b>		<b>880,612</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>880,612</b>
Fixed interest rate instruments						
Borrowings	3.72	6,178,134	-	-	-	6,178,134
Non-interest bearing						
Trade and other payables	N/A	48,196	-	-	-	48,196
Amounts payable to unitholders	N/A	10,807,976	-	-	-	10,807,976
<b>Total financial liabilities</b>		<b>17,034,306</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>17,034,306</b>
	Weighted average interest rate %	2014				Total \$
		1-3 months	3 months to 1 year	1 to 5 years	5+ years	
		\$	\$	\$	\$	
Variable interest-bearing assets						
Cash and cash equivalents	2.40	968,706	-	-	-	968,706
Non-interest bearing						
Income and other receivables	N/A	16,279	-	-	-	16,279
<b>Total financial assets</b>		<b>984,985</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>984,985</b>
Fixed interest rate instruments						
Borrowings	5.37	7,388,749	-	-	-	7,388,749
Non-interest bearing						
Trade and other payables	N/A	61,092	-	-	-	61,092
Amounts payable to unitholders	N/A	10,581,648	-	-	-	10,581,648
<b>Total financial liabilities</b>		<b>18,031,489</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>18,031,489</b>



## Australian Ethical Property Trust

### Notes to the Financial Statements for the year ended 30 June 2015

#### Note 16 - Financial risk management and financial instruments - continued

##### (g) Fair values

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities. The Scheme utilises bid prices for its financial assets and liabilities. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). The fair value of financial assets that are not traded in an active market is determined using valuation techniques. These include the use of recent arm's length market transactions, reference to the current fair value of a substantially similar other instrument, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions. The Scheme utilises bid prices for its financial assets and liabilities, wherever applicable.

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs). This category includes instruments valued using quoted prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active or other valuation techniques.

Note also that all fair value measurements of the Scheme are recurring.

	2015			
	Level 1	Level 2	Level 3	TOTAL
	\$	\$	\$	\$
<b>Financial assets at fair value through profit or loss</b>				
Designated at fair value through profit or loss				
Investment Properties held at fair value	-	-	16,140,016	16,140,016
<b>TOTAL</b>	<u>-</u>	<u>-</u>	<u>16,140,016</u>	<u>16,140,016</u>

	2014			
	Level 1	Level 2	Level 3	TOTAL
	\$	\$	\$	\$
<b>Financial assets at fair value through profit or loss</b>				
Designated at fair value through profit or loss				
Investment Properties held at fair value	-	-	17,000,000	17,000,000
<b>TOTAL</b>	<u>-</u>	<u>-</u>	<u>17,000,000</u>	<u>17,000,000</u>

During the year there was no transfers between levels.

The investment classified within level 3 is an investment in property which are held either to earn rental income or for capital appreciation, or for both. The property investment is carried at fair value. An external valuation company, having an appropriately recognised professional qualification and recent experience in the location and category of property being valued, values the investment property annually. The fair value is based on market value, being the estimated amount for which the property could be exchanged on the date of valuation between a willing buyer and a willing seller, in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

An agreement was reached in April 2015 to sell the remaining property. The official date of the contract for sale was 10 July 2015. The asset has been valued at the agreed sale price of \$16,800,000, which incorporates the other assets (lease incentive and lease fee) referred to in note 8. All proceeds from the sale were received by 5 August 2015.

**Australian Ethical Property Trust**

**Notes to the Financial Statements for the year ended 30 June 2015**

**Note 16 - Financial risk management and financial instruments - continued**

**(g) Fair values - continued**

Management has performed a sensitivity analysis of the Scheme's exposure to changes in unobservable inputs used to value property investments at the balance sheet date. This sensitivity analysis demonstrates the effect on current year results and net assets attributable to unit holders which could result from a change in capitalisation rate of 0% (2014: 20%). In the analysis it is assumed that the amount of financial assets exposed to fluctuations in unobservable inputs as at the balance sheet date is representative of balances held throughout the financial year. No other flow on effects or fluctuations in fair value have been taken into account.

At balance date, the effect on net assets attributable to unitholders and the change in net assets attributable to unit holders as a result of changes in capitalisation rates with all other variables remaining constant would be as follows:

	2015	2014
	\$	\$
Increase in capitalisation rate by 20%	-	3,400,000
Decrease in capitalisation rate by 20%	-	(3,400,000)

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy.

	2015	2014
	\$	\$
<b>Investment Properties held at fair value</b>		
<b>Opening balance at 1 July</b>	<b>17,000,000</b>	-
Transfers into level 3	-	17,000,000
Net loss on property revaluation	<b>(859,984)</b>	-
	<b>16,140,016</b>	17,000,000

*Carrying amounts versus fair value*

The fair values of financial assets and liabilities approximates their carrying amounts in the statement of financial position.

**Note 17 - Events subsequent to the reporting date**

A contract for Sale of the remaining property asset of the Scheme was signed on 10 July 2015. All proceeds from the sale were received by August 2015. Proceeds from the sale have been used to repay borrowings. The sale will allow for unitholder redemptions within the redemption window. The remaining funds will be used to purchase units in unlisted property trusts.

As the Scheme is 98.69% owned by related parties (see note 15) management have removed management fees effective 1 July 2015. A management fee is applied at the related party level which will capture the full value of their investment in this Scheme.

Except as outlined above, during the period between the end of the financial year and the date of this report, there were no items, transactions or events of a material and unusual nature likely in the opinion of the Responsible Entity, to affect significantly the operations of the Scheme, the results of those operations, or the state of affairs of the Scheme in future financial years.

**Note 18 - Contingencies and commitments**

At 30 June 2015 there was a contingent liability of \$147,840 to be paid being the sales commission to the agent for the sale of the remaining property investment. This amount was paid on 28 July 2015. There are no contingent assets as at 30 June 2015 (2014: Nil). There are no commitments as at 30 June 2015 (2014: Nil).



## Australian Ethical Property Trust

### Directors' Declaration

In the opinion of the Directors of Australian Ethical Investment Limited, the Responsible Entity of the Australian Ethical Property Trust (the "Scheme"):

(a) The annual financial statements and notes that are set out on pages 3 to 20 are in accordance with the Corporations Act 2001, including:

- i. Giving a true and fair view of the Scheme's financial position as at 30 June 2015 and of its performance for the financial year ended on that date; and
- ii. Complying with Australian Accounting Standards and Corporations Regulations 2001; and

(b) There are reasonable grounds to believe that the Scheme will be able to pay its debts when they become due and payable.

(c) The Scheme has operated during the year in accordance with the provisions of the Schemes constitution.

The Directors draw attention to Note 1 of the financial statements which contains a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors of Australian Ethical Investment Limited.

A handwritten signature in blue ink, consisting of a stylized 'P' and 'V' followed by a horizontal line.

Phillip Vernon  
Managing Director  
Australian Ethical Investment Limited  
25 September 2015





***Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001***

To: the directors of Australian Ethical Investment Limited, the Responsible Entity for the Australian Ethical Property Trust:

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2015 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.

KPMG

Karen Hopkins  
*Partner*

Sydney  
25 September 2015







## **Independent auditor's report to the unitholders of the Australian Ethical Property Trust**

### **Report on the financial report**

We have audited the accompanying financial report of Australian Ethical Property Trust ('the Scheme'), which comprises the statement of financial position as at 30 June 2015, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, notes 1 to 18 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration.

#### *Directors' responsibility for the financial report*

The directors of Australian Ethical Investment Limited ('the Responsible Entity') are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In note 1, the directors of the Responsible Entity also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply 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. Those Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view 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 performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Scheme's financial position and of its performance.

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*.

*Auditor's opinion*

In our opinion:

- (a) the financial report of Australian Ethical Property Trust is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the Scheme's financial position as at 30 June 2015 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1.

KPMG

KPMG

Kaplan

Karen Hopkins  
*Partner*

Sydney  
25 September 2015



