

**PASSIVE INCOME  
(USA COMMERCIAL PROPERTY) FUND  
AND CONTROLLED ENTITIES**

**ARSN 155 770 095**

**FINANCIAL REPORT  
FOR THE YEAR ENDED  
30 JUNE 2014**

**PASSIVE INCOME (USA COMMERCIAL PROPERTY) FUND  
AND CONTROLLED ENTITIES  
ARSN: 155 770 095**

**FINANCIAL REPORT  
FOR THE YEAR ENDED  
30 JUNE 2014**

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**DIRECTORS' REPORT**

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The directors of Plantation Capital Ltd - the Responsible Entity of the Passive Income (USA Commercial Property) Fund (the Fund), a Managed Investment Scheme, present their report together with the financial statements of the Fund for the year ended 30 June 2014. This financial report has been prepared in accordance with Australian Accounting Standards.

**Principal Activities**

The Fund is an unlisted property fund that seeks to generate passive income and growth returns having acquired a controlling interest in Ozinus Realty, LLC - a USA-based real estate investment trust (REIT) structure that owns a diversified portfolio of commercial properties located in the United States of America.

The investment activities of the Fund continued to be in accordance with the investment policy of the Fund as outlined in the Product Disclosure Statement (PDS) dated 18 July 2013. The Fund, via its controlled subsidiaries, has primarily invested in USA based property.

The Fund did not have any employees during the year.

**Directors**

The directors of the Responsible Entity during the year or since the end of the financial year are:

*Stephen (Steve) McKnight – Director & Secretary*

Chartered Accountant, Bachelor of Business (Accounting), Diploma Financial Services

Steve, a qualified chartered accountant and experienced investor, is recognised as one of Australia's foremost authorities on property investment as a means of creating personal wealth.

Since buying his first investment property in May 1999, Steve has completed hundreds of property transactions. Presently, his real estate portfolio includes a significant portion of USA properties on a co-ownership basis, including single family homes, multi-family homes, and commercial real estate (including four mobile home parks).

Steve is the co-founder and current Chief Executive Officer of PropertyInvesting.com, a website that is committed to educating investors on how to successfully use real estate to create wealth. His first book, *From 0 to 130 Properties in 3.5 Years*, has sold over 200,000 copies. Steve has been featured as an expert investor in the print media, on television and on radio. He has contributed keynote addresses on real estate investing in Australia, New Zealand, Asia, Canada and the USA.

*Paul Harper – Director*

Chartered Accountant, Master of Entrepreneurship and Innovation, Bachelor of Business (Accounting)

Paul has been providing financial advisory services to corporations, institutions and high net worth individuals for the past 22 years.

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**DIRECTORS' REPORT (cont'd)**

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Until November 2011, he worked as the Managing Director of Jeena Limited, a Melbourne-based firm of Chartered Accountants that provided family office services and specialised investment opportunities to select, high-net wealth clients and families.

After successfully selling and transitioning Jeena Ltd into an ASX listed Company, Paul was appointed CEO of the Social Media software company DC123. With headquarters in Melbourne, DC123 provides disruptive turn-key social media solutions for some of Australia's leading brands in financial services, property, health services, aviation, recruitment and hospitality industries.

*Keith Woodhead – Director*

Master Business Administration, BSurv, Grad.Dip. (Town Planning)

Keith is a highly experienced property professional with specific expertise in areas including acquisitions, disposals, subdivision, leasing, construction, and project and development management. His property-based experience also includes direct property assets, and listed and unlisted property trusts across a range of property sectors including residential, retail, industrial and commercial.

Much of this work has been within the property funds management sector, where he has been largely responsible for debt and equity raisings, offer document preparation, product management, corporate governance, compliance and transaction management.

*Thomas (Tommy) Senatore – Director – resigned 14 April 2014*

BS Degree, Paralegal Certificate (Honours)

Based in Cape Coral, Florida (USA), Tommy is an authority in tax lien and deed investing and controls an extensive real estate portfolio of USA commercial and residential property. Currently head of TLD International, a group that provides wealth creation consulting and advisory services to both individual clients and corporations, he has conducted numerous seminars in the USA and around the world.

Prior to this, Tommy was a member of the USA Mentor Team for the Wealth Intelligence Academy and regularly presented seminars on how to build property portfolios around tax lien and deed strategies, as well as the owner of a construction company.

Tommy resigned on 14 April 2014 noting a change in personal circumstances for his resignation.

*Haydn Wright – Director – resigned 21 February 2014*

Master Tax Law, Bachelor of Economics, ASIA

Haydn is a highly experienced corporate advisor with specific experience in property development, funds management, banking and finance.

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**DIRECTORS' REPORT (cont'd)**

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Haydn provides consultancy advice to Australian and European investment funds including active management roles such as the recent restructuring of an eastern European property development company with a balance sheet in excess of €200 million. Haydn's experience is across all property classes including major shopping centres, commercial buildings and high-rise residential towers, and Haydn's work include project oversight and management, as well as finance (including bank funding, balance sheet and cash flow management, debt/equity and mezzanine finance).

Haydn possesses significant experience in the financial services sector including Head of Credit with mortgage funds manager Affinity Funds Management Limited, director of the boutique corporate advisory group Teraform Advisory, and property investment group Securitised Asset Management Limited. He has also held senior banking positions with Kleinwort Benson Limited, Citibank Limited and CIBC Australia Limited.

Haydn resigned on 21 February 2014 noting a change in personal circumstances for his resignation.

**Review of Operations & Financial Results**

The Fund was registered with ASIC on 2 March 2012 under the name of the PCL Direct Property Fund and on the 7 May 2012 changed its name to the Passive Income (USA Commercial Property) Fund. The 2013 comparative figures in the financial statements are for the Fund's first reporting period: 16 months from inception date (March 2012) until 30 June 2013.

Pursuant to the PDS dated 18 July 2013, a total of \$24,731,346 of application money was received during the financial year, which after deducting contribution fees resulted in the issue of 23,257,324 units. Under the reinvestment plan a total of \$835,277 was reinvested during the year, resulting in an increase in 789,100 units.

During the financial year the Fund, via its controlled entities, acquired seventeen properties for a total purchase cost of \$34,003,614. These properties are located in Florida, Texas and Georgia.

The Fund's consolidated net operating profit before distributions attributable to Unitholders for the current year was \$2,616,047 (2013: Profit \$1,449,410).

The parent entity alone (without consolidating the US operations) recorded a net operating loss before distributions attributable to Unitholders of \$770,770 (2013: Profit \$2,331,985). The loss was as a result of a slight deterioration of the AUD: USD exchange rate over the year, and that only one dividend had been received from Ozinus Realty, LLC for the financial year. Once the US FATCA compliance regulations have been addressed and relevant paperwork from Fund investors collected pursuant to the requirements of the Qualified Intermediary agreement with the IRS, it is expected that more regular dividends from Ozinus Realty, LLC will be received by the Fund.

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**DIRECTORS' REPORT (cont'd)**

	Financial Year Ended 30 June 2014		Financial Period Ended 30 June 2013	
	\$	Cents / unit	\$	Cents / unit
Interim Distribution Paid	1,266,428	4	103,279	1.27
Final Distribution Payable	2,064,745	4	-	-
<b>Total Distribution</b>	<b>3,331,173</b>	<b>8</b>	<b>103,279</b>	<b>1.27</b>

The redemption unit price (ex-distribution) as at 30 June 2014 was \$1.0516 (2013: \$1.0768). The basis for valuation of the Fund's assets is disclosed in Note 1(o) to the financial statements.

There is only one class of issued unit, the rights and entitlements thereof are detailed in the PDS dated 18 July 2013, and in the Fund's Constitution.

**Fund Performance**

	2014	2013
Capital growth	4.30%	7.68%
Distribution of income	4.00%	1.27%
<b>Total return</b>	<b>8.30%</b>	<b>8.95%</b>

For the year ended 30 June 2014, Ozinus Realty, LLC – a US subsidiary had paid \$111,671 in dividends to the Fund (2013 – nil). As mentioned earlier, more regular dividends are expected to be received from Ozinus Realty, LLC once US taxation compliance related matters are resolved.

**Units on Issue**

	2014 #	2013 #
Opening Balance	27,572,272	-
New units issued during the year under the capital raising	23,257,324	27,508,630
New units issued under the distribution reinvestment plan	789,100	63,642
<b>Number of units on issue at year end</b>	<b>51,618,696</b>	<b>27,572,272</b>

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**DIRECTORS' REPORT (cont'd)**

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**Fees Paid To and Interests Held By the Responsible Entity**

The following fees were paid to the Responsible Entity out of Fund property during the financial year:

	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
Management fee	763,768	335,863
Expense reimbursements	406,045	162,087
<b>Total Fees &amp; Reimbursements</b>	<b>1,169,813</b>	<b>497,950</b>

Management fees are paid to the Responsible Entity to execute the investment strategy as outlined in the PDS dated 18 July 2013. The increased management fees in 2014 reflect the increase in funds under management during the year.

Expense reimbursements relate to costs incurred by the Fund but paid by the Responsible Entity and then later reimbursed. No fee or margin was charged on top of the expense amount.

The increase in expense reimbursements primarily relate to external consultants engaged to advise on managing the Australian and US tax requirements pertaining to GST, withholding tax, and managing compliance obligations in the relevant jurisdiction.

Performance fees are payable to the Responsible Entity where certain performance criteria is met. The Responsible Entity has determined that at year end it is not entitled to a performance fee.

Details of holdings in the Fund by the Responsible Entity, directors, key personnel and their related entities are set out as below:

	<b>Units held at 30 June 2014 #</b>	<b>Units held at 30 June 2014 Value In AUD</b>
Stephen McKnight ( <i>Director</i> )	785,534	857,882
Davendra Prasad ( <i>CFO</i> )	17,589	19,209
	<b>Units held at 30 June 2013 #</b>	<b>Units held at 30 June 2013 Value In AUD</b>
Stephen McKnight ( <i>Director</i> )	328,374	353,953
James Findlay ( <i>CFO</i> )	49,010	52,774

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**DIRECTORS' REPORT (cont'd)**

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Mr. James Findlay resigned as CFO effective 21 May 2014. Mr. Davendra Prasad was appointed CFO effective 26 May 2014.

**Derivatives & Other Financial Instruments**

The Fund's investments expose it to changes in interest rates and foreign currency variations, as well as credit and liquidity risk. The directors have approved policies and procedures in each of these areas to manage these exposures. The Fund does not speculatively trade derivatives and only utilises derivatives to manage the risk and return of the Fund's investments.

The Fund does not enter into Forward Exchange contracts. It purchases US dollars at market price based on prevailing advice and board policy. As at 30 June 2014, the Fund held cash in AUD and USD. During the year, a number of term deposits on 30 to 60 day terms were arranged via the custodian Australian Executor Trustees Ltd (AET).

**Significant Changes in State Of Affairs**

In the opinion of the directors, there were no significant changes in the state of affairs of the Fund that occurred during the financial year, apart from the continued acquisition of US Commercial properties in accordance with the Fund's investment strategy.

**After Balance Date Events**

*Properties Acquired*

The following properties were acquired or had gone unconditional pending acquisition after balance date:

<b>Address</b>	<b>Acquisition Date</b>	<b>USD</b>
1221 SE 9th Terrace, Cape Coral, FL	10 July 2014	690,000
6205 & 6215 Shiloh Crossing, Alpharetta, GA 1110-1118 Airport Circle & 1205 Texas Star Parkway, Euless, TX	18 July 2014	5,250,000
1013-1019 SE 12th Avenue, Cape Coral, FL	10 July 2014	3,965,000
18538-18562 U.S. Highway 19, Clearwater, FL	19 Sept 2014	634,480
	29 Sept 2014	399,665
931 & 932 NE 24th Lane, Cape Coral, FL	30 Sept 2014	476,179

*Revaluation of Property to Fair Value*

On 28 August 2014 the directors resolved to revalue 6205 & 6215 Shiloh Crossing, Alpharetta, GA to the independently appraised fair market value of \$6,200,000.



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**DIRECTORS' REPORT (cont'd)**

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*Fall In the Value of the AUD: USD*

Up until these accounts were issued, during the month of September the AUD depreciated significantly in value against the USD, providing the Fund with expected unrealised foreign exchange gains of \$2,455,075. Unrealised foreign exchange movements are reflected in the monthly unit price.

**Likely Developments and Expected Results of Operations**

The Fund will continue to operate in accordance with its investment policy as detailed in the PDS issued 18 July 2013.

**Environmental Regulation**

The Fund's operations are not subject to any significant environmental regulations under Commonwealth, State or Territory Legislation.

**Indemnification and Insurance of Officers and Auditors**

The Fund has entered into an insurance policy to indemnify each director of the Responsible Entity, to an amount of \$5,000,000, against any liability arising from a claim brought against the company and the directors by a third party for the supply of substandard services or advice. The agreement provides for the insurer to pay all damages and costs which may be brought against the directors.

The Fund has not indemnified any auditor of the Fund.

The report is made in accordance with a resolution of the directors.

Dated at Melbourne on 30 September 2014



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Stephen McKnight  
Chairman

**AUDITOR'S INDEPENDENCE DECLARATION  
UNDER S 307C OF THE CORPORATIONS ACT 2001  
TO THE DIRECTORS OF PLANTATION CAPITAL LIMITED, THE RESPONSIBLE ENTITY**

I declare that, to the best of my knowledge and belief, during the period ended 30 June 2014, 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.



**NEXIA MELBOURNE**  
ABN 16 847 721 257



**GEORGE S DAKIS**  
**Partner**  
**Audit & Assurance Services**

Melbourne

30 September 2014

**Nexia Melbourne**

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**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 30 JUNE 2014**

	Note	2014 \$	2013 \$
<b>Income</b>			
Due diligence rebate		202,345	-
Interest income		63,763	547,071
Fair value gain on investment properties	1 (h)	3,749,586	-
Rental income		2,926,691	126,969
Foreign currency gain		115,415	1,469,379
<b>Total Income</b>		<b>7,075,800</b>	<b>2,143,419</b>
<b>Operating Expenses</b>			
Accounting and audit fees		49,169	35,175
Responsible Entity's fees	1	763,768	335,863
Compliance costs		116,516	36,040
Custodian fees		26,873	19,088
Insurance		257,933	82,665
Finance costs		153,105	6,667
Legal & due diligence		588,054	68,050
Property expenses		1,226,703	49,222
Other operating expenses		112,078	61,239
<b>Total Operating Expenses</b>		<b>3,294,199</b>	<b>694,009</b>
Operating profit before income tax		3,781,601	1,449,410
Income tax expense	1(n)	(1,165,554)	-
<b>Operating profit after income tax</b>		<b>2,616,047</b>	<b>1,449,410</b>
Other comprehensive income		-	-
<b>Total Comprehensive Income</b>		<b>2,616,047</b>	<b>1,449,410</b>

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

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**CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 30 JUNE 2014**

	<b>Note</b>	<b>2014 \$</b>	<b>2013 \$</b>
<b>Current Assets</b>			
Cash And Cash	4	19,691,744	25,828,973
Equivalents			
Loans Receivable	5	-	5,990
Sundry Debtors	6	295,005	75,672
Other Current Assets	7	958,757	119,949
<b>Total Current Assets</b>		<b>20,945,506</b>	<b>26,030,584</b>
<b>Non - Current Asset</b>			
Investment Properties	8	42,023,448	5,049,284
Other Assets		10,611	-
<b>Total Non - Current Asset</b>		<b>42,034,060</b>	<b>5,049,284</b>
<b>Total Assets</b>		<b>62,979,566</b>	<b>31,079,868</b>
<b>Current Liabilities</b>			
Provisions	9	22,600	12,000
Trade and Other	10		
Payables		1,136,010	110,262
Distributions Payable		2,062,554	-
<b>Total Current Liabilities</b>		<b>3,221,164</b>	<b>122,262</b>
<b>Non - Current Liabilities</b>			
Borrowings	11	5,465,630	1,269,147
Deferred Tax Liability	1(n)	1,165,304	-
<b>Total Non - Current Liabilities</b>		<b>6,630,934</b>	<b>1,268,147</b>
<b>Total Liabilities</b>		<b>9,852,098</b>	<b>1,391,409</b>
<b>Net Assets</b>		<b>53,127,468</b>	<b>29,688,459</b>
<b>Net Assets Attributable To Unitholders</b>			
Unitholders' Funds	12	52,968,294	27,460,651
Distributions			
paid/payable		631,005	1,346,131
Foreign Currency			
Reserve Account		(471,831)	881,677
<b>Total Net Assets Attributable To Unitholders</b>		<b>53,127,468</b>	<b>29,688,459</b>

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

**PASSIVE INCOME (USA COMMERCIAL PROPERTY) FUND  
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**CONSOLIDATED STATEMENT OF CHANGES IN  
NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS  
FOR THE YEAR ENDED 30 JUNE 2014**

<b>30 June 2014 Consolidated Entity</b>	<b>Note</b>	<b>Unitholders' Funds \$</b>	<b>Distributions Paid/Payable \$</b>	<b>Other Reserves \$</b>	<b>Total Equity \$</b>
Net Profit Attributable to Unitholders		-	2,616,047	-	2,616,047
Total Comprehensive Income For The Year		-	2,616,047	-	2,616,047
<b>Transactions With Unitholders In Their Capacity As Unitholders:</b>					
Balance At 30 June 2013		27,460,651	1,346,131	881,677	29,688,459
Foreign Currency Reserve		-	-	(1,353,508)	(1,353,508)
Distributions	13	-	(3,331,173)	-	(3,331,173)
Units Issued – Applications And Reinvestments	12	25,566,623	-	-	25,566,623
Capital Raising Costs	12	(58,980)	-	-	(58,980)
Total Transactions With Unitholders In Their Capacity As Unitholders		25,507,643	(3,331,173)	(1,353,508)	20,822,962
<b>Balance as at 30 June 2014</b>		<b>52,968,294</b>	<b>631,005</b>	<b>(471,831)</b>	<b>53,127,468</b>
<b>30 June 2013</b>					
<b>Consolidated Entity</b>	<b>Note</b>	<b>Unitholders' Funds \$</b>	<b>Distributions Paid/Payable \$</b>	<b>Other Reserves \$</b>	<b>Total Equity \$</b>
Net Profit Attributable to Unitholders		-	1,449,410	-	1,449,410
Total Comprehensive Income For The Year		-	1,449,410	-	1,449,410
<b>Transactions With Unit Holders In Their Capacity As Unitholders:</b>					
Foreign Currency Reserve		-	-	881,677	881,677
Distributions	13	-	(103,279)	-	(103,279)
Units Issued – Applications And Reinvestments	12	27,572,272	-	-	27,572,272
Capital Raising Costs	12	(111,621)	-	-	(111,621)
Total Transactions With Unitholders In Their Capacity As Unitholders		27,460,651	(103,279)	881,677	28,239,049
<b>Balance as at 30 June 2013</b>		<b>27,460,651</b>	<b>1,346,131</b>	<b>881,677</b>	<b>29,688,459</b>

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

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**CONSOLIDATED STATEMENT IN OF CASHFLOWS  
FOR THE YEAR ENDED 30 JUNE 2014**

	<u>Note</u>	<u>2014</u> \$	<u>2013</u> \$
<b>Cash flows from operating activities</b>			
Receipts from customers		3,091,497	126,969
Payments to suppliers		(2,909,747)	(640,752)
Interest received		63,763	547,071
Interest paid		(153,105)	(6,667)
Net cash provided by operating activities	15	<u>92,408</u>	<u>26,621</u>
<b>Cash flows from investing activities</b>			
Deposit on properties		(17,851)	(119,949)
Purchase of equipment		(135,090)	-
Purchase of investment properties		(32,984,685)	(5,049,284)
Net cash used in investing activities		<u>(33,137,626)</u>	<u>(5,169,233)</u>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		4,098,327	1,263,157
Repayment of short term loan		5,990	-
Applications received from Unit holders		25,487,994	27,572,272
Unit raising costs		(58,980)	(111,621)
Distributions paid		(1,268,619)	(103,279)
Net cash provided by financing activities		<u>28,264,712</u>	<u>28,620,529</u>
Net increase/(decrease) in cash and cash equivalents		(4,780,506)	23,477,917
Cash at beginning of the financial year		25,828,973	-
Effect of exchange rate on cash and cash equivalents		(1,356,723)	2,351,056
<b>Cash at the end of the financial year</b>	<b>4</b>	<b><u>19,691,744</u></b>	<b><u>25,828,973</u></b>

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

**PASSIVE INCOME (USA COMMERCIAL PROPERTY) FUND  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2014**

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**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

The following is a summary of significant accounting policies adopted by the Fund in the preparation and presentation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

**(a) Basis of preparation of the financial report**

This financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, interpretations and other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

This financial report has been prepared for the Fund as a consolidated Group. The Fund is a for-profit entity for the purpose of preparing the financial report.

The Responsible Entity of the Fund is Plantation Capital Limited (the Responsible Entity). Unless otherwise noted, the financial report is presented in Australian currency.

The Fund's objectives are to seek to generate passive income and growth returns by acquiring assets in a USA-based REIT structure, in accordance with the objectives disclosed in the PDS dated 18 July 2013.

The financial report was authorised for issue by the directors of the Responsible Entity as at the date of the directors' report.

*Compliance with IFRS*

The financial report of the Fund complies with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

*Historical cost convention*

The financial report has been prepared under the historical cost convention, as modified by revaluations to fair value for certain classes of assets as described in the accounting policies.

All assets and liabilities have been presented in decreasing order of liquidity.

*Critical accounting estimates*

The preparation of the financial report requires the use of certain estimates and judgements in applying the Fund's accounting policies. Those estimates and judgements significant to the financial report are disclosed in Note 2.

**(b) Principles of Consolidation**

A controlled entity is any entity controlled by the Fund. Control exists where the Fund has the capacity to dominate the decision-making in relation to the financial and operating policies of another entity so that the other entity operates with the Fund to achieve the objectives of the Group.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2014**

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**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**(b) Principles of Consolidation (cont'd)**

The consolidated financial report incorporate the assets and liabilities of all entities controlled by the Fund as at 30 June 2014 and the results of all controlled entities for the year ended 30 June 2014.

The Fund and its controlled entities together are referred to in this financial report as the consolidated entity and the Fund.

All inter-group balances and transactions between entities in the consolidated group, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those adopted by the parent entity.

Transactions, balances and unrealised gains on transactions between group entities are eliminated on consolidation. Where control of an entity is obtained during a financial period, its results are included in the consolidated income statement from the date on which control commences. Where control of an entity ceases during a financial period its results are included for that part of the period where control existed.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the parent entity.

**(c) Investments in Subsidiaries**

The Fund's indirect property investments are held via its controlling interest in Ozinus Realty, LLC – a limited liability company registered in Delaware and has elected to be treated as a Real Estate Investment Trust (REIT) for US tax purposes. In turn, Ozinus Realty, LLC owns 100% of all the Limited Liability Companies that have been established to acquire the US properties acquired as at the date of this report.

**(d) Income and expenses**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. Specific revenues and expenses are recognised as follows.

*Interest income*

Income from cash deposits is recognised at the time of receipt.

*Income and expenses*

Property income and expenses from US investment properties are recognised on an accruals basis. Non-property income and expenses are also recognised on an accruals basis.



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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**(e) Finance costs**

Finance costs are recognised as expenses in the period in which they are incurred.

**(f) Distributions**

Provision is made for the amount of any distribution declared, determined or publicly recommended by the directors on or before the end of the period but not distributed at reporting date.

**(g) Cash and cash equivalents**

Cash and cash equivalents include cash on hand and at banks, short-term deposits held with an original maturity of three months or less, held at call with banks or financial institutions which the Responsible Entity uses in its day to day management of the Fund's cash requirements.

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

The distribution amount payable to Unitholders as at year end is recognised separately on the statement of financial position as Unitholders are presently entitled to the distributable income as at 30 June 2014 under the Fund's constitution.

**(h) Investment Property**

Investment properties are properties which are held either to earn rental income or for capital appreciation, or for both. Investment properties are stated at fair value. The Fund has an internal Director's valuation process for determining the fair value at each reporting date.

An external, independent valuer, having an appropriate recognised professional qualification and recent experience in the location and category of property being valued, values individual properties every three years on a rotation basis or on a more regular basis if considered appropriate and as determined by management in accordance with Responsible Entity approved valuation policy. These external valuations are taken into consideration when determining the fair value of the investment properties. The fair values are based on market values, being the estimated amount for which a 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 have each acted knowledgeably, prudently and without compulsion. Market data of recent transactions for similar assets and the investors required return (property capitalisation rate) are considered when adopting a valuation figure.

Any gain or loss arising from a change in fair value is recognised in the income statement.

Income and expenses from investment property is accounted for as described in accounting policy 1(d).

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**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**(i) Trade and other receivables**

Trade receivables are recognised initially at fair value, and subsequently measured at fair value less a provision for impairment. Trade receivables are generally due for settlement within 30 days.

Collectability of trade and other receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for impairment of receivables is raised when objective evidence of impairment in relation to collection exists on a case by case basis.

The provision is the difference between the assets carrying amount and the present value of estimated cash flows, discounted at the original effective interest rate. Cash flows for short term receivables are not discounted if the effect of discounting is immaterial.

**(j) Interest bearing liabilities**

Interest bearing liabilities are initially recognised at fair value, net of transaction costs incurred. Interest bearing liabilities are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the interest bearing liability using the effective interest method.

Interest bearing liabilities are classified as current liabilities unless the Fund has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date. Interest bearing liabilities are derecognised from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed is recognised in other income or other expenses.

**(k) Financial instruments**

*Classification*

The Fund classifies its financial instruments in the following categories: financial assets at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition.

*Loans and Receivables*

Loans and receivables are measured at fair value at inception and subsequently at amortised cost using the effective interest rate method.

*Financial Liabilities*

Financial liabilities include trade payables, other creditors and loans from third parties including amounts due to director-related entities.

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**(l) Provisions**

Provisions are recognised when the Fund has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

**(m) Unit holder Funds**

Units issued by the Fund are redeemable at the option of the unit holder ("puttable") as per the procedure outlined in the PDS dated 18 July 2013. As the units satisfy all of the criteria for recognition as puttable financial instruments under paras 16A and 16B of AASB 132: Financial Instrument: Presentation, Unitholders' funds are classified as equity. Units are measured at their issue price.

**(n) Distributions and taxation**

Under current Australian income tax legislation, the Fund is not liable to pay income tax provided Unitholders are presently entitled to the Fund's distributable income and its taxable income (including assessable realised capital gains) is fully distributed to Unitholders.

The Fund's constitution requires that all taxable income be distributed to Unitholders each financial year. However, due to differences in the way transactions are treated from an accounting and taxation standpoint, these financial accounts may show a balance of undistributed income at year end whereas all income has been distributed for taxation purposes.

The US subsidiary (Ozinus Realty, LLC) has elected to be taxed as a US real estate investment trust (REIT) under US Federal taxation law, and on this basis will generally not be subject to US income taxes on that portion of its taxable income which are distributed to its shareholders, provided that it complies with the requirements of the US Tax Code and maintains its REIT status.

The US REIT may ultimately realise a capital gain or loss on disposal which may result in a US income tax liability. If the capital gain is realised, it may give rise to a foreign income tax offset which would be available to Unitholders. A deferred tax liability is recognised at 35% off the temporary difference between the carrying amount of the assets in the Statement of Financial Position and their associated US tax cost bases.

A current tax liability will be recognised in the financial statements for any realised taxable gain on the disposal of US investments properties.

**(o) Determination of application and redemption prices**

The application and redemption prices are determined by the value of net assets attributable to Unitholders which is the value of assets of the Fund less its liabilities other than liabilities representing rights attaching to units, adjusted for estimated transaction costs, divided by the number of units on issue.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**(p) Goods and services tax (GST)**

Management fees and other expenses are recognised net of the amount of goods and services tax (GST) recoverable from the Australian Taxation Office (ATO).

Payables are stated with the amount of GST included.

The net amount of GST recoverable from the ATO is included in receivables in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis.

**(q) Foreign currencies**

*Functional and presentation currency*

The Fund's financial report is measured using its functional currency, which is the currency of the primary economic environment in which the Fund operates. The financial report is presented in Australian dollars, which is the Fund's functional and presentation currency.

*Transactions and balances*

Transactions in foreign currencies of the Fund are translated into functional currency at the rate of exchange at the date of the transaction.

Foreign currency monetary items that are outstanding at the reporting date (other than monetary items arising under foreign currency contracts where the exchange rate for that monetary item is fixed in the contract) are translated using the spot rate at the end of the financial year.

Resulting exchange differences arising on settlement or re-statement are recognised as income and expenses for the financial year.

*Consolidated Entities*

The results and financial position of foreign subsidiaries which has a functional currency different from the presentation currency is translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses in the income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of Unitholders' funds.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**(q) Foreign currencies (cont'd)**

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments are taken to Unitholders' funds.

When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences are recognised in the income statement as part of the gain or loss on sale.

**(r) Comparative information**

As the Fund was registered on 2 March 2012, where appropriate comparative figures labelled as 2013 were for the first financial period and represent transactions from 2 March 2012 until 30 June 2013.

**(s) New and Amended Accounting Policies Adopted by the Scheme**

**Fair value measurement**

The Scheme has applied AASB 13: Fair Value Measurement and the relevant consequential amendments arising from the related Amending Standards prospectively from the mandatory application date of 1 January 2013 and in accordance with AASB 108: Accounting Policies, Changes in Accounting Estimates and Errors and the specific transitional requirements in AASB 13.

AASB 13 defines fair value, sets out in a single Standard a framework for measuring fair value, and requires disclosures about fair value measurement.

No material adjustments to the carrying amounts of any of the Scheme's assets or liabilities were required as a consequence of applying AASB 13. Nevertheless, AASB 13 requires enhanced disclosures regarding assets and liabilities that are measured at fair value and fair values disclosed in the Scheme's financial statements. These enhanced disclosures are provided in Note 17.

**(t) New Accounting Standards for Application in Future Periods**

The Australian Accounting Standards Board has issued a number of new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods, some of which are relevant to the Scheme. The Responsible Entity has decided not to early adopt any of the new and amended pronouncements. The Responsible Entity's assessment of the new and amended pronouncements that are relevant to the Scheme but applicable in future reporting periods is set out below:

- AASB 9: Financial Instruments (December 2010) and associated Amending Standards (applicable for annual reporting periods commencing on or after 1 January 2017).

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**(t) New Accounting Standards for Application in Future Periods (cont'd)**

These Standards will be applicable retrospectively (subject to the provisions on hedge accounting outlined below) and include revised requirements for the classification and measurement of financial instruments, revised recognition and derecognition requirements for financial instruments and simplified requirements for hedge accounting.

The key changes that may affect the Scheme on initial application of AASB 9 and associated Amending Standards include certain simplifications to the classification of financial assets, simplifications to the accounting of embedded derivatives, and the irrevocable election to recognise gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. AASB 9 also introduces a new model for hedge accounting that will allow greater flexibility in the ability to hedge risk, particularly with respect to hedges of non-financial items. Should the entity elect to change its hedge policies in line with the new hedge accounting requirements of AASB 9, the application of such accounting would be largely prospective.

Although the directors anticipate that the adoption of AASB 9 may have an impact on the Scheme's financial instruments, it is impracticable at this stage to provide a reasonable estimate of such impact.

- AASB 2012-3: Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities (applicable for annual reporting periods commencing on or after 1 January 2014).

This Standard adds application guidance to AASB 132: Financial Instruments: Presentation to address potential inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of “currently has a legally enforceable right of set-off” and that some gross settlement systems may be considered equivalent to net settlement.

- AASB 2013-3: Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets (applicable for annual reporting periods commencing on or after 1 January 2014).

This Standard amends the disclosure requirements in AASB 136: Impairment of Assets pertaining to the use of fair value in impairment assessment and is not expected to significantly impact the Scheme's financial statements.

- AASB 2013-4: Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting (applicable for annual reporting periods commencing on or after 1 January 2014).

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**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**(t) New Accounting Standards for Application in Future Periods (cont'd)**

AASB 2013-4 makes amendments to AASB 139: Financial Instruments: Recognition and Measurement to permit the continuation of hedge accounting in circumstances where a derivative, which has been designated as a hedging instrument, is novated from one counterparty to a central counterparty as a consequence of laws or regulations. This Standard is not expected to significantly impact the Scheme's financial statements.

- AASB 2013-5: Amendments to Australian Accounting Standards – Investment Entities (applicable for annual reporting periods commencing on or after 1 January 2014).

AASB 2013-5 amends AASB 10: Consolidated Financial Statements to define an "investment entity" and requires, with limited exceptions, that the subsidiaries of such entities be accounted for at fair value through profit or loss in accordance with AASB 9 and not be consolidated. Additional disclosures are also required. This Standard is not expected to significantly impact the Scheme's financial statements.

**NOTE 2: CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

The Fund makes certain estimates and assumptions which, by definition will seldom represent actual results. The estimates and assumptions that have a significant inherent risk in respect of estimates, which could have a material impact on the assets and liabilities in the financial year, are discussed below:

*Income Tax*

Under current legislation the Fund is not subject to income tax as its taxable income (including assessable realised capital gains) is distributed in full to the Unitholders.

In accordance with the Product Disclosure Statement and Constitution, the Fund fully distributes its taxable income to Unitholders. This assumes the continued consistent treatment of this matter by the Australian Taxation Office.

*Investment Property*

Critical judgements are made by the Responsible Entity in respect of the fair values of investment properties. The fair values of these investments are reviewed regularly by the Responsible Entity with reference to external independent property valuations, recent offers and market conditions existing at reporting date. The Fund continues to obtain independent valuations of properties at least once every three years.

The critical assumptions underlying the Responsible Entity's estimates of fair values relate to the receipt of contractual rents, expected future market rentals, maintenance requirements and discount rates that reflect current market uncertainties. If there is any change in these assumptions or regional or national economic conditions, the fair value of investment properties may differ.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 3: FINANCIAL RISK MANAGEMENT**

The Fund may be exposed to a variety of financial risks comprising:

- (a) Market price risk
- (b) Currency risk
- (c) Liquidity risk
- (d) Credit risk
- (e) Fair values
- (f) Interest rate risk

The board of directors of the Responsible Entity has the overall responsibility for identifying and managing operational and financial risks. The Fund holds the following financial instruments during the year:

	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
<b>Financial assets</b>		
Cash and cash equivalents	19,691,744	25,828,973
Sundry Debtors	295,005	75,672
Loans Receivable	-	5,990
Other current assets	958,757	119,949
	20,945,506	26,030,584
<b>Financial liabilities</b>		
(excluding net assets attributable to Unitholders)		
Trade and other Payables	1,136,010	110,262
Distributions Payables	2,062,554	-
Vendor Loans	5,367,474	1,269,147
USA REIT Funding	98,156	-
	8,664,194	1,379,409

**(a) Market price risk**

Market price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the market price (other than those arising from interest rate risk or currency risk).

**(b) Currency risk**

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.



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**NOTE 3: FINANCIAL RISK MANAGEMENT (cont'd)**

**(b) Currency risk (cont'd)**

The Fund, via its controlled US entities, operates internationally and invests in financial instruments that are denominated in currencies other than the Australian dollar, primarily in US Dollars (USD).

Currency risk arises as the value of financial instruments denominated in other currencies will fluctuate due to changes in exchange rates. The Fund has not entered into Forward Exchange contracts. It purchases foreign currency at market price based on prevailing advice and board policy.

At balance date, the carrying value of the Fund's net financial assets and liabilities held in foreign currencies expressed in AUD and as a percentage of its net assets were as follows:

	2014		2013	
	\$	% of net assets	\$	% of net assets
Cash Held In USD	9,912,163	18.66%	14,021,407	47.23%
USA Properties	41,898,970	78.86%	5,049,284	17.01%

	2014		2013	
	Year End	Average	Year End	Average
AUD:USD exchange rates	0.9424	0.9154	0.9140	1.015

*Market Derivatives*

Forward exchange contracts are entered into in order to buy and sell specified amounts of foreign currency in the future at stipulated exchange rates. The Fund may utilise forward exchange contracts to mitigate foreign currency risk for certain anticipated transactions undertaken in foreign currencies. At balance date there were no outstanding forward exchange contracts.

*Sensitivity*

If foreign exchange rates were to increase/decrease by 10% from rates used to determine fair values as at the reporting date, assuming all other variables that might impact on fair value remain constant, then the impact on profit for the year and net assets attributable to Unitholders is as follows:

	2014		2013	
	+10%	-10%	+10%	-10%
Impact on profit before finance costs allocated to Unitholders	(775,899)	948,321	(1,274,603)	1,557,847
Impact on net assets attributable to Unitholders	(3,874,857)	3,398,368	(1,940,930)	2,372,247

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 3: FINANCIAL RISK MANAGEMENT (cont'd)**

**(c) Liquidity risk**

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

Given the Fund invests, albeit indirectly, in real estate, which by its nature is an illiquid asset, there is no guarantee that the Responsible Entity will be able to honour the intended redemption offers set out in PDS dated 18 July 2013.

There is also a risk that, if a redemption offer is made, the Fund will be unable to meet redemption requests in a timely manner or that redemption requests are scaled back. In the event the Fund is wound up and required to dispose of assets to fund redemptions, there is a risk that the Fund may not be able to realise sufficient assets in a timely manner or at an optimal sale price. This may affect the Responsible Entity's ability to return capital to Unitholders and may reduce the Fund's NTA per Unit.

The Responsible Entity manages this risk by ensuring there are sufficient liquid assets to meet operating debt obligations. For instance, the Responsible Entity will permit borrowings of up to 40% of a property's value and wherever possible pay interest expense from rental income received from that property. The liquidity risk associated with redemptions is managed by its redemption policy as disclosed in the PDS dated 18 July 2013.

*Maturity analysis*

The table below represents the undiscounted contractual settlement terms for financial instruments and managements expectation for settlement of undiscounted maturities.

30 June 2014	<b>&lt; 6 Months \$'000</b>	<b>&gt; 5 years \$'000</b>	<b>Carrying amount \$'000</b>
Cash and cash equivalents	19,692	-	19,692
Financial assets held at fair value through profit and loss			
Receivables	295	-	295
Other financial assets	959	-	959
	<u>20,946</u>	<u>-</u>	<u>20,946</u>
Financial liabilities held at fair value through profit and loss			
Trade & Other Payables	(1,136)	-	(1,136)
Distributions Payable	(2,063)	-	(2,063)
Other financial liabilities	-	(5,465)	(5,465)
	<u>(3,199)</u>	<u>(5,465)</u>	<u>(8,664)</u>
<b>Net maturities</b>	<b><u>17,747</u></b>	<b><u>(5,465)</u></b>	<b><u>12,282</u></b>

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**NOTE 3: FINANCIAL RISK MANAGEMENT (cont'd)**

**(c) Liquidity risk (cont'd)**

*Maturity analysis (cont'd)*

30 June 2013	<b>&lt; 6 Months \$'000</b>	<b>&gt; 5 years \$'000</b>	<b>Carrying amount \$'000</b>
Cash and cash equivalents	25,829	-	25,829
Financial assets held at fair value through profit and loss			
Receivables	76	-	76
Other financial assets	120	-	120
	<u>26,025</u>	<u>-</u>	<u>26,025</u>
Financial liabilities held at fair value through profit and loss			
Payables	(110)	-	(110)
Other financial liabilities	-	(1,269)	(1,269)
	<u>(110)</u>	<u>(1,269)</u>	<u>(1,379)</u>
<b>Net maturities</b>	<b><u>25,915</u></b>	<b><u>(1,269)</u></b>	<b><u>24,646</u></b>

*Puttable financial instruments*

Units issued by the Fund are redeemable at the option of the unit holder ("puttable") as per the procedure outlined in the PDS dated 18 July 2013. As the units satisfy all of the relevant criteria for recognition as puttable financial instruments under AASB 132, Unitholders' funds are classified as equity (rather than financial liabilities). Consequently, the foregoing liquidity risk disclosures do not include contractual or expected cash flow information in respect of the units.

The intention not to redeem units until after October 2015 significantly limits the liquidity risk to which the Fund is presently exposed through its units. Accordingly, the foregoing liquidity risk disclosures are representative of the Fund's overall exposure to liquidity risk.

**(d) Credit risk exposures**

Credit risk represents the loss that would be recognised if counterparties failed to meet the contracted obligation. Market prices generally incorporate credit assessments into valuations and risk of loss is implicitly provided for in the carrying value of on-balance sheet financial assets and liabilities as they are marked to market. The total credit risk for on-balance sheet items including fixed income and equity securities is therefore limited to the amount carried on the statement of financial position.

**(e) Fair values of financial assets and liabilities**

Financial asset and liabilities measured and recognised at fair value have been determined by the following fair value measurement hierarchy:

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 3: FINANCIAL RISK MANAGEMENT (cont'd)**

**(e) Fair values of financial assets and liabilities (cont'd)**

Level 1:	Quoted prices (unadjusted) in active markets for identical assets or liabilities. Fair value of listed equity securities is determined at the quoted closing bid price at the balance date.
Level 2:	Input other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Fair value of derivatives is determined at quoted prices from financial institutions at the balance date.
Level 3:	Inputs for the asset or liability that are not based on observable market data. Unlisted equity securities have significant unobservable inputs. Their fair value is established by using valuation techniques.

Fair value is the amount at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties to an arm's length transaction. Due to the short term nature of settlement, the carrying amounts of trade and other receivables, trade and other payables, and distributions payable are approximate fair values as presented in the Consolidated Statement of Financial Position.

**(f) Interest rate risk**

The Fund's exposure to interest rate risks in relation to future cash flows and the effective weighted average interest rates on classes of financial assets and liabilities at balance date are as follows:

30 June 2014	Interest Bearing \$'000	Non- Interest Bearing \$'000	Total Carrying Amount \$'000	Weighted Average Effective Interest Rate	Fixed / Variable Rate
<b>Financial Assets</b>					
Cash and cash equivalents	19,692	-	19,692	0.8%	Variable
Sundry debtors	-	295	295		
Other financial assets	-	959	959		
<b>Total financial assets</b>	<b>19,692</b>	<b>1,254</b>	<b>20,946</b>		
<b>Financial Liabilities</b>					
Trade creditors & payables	-	(1,136)	(1,136)		
Distribution Payable	(2,063)		(2,063)		
USA REIT Funding	(98)		(98)		
Borrowings	(5,367)	-	(5,367)	4.5%	Fixed
<b>Total financial liabilities</b>	<b>(7,528)</b>	<b>(1,136)</b>	<b>(8,664)</b>		
<b>Net Financial Assets</b>	<b>12,164</b>	<b>118</b>	<b>12,282</b>		

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**NOTE 3: FINANCIAL RISK MANAGEMENT (cont'd)**

*Interest Rate Risk (cont'd)*

30 June 2013	Interest Bearing \$'000	Non- Interest Bearing \$'000	Total Carrying Amount \$'000	Weighted Average Effective Interest Rate	Fixed / Variable Rate
<b>Financial Assets</b>					
Cash and cash equivalents	25,829	-	25,829	0.73%	Variable
Sundry debtors	-	76	76		
Other financial assets	-	120	120		
<b>Total financial assets</b>	<b>25,829</b>	<b>196</b>	<b>26,025</b>		
<b>Financial Liabilities</b>					
Trade creditors & Payables	-	(110)	(110)		
Distributions Payable	-		-		
USA REIT Funding	-		-		
Vendor Loans	(1,269)	-	(1,269)	3.5%	Fixed
<b>Total financial liabilities</b>	<b>(1,269)</b>	<b>(110)</b>	<b>(1,379)</b>		
<b>Net Financial Assets</b>	<b>24,560</b>	<b>86</b>	<b>24,646</b>		

*Sensitivity*

If interest rates were to increase 100 basis points, or decrease 100 basis points (as this would mean the effective interest rate is zero), from variable rates used to determine fair values as at the reporting date, assuming all other variables that might impact on fair value remain constant, then the impact on profit for the year and net assets attributable to Unitholders is as follows:

	2014		2013	
	+100 bp \$	-100 bp \$	+100 bp \$	-100 bp \$
Impact on profit before finance costs allocated to Unitholders	6,376	(6,376)	273,558	105,215
Impact on net assets attributable to Unitholders	-	-	-	-

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2014**

Note	2014 \$	2013 \$
<b>NOTE 4: CASH AND CASH EQUIVALENTS</b>		
Cash in bank Australian accounts AUD	9,779,580	8,417,183
Cash in bank Australian accounts USD 1 (q)	8,534,891	14,021,407
Cash in bank US accounts USD 1 (q)	1,377,273	3,390,383
	19,691,744	25,828,973

Note	2014 \$	2013 \$
<b>NOTE 5: LOANS RECEIVABLE</b>		
Loan – Ozinus Services, LLC	-	5,990

<b>NOTE 6: SUNDRY DEBTORS</b>		
Rental income owing	265,428	34,381
GST Refund	29,577	41,291
Total Sundry Debtors	295,005	75,672

<b>NOTE 7: OTHER CURRENT ASSETS</b>		
Escrow deposits	137,800	119,949
Prepaid Insurance	203,276	-
SSS Clearing Account	434,959	-
Security Deposits	2,722	-
Provision for Units on Issue	180,000	-
	958,757	119,949

**NOTE 8: INVESTMENT PROPERTIES**

	2014		2013	
	Fair Value USD	AUD	Fair Value USD	AUD
<b>Texas Property</b>				
8344 RL Thornton Fwy, Dallas, TX	3,079,366	3,267,669	-	-
1671 Riverview Dve, Lewisville, TX	3,600,000	3,820,139	-	-
401 - 403 Powerhouse, McKinney, TX	4,125,000	4,377,243	-	-
Total Texas Property	10,804,366	11,465,051	-	-
<b>Georgia Property</b>				
6620 Tara Blvd, Jonesboro, GA	3,850,000	4,085,427	-	-

**PASSIVE INCOME (USA COMMERCIAL PROPERTY) FUND  
AND CONTROLLED ENTITIES  
ARSN: 155 770 095**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2014**

**NOTE 8: INVESTMENT PROPERTIES (cont'd)**

	<b>2014</b>		<b>2013</b>	
	<b>Fair Value</b>		<b>Fair Value</b>	
<b>Florida Property</b>	<b>USD</b>	<b>AUD</b>	<b>USD</b>	<b>AUD</b>
3350 Hanson St, Fort Myers	875,000	928,507	625,000	678,337
13584 49th St Nth, Clearwater	3,190,000	3,385,068	2,950,000	3,172,866
4700 110th Ave Nth, Pinellas Park	1,360,000	1,443,164	1,140,000	1,198,081
2853-2861 Work Dve, Fort Myers	2,254,914	2,392,802	-	-
2148-2160 Fowler St, Fort Myers	1,150,500	1,220,322	-	-
1408 & 1424 Hamlin Ave & 2013 Murcott Dve, St Cloud	1,760,000	1,867,624	-	-
1904 Oak Grove Blvd, Lutz	2,534,000	2,688,954	-	-
5250 Giron Circle, Kissimmee	1,366,025	1,449,557	-	-
720 S. Dixie Fwy, New Smyrna Beach	1,700,000	1,803,955	-	-
2634-54 N. Orange Blossom Trail, Kissimmee	1,959,000	2,078,792	-	-
5961 Northland Rd, Fort Myers, FL	480,000	509,352	-	-
16151-171 Pine Ridge Rd, Fort Myers, FL	753,500	799,576	-	-
830 NE 24th Lane, Cape Coral, FL	900,000	955,035	-	-
3125 Central Ave, Fort Myers, FL	115,000	122,032	-	-
12050 49th St Nth, Clearwater, FL	3,900,000	4,138,484	-	-
2621 NE 9th Ave, Cape Coral, FL	650,000	689,747	-	-
<b>Total Florida Property</b>	<b>24,947,439</b>	<b>26,472,970</b>	<b>4,715,000</b>	<b>5,049,284</b>
<b>Total Property</b>	<b>39,601,805</b>	<b>42,023,448</b>	<b>4,715,000</b>	<b>5,049,284</b>
	<b>2014</b>		<b>2013</b>	
	<b>\$</b>		<b>\$</b>	

**NOTE 9: PROVISIONS**

Provision for audit fees	22,600	12,000
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**NOTE 10: TRADE AND OTHER PAYABLES**

Trade Creditors	694,899	110,262
Accrued Property Taxes	277,317	-
Prepaid Rental	163,794	-
	<b>1,136,010</b>	<b>110,262</b>

**PASSIVE INCOME (USA COMMERCIAL PROPERTY) FUND  
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ARSN: 155 770 095**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2014**

**NOTE 11: BORROWINGS**

Vendor Loans Payable	5,367,474	1,269,147
USA REIT Funding	98,156	-
	5,465,630	1,269,147

	2014		2013	
	Loan Amount AUD \$	Loan Amount USD \$	Loan Amount AUD \$	Loan Amount USD \$
Specifics of the finance terms for each loan are as follows:				
13584 49th St Nth, Clearwater, FL <i>3.5% pa interest only until April 2018, then 5% pa interest only until April 2023</i>	1,230,934	1,160,000	1,269,147	1,160,000
2853-2861 Work Dve, Fort Myers, FL <i>Principal and Interest, 4%, 5 year, 5 Year Balloon</i>	620,856	585,079	-	-
1671 Riverview Drive, Lewisville, Tx <i>Interest Only, 4%, 5 year Balloon</i>	1,528,056	1,440,000	-	-
401 - 403 Powerhouse, McKinney, Tx <i>Principal and Interest, 6%, 5 Year Balloon</i>	837,766	789,489	-	-
830 NE 24 <sup>th</sup> Lane, Cape Coral, FL <i>Interest Only, 4.25%, 5 year Balloon</i>	318,345	300,000	-	-
2634-54 N. Orange Blossom Trail, Kissimmee, FL <i>Interest Only, 5%, 5 year Balloon</i>	831,517	783,600	-	-
Total	5,367,474	5,058,168	1,269,147	1,160,000
	2014 \$	2013 \$		
USA REIT Funding <i>An effective rate of interest of 9.7% has been determined on the basis of actual payments in the past year</i>	98,156	-		



**PASSIVE INCOME (USA COMMERCIAL PROPERTY) FUND  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2014**

	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
<b>NOTE 12: UNITHOLDERS' FUNDS</b>		
Opening balance	27,460,651	-
Applications	24,731,346	27,508,630
Distributions reinvested	835,277	63,642
Net Applications and reinvestments	25,566,623	27,572,272
Capital raising costs	(58,980)	(111,621)
Closing Balance	52,968,294	27,460,651

Under the Fund's constitution, each unit represents a right to an individual share in the Fund and does not extend to a right to the underlying assets of the Fund.

When managing capital, management's objective is to ensure the Fund continues to provide Unitholders with returns in accordance with the PDS dated 18 July 2013.

The Fund's redemption policies are disclosed in Note 3(c), and in the PDS dated 18 July 2013.

The amount of net assets attributable to Unitholders can change on a monthly basis.

	<b>Note</b>	<b>2014</b>	<b>2013</b>
		<b>\$</b>	<b>\$</b>
<b>NOTE 13: DISTRIBUTIONS</b>			
Interim	1 (n)	1,266,428	103,279
Final	1 (n)	2,064,745	-
Total Distributions		3,331,173	103,279

In addition to distribution of profits, the distributions to Unitholders may include return of capital.

**NOTE 14: AUDITORS REMUNERATION**

Amounts paid and payable to Nexia Melbourne and Clifton Larsen Allen LLP for audit and assurance services, including auditing the compliance plan

22,600	12,000
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**PASSIVE INCOME (USA COMMERCIAL PROPERTY) FUND  
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ARSN: 155 770 095**

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2014**

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**NOTE 15: CASH FLOW INFORMATION**

**Reconciliation of net cash  
provided by operating activities  
to net operating profit**

Net operating profit	2,616,047	1,449,410
Add/(less) non-cash items:		
Foreign currency gain	(115,415)	(1,469,379)
Unrealised revaluation gains	(3,749,586)	-
Increase in sundry debtors	(219,333)	(75,672)
Increase in other current assets	(640,957)	-
Increase in trade creditors and other payables	1,025,748	110,262
Increase in deferred tax liability	1,165,304	-
Increase in provisions	10,600	12,000
<b>Net cash provided by operating activities</b>	<b>92,408</b>	<b>26,621</b>

**PASSIVE INCOME (USA COMMERCIAL PROPERTY) FUND  
AND CONTROLLED ENTITIES  
ARSN: 155 770 095**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2014**

**NOTE 16: PARENT ENTITY INFORMATION**

**(a) Parent Entity**

The parent entity of the Group is the Passive Income (USA Commercial Property) Fund

**(b) Financial Information**

Passive Income (USA Commercial Property) Fund

	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
<b>Income statement information</b>		
Net profit (loss) attributable to Unitholders of the parent entity	(770,770)	2,331,985
<b>Comprehensive income information</b>		
Total comprehensive income attributable to Unitholders of the parent entity	(770,770)	2,331,985
<b>Statement of Financial Position Information</b>		
Current Assets	18,344,049	22,479,881
Non-Current Assets	34,088,534	7,329,769
Current Liabilities	(2,219,235)	(120,293)
Net Assets	50,213,348	26,689,357
Net assets attributable to Unitholders of the parent entity		
Unitholders Funds	53,138,895	27,572,272
Undistributed Profits	(2,754,946)	2,228,706
Set up costs	(170,601)	(111,621)
Total Equity	50,213,348	29,689,357

**NOTE 17: CONTROLLED ENTITIES**

Subsidiaries controlled by the Fund during the reporting year were:

	<b>Country of Incorporation</b>	<b>% Owned</b>
Ozinus Realty, LLC <i>(acquired 30 November 2012)</i>	USA	100%
Ozinus Hanson, LLC <i>(acquired 13 March 2013 )</i>	USA	100%
Ozinus Pinellas Park, LLC <i>(acquired 12 April 2013)</i>	USA	100%

**PASSIVE INCOME (USA COMMERCIAL PROPERTY) FUND  
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ARSN: 155 770 095**

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2014**

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**NOTE 17: CONTROLLED ENTITIES (cont'd)**

	<u>Country of Incorporation</u>	<u>% Owned</u>
Ozinus Breckinridge, LLC <i>(acquired 16 April 2013)</i>	USA	100%
Ozinus Thornton, LLC <i>(acquired 9 August 2013)</i>	USA	100%
Ozinus Palmetto Grove, LLC <i>(acquired 15 August 2013)</i>	USA	100%
Ozinus Rams Plaza, LLC <i>(acquired 9 September 2013)</i>	USA	100%
Ozinus Hamlin, LLC <i>(acquired 8 October 2013)</i>	USA	100%
Ozinus Eagle Plaza, LLC <i>(acquired 3 December 2013)</i>	USA	100%
Ozinus Giron, LLC <i>(acquired 13 December 2013)</i>	USA	100%
Ozinus Riverview Drive, LLC <i>(acquired 26 December 2013)</i>	USA	100%
Ozinus Powerhouse, LLC <i>(acquired 6 February 2014)</i>	USA	100%
Ozinus NSB, LLC <i>(acquired 14 February 2014)</i>	USA	100%
Ozinus Orange Blossom, LLC <i>(acquired 7 March 2014)</i>	USA	100%
Ozinus Northland, LLC <i>(acquired 4 April 2014)</i>	USA	100%
Ozinus Pine Ridge, LLC <i>(acquired 15 April 2014)</i>	USA	100%
Ozinus Cape Coral 830CC, LLC <i>(acquired 30 April 2014)</i>	USA	100%
Ozinus Shops of Tara, LLC <i>(acquired 1 May 2014)</i>	USA	100%
Ozinus Pitney, LLC <i>(acquired 23 June 2014)</i>	USA	100%
Ozinus NE 9th CC, LLC <i>(acquired 27 June 2014)</i>	USA	100%

**PASSIVE INCOME (USA COMMERCIAL PROPERTY) FUND  
AND CONTROLLED ENTITIES  
ARSN: 155 770 095**

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2014**

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**NOTE 18: RELATED PARTY TRANSACTIONS**

The Responsible Entity of the Fund is Plantation Capital Limited (ABN 65 133 678 089, AFSL 339481).

**Key management personnel**

Any person(s) having authority and responsibility for planning, directing and controlling the activities of the Fund, directly or indirectly, including any director (whether executive or otherwise) of the

Responsible Entity (or its parents) and the Responsible Entity itself, are considered key management personnel of the Fund.

The directors of the Responsible Entity during the financial period were:

Stephen McKnight  
Paul Harper  
Keith Woodhead  
Tommy Senatore (resigned 14 April 2014)  
Haydn Wright (resigned 21 February 2014)

Key management personnel for the Fund also included:-

Mr. James Findlay  
employed from 7 March 2013 to 21 May 2014 in the role Chief Financial Officer.

Mr. Davendra Prasad, Chief Financial Officer  
employed from 26 May 2014 to current in the role Chief Financial Officer.

Remuneration of the key personnel is paid directly by the Responsible Entity. Key personnel are not provided with any remuneration by the Fund itself. Directors are not entitled to any equity interests in the Fund, or any rights to or options for equity interests in the Fund, as a result of the remuneration provided by the Responsible Entity.

**Fees paid to and interests held by the Responsible Entity**

The following fees were paid to the Responsible Entity out of Fund property during the financial year:

	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
Management fee	763,768	335,863
Expense reimbursements	406,045	162,087
<b>Total Fees &amp; Reimbursements</b>	<b>1,169,813</b>	<b>497,950</b>

Expense reimbursements relate to costs incurred by the Fund but paid by the Responsible Entity and then later reimbursed. No fee or margin was charged on top of the expense amount.

**PASSIVE INCOME (USA COMMERCIAL PROPERTY) FUND  
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ARSN: 155 770 095**

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2014**

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**NOTE 17: RELATED PARTY TRANSACTIONS (cont'd)**

Fees paid to the Responsible Entity are pursuant to the disclosures made in the PDS dated 18 July 2013. Expense reimbursements relate to costs incurred by the Responsible Entity on behalf of the Fund, which are charged back to the Fund at cost.

Performance fees are payable to the Responsible Entity where certain performance criteria is met. The Responsible Entity has determined that at year end it is not entitled to a performance fee.

**Related Party Loans**

A loan of \$5,990 to Ozinus Services, LLC an entity controlled by the Responsible Entity, was repaid during the year. No interest is payable on this loan as it is treated as a temporary operational matter. There were no other related party loans.

**Related Party Investments Held By the Fund**

The Fund has no investment in the Responsible Entity at year end.

**Units in the Fund held by related parties**

Details of holdings in the Fund by the Responsible Entity, directors, key personnel and their related entities are set out as below:

	<b>Number of units held as at 30 June 2014</b>	<b>Value of units held as at 30 June 2014</b>
Stephen McKnight ( <i>Director</i> )	785,534	857,882
Davendra Prasad ( <i>CFO</i> )	17,589	19,209
	<b>Number of units held as at 30 June 2013</b>	<b>Value of units held as at 30 June 2013</b>
Stephen McKnight ( <i>Director</i> )	328,374	353,953
James Findlay ( <i>CFO</i> )	49,010	52,774

During, or since the end of the financial year, none of the directors, or director related entities held units in the Fund, directly, indirectly or beneficially, except as noted above.

All transactions with related parties are conducted on normal commercial terms and conditions. From time to time the Responsible Entity or its director-related entities may invest in or withdraw from the Fund. These investments or withdrawals are on the same terms and conditions as those entered into by other Fund investors and are trivial and domestic in nature.

**NOTE 18: COMMITMENTS AND CONTINGENCIES**

There are no outstanding contingent assets and liabilities or commitments as at 30 June 2014.

**PASSIVE INCOME (USA COMMERCIAL PROPERTY) FUND  
AND CONTROLLED ENTITIES  
ARSN: 155 770 095**

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2014**

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**NOTE 19: SUBSEQUENT EVENTS**

The following significant events occurred subsequent to 30 June 2014:

*Properties Acquired*

The following properties were acquired or had gone unconditional pending acquisition after balance date:

<b>Address</b>	<b>Acquisition Date</b>	<b>USD</b>
1221 SE 9th Terrace, Cape Coral, FL	10 July 2014	690,000
6205 & 6215 Shiloh Crossing, Alpharetta, GA	18 July 2014	5,250,000
1110-1118 Airport Circle & 1205 Texas Star Parkway, Eules, TX	10 July 2014	3,965,000
1013-1019 SE 12th Avenue, Cape Coral, FL	19 Sept 2014	634,480
18538-18562 U.S. Highway 19, Clearwater, FL	29 Sept 2014	399,665
931 & 932 NE 24th Lane, Cape Coral, FL	30 Sept 2014	476,179

*Revaluation of Property to Fair Value*

On 28 August 2014 the directors resolved to revalue 6205 & 6215 Shiloh Crossing, Alpharetta, GA to the independently appraised fair market value of \$6,200,000.

*Fall In the Value of the AUD: USD*

Up until these accounts were issued, during the month of September the AUD depreciated significantly in value against the USD, providing the Fund with expected unrealised foreign exchange gains of \$2,455,075. Unrealised foreign exchange movements are reflected in the monthly unit price.

**PASSIVE INCOME (USA COMMERCIAL PROPERTY) FUND  
AND CONTROLLED ENTITIES  
ARSN: 155 770 095**

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2014**

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**NOTE 20: RESPONSIBLE ENTITY DETAILS**

Plantation Capital Limited's registered office and contact details are:

**Registered Office & Street Address**

893A Canterbury Rd  
Box Hill VIC 3128  
AUSTRALIA

**Postal Address**

PO Box 2193  
BLACKBURN SOUTH VIC 3130  
AUSTRALIA

**Other Details**

Phone: 03 8892 3800  
Fax: 03 8892 3811  
Website: [www.passiveincomefund.com](http://www.passiveincomefund.com)  
Email: [admin@passiveincomefund.com](mailto:admin@passiveincomefund.com)



**PASSIVE INCOME (USA COMMERCIAL PROPERTY) FUND  
AND CONTROLLED ENTITIES  
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**DIRECTOR'S OF RESPONSIBLE ENTITY DECLARATION**

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In the opinion of the directors of Plantation Capital Limited, the Responsible Entity of Passive Income Fund

1. The financial statements and notes as set out on pages 2 to 39, are in accordance with the Corporations Act 2001 and:
  - (a) Comply with Accounting Standards in Australia and the Corporations Regulations 2001;
  - (b) As stated in Note 1(a) the consolidated financial statements also comply with International Financial Reporting Standards; and
  - (c) Give a true and fair view of the financial position of the Fund as at 30 June 2014 and of its performance, as represented by the results of its operations and its cash flows for the financial year ended on that date.
2. In the directors' opinion there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.

This declaration has been made in accordance with a Resolution of the Directors of the Responsible Entity, Plantation Capital Limited.



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Stephen McKnight  
Director  
Melbourne: 30 September 2014

**INDEPENDENT AUDITOR'S REPORT TO THE UNITHOLDERS  
OF PASSIVE INCOME (USA COMMERCIAL PROPERTY) FUND**

**Report on the Financial Report**

We have audited the accompanying financial report of Passive Income (USA Commercial Property) Fund (the "Scheme"), which comprises the statement of financial position as at 30 June 2014, the statement of profit or loss and other comprehensive income, statement of changes in net assets and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

*Directors' Responsibility for the Financial Report*

The directors of Plantation Capital 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 also state, in accordance with 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 judgment, 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 Scheme's preparation 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*, which has been given to the directors of the Responsible Entity, would be in the same terms if provided to the directors as at the date of this auditor's report.

**Nexia Melbourne**

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Independent member of Nexia International



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*Auditor's Opinion*

In our opinion:

- a. the financial report of Passive Income (USA Commercial Property) Fund 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 2014 and of its performance for the year ended on that date; and
  - ii. complying with Australian Accounting Standards (including 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.



**NEXIA MELBOURNE**  
ABN 16 847 721 257



**GEORGE S DAKIS**  
**Partner**  
**Audit & Assurance Services**

Melbourne

30 September 2014