

ANNUAL REPORT 2018/19



Holstein

A U S T R A L I A

Annual General Meeting

Wednesday 18 September at the RACV Resort, Inverloch Victoria

THE HOLSTEIN-FRIESIAN ASSOCIATION OF AUSTRALIA INC.

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PRESIDENT'S REPORT

Patrick Glass, President, Gundowring Victoria

For Holstein Australia 2018/19 has been a very successful year and if you asked, "Is this at odds with the general dairy industry?", I would say yes it is. Perhaps the difference represents the intangible value of registered Holsteins which at times we find difficult to articulate!

Emerging from a very challenging 2017/18 our early focus was to build on the changes already implemented and rebuild the financial position of the Association. With the substantial input of export revenue and expense reductions we have achieved a result above expectations. This is a testament to our members, the Board and staff who have all worked towards the best outcome for the breed. The full year financial results will be fully presented later in the meeting.

When we review the level of member service activity we do see a decline which is a challenge for us.

Is the decline a reflection of the overall industry or is our "heartland" of family owned farm businesses declining at a greater rate than the broader industry? It is too early to accurately measure but in time, and once we understand fully the new environment dairy is operating under, it will be important for Holstein to be conversant on the changing industry demographics so we can plan our future.

HERD BOOK

An aspect I would like to address with members is the Herd Book and specifically the integrity of the Herd Book. Some will argue the concept of a Herd Book may seem somewhat old fashioned with technologies such as genomics superseding the applicability. This is far from the truth as accuracy of pedigree is still the most fundamental aspect of genetic improvement.

Historically the Herd Book has been the most accurate source of truth for Holstein pedigrees, so in this changing environment how do we stay in front of the competition? We believe the way to do this is by using the latest technology to our advantage and helping to create an environment to encourage members to register as early as possible.

To that end commencing 1st July 2019 Holstein implemented two changes towards keeping the Herd Book as the most accurate source of pedigree information for the Holstein breed in Australia.

Firstly, compulsory genomic testing of males as a prerequisite for registration and secondly the introduction of scaled fees to encourage members to register as soon as possible.

Yes, there was some negative feedback, but this was far outweighed by the positive, with such decisions being about setting pathways for the future, not just about the present.

As the year progresses and into future years' members and non-members buying registered Holstein bulls will know the exact pedigree of the bull they are purchasing as far as best science allows, adding greater integrity to every female in the Herd Book.

Further to this and something for members to think about is compulsory genomic testing of females. Perhaps not immediately and not with current testing pricing but it could be an option, a logical progression, and something to consider in the not too distant future. .

It is important we keep an open mind on new innovations and technologies that will benefit members and industry.

Continuing the theme of Herd Book and then adding Holstein services we have seen some tremendous sale results for members when compared to the general sales of non-registered Holsteins, and even more so when we see recorded Holsteins sold over all other breeds and cross breeds.

The extra margin being achieved by members from their registered animals reflects the effort put into their breeding programs over a number of years and in some cases over generations. In some instances, these sales clearly demonstrate the financial difference between registered and non-registered Holsteins. Registration, classification, participation at shows and competitions coupled with herd testing make a real and tangible difference, with the market being the true indicator.

Management has successfully worked in conjunction with members and sales agents, becoming increasingly active around marketing not only individual herds but the breed overall, and specifically using social media to further promote sales being conducted by members.

COMMUNICATIONS AND MARKETING

This leads me into another important focus for the Association: Communications and Marketing. We traditionally focused on internal communications through the Journal. Last year we moved to broaden the focus of communication as well as adding a marketing component to the mix. Without compromising member contact frequency in all its forms, we reduced the number of Journal issues from six to four and with the help of external expert resources helped create and deliver a new and vibrant communication and marketing strategy using both traditional print and social media. Over recent times many will have either met or communicated with our Communications Manager, Adam Sawell.

In addition to the Journal, during 2018/19 Holstein has undertaken a range of initiatives including a 12-month marketing campaign in Dairy News Australia; engaged with social media more that has seen considerable growth across a number channels and a number of media initiatives to a range of agricultural publications highlighted most of our initiatives particularly involving Youth.

One additional activity undertaken has been working with members to support their marketing efforts leading up to sales and I'm happy to say to date the feedback has been very positive.

Finally, I would like to touch on internal communications, that is between administration, sub-branches and members. Some progress has been made to improve the flow of information throughout the member community but we realise that there is much more to do.

GOVERNANCE

It is now just over two years since the implementation of the current governance structure and it is fair to say there are aspects working well and some not working as well as we would like. The Board, the Strategic Directions Committee and the Breed Development Committee as recently as this week have commenced a review to determine the best structure to operate under into the future.

Sadly, the industry continues to shrink which reinforces the approach taken during the Governance structure to remove administrative layers out of the Association was correct. What we need to ensure is that we continue to reshape the organisation and that we are always inclusive of our members. There will be more to report on this important topic during the year.

While on the topic of Governance, I would like to briefly discuss succession planning for the Board and Committees as I believe it is very important to constantly refresh the Board and all Committees. Recent experience shows we only receive the minimum nominations required for vacant positions, something I do not believe is healthy or sustainable in the long term. We fully appreciate that Board and Committee positions are voluntary and do impact on members prioritizing their time and ultimately their farm businesses, however Holstein has been built on decades of voluntary participation and today this is just as important as it was in the past. I urge any member who believes passionately enough in the future of the Association and the direction of the breed to consider putting their hand up in some capacity; I assure you it is most rewarding.

I would like to take this opportunity to thank all the members involved at Sub-Branch level for their invaluable contribution to ensure at grass roots level Holstein Australia continues to function. Our Sub-Branches are the bedrock of the Association and the lifeblood of our Holstein community.

BREED STALWARTS

On a somewhat sadder note I wish to recognise that during any given year there will be members and family who pass away. On behalf of the whole Holstein community I would like to take this opportunity to offer my sincere condolences to families who have experienced a death during the year.

In particular, I wish to recognise the significant contribution made by the late Charlie Shearer to the Association and to the Holstein cow both as a Master Breeder and Administrator over many years.

From a breeding and breed promotion perspective he set standards that will be hard to surpass; ask any exhibitor during the 70's, 80's, 90's and beyond who exhibited at Brisbane or Sydney on the quality of exhibits Wyoming brought to the shows. Outstanding!

As a breed Administrator Charlie was a huge contributor at New South Wales level. On Federal Council he served as President as well an integral part of the Classification Committee where he was able to help establish the standards that have served the organisation so well.

Condolences to the Shearer family.

SUMMARY

As I conclude my second term as President I would like to recognise the services of a Past President and now departing Director, David Johnston (*"Johnno"*) who has served as a Director for 12 years and along the way for approximately 40 plus years has contributed to the fabric of the Association. It would be remiss of me not to recognise Glenyce, as without her unwavering support I doubt David would have been able to spend so much time away from the farm. Good Luck David and Thank You!

I would also like to thank my fellow Directors who provide tremendous support and importantly who ensure there is robust discussion during all Board meetings.

To the members of the SDC and BDCC, many thanks for your valuable contribution to the direction of the Association and the Holstein cow.

To Management and Staff, on behalf of all members, thank you. In a very unobtrusive way, you go about your business working on our behalf to deliver the services that allow the membership to function as it should.

Last but by no means least Thank You Kerrie, the support from you and the family allow me to contribute in the way that I have.

Finally thank you to members for allowing me to serve them as their President, an honour and privilege.

Patrick Glass
President and Chair of the Board

2018/19 FINANCIAL REPORT

With great pleasure I can announce the Association recorded a surplus of \$375,657 for the 2018/19 Financial Year. This came about from a combination of a resurgence in Export activity and the on-going prudent expense control. Year on year this represents a \$714,670 turnaround from the previous year, a wonderful outcome for Holstein Australia.

Member's Equity also benefitted from the turn around and is now at \$2,948,725 leaving the Association in a very sound financial position.

2018/19 PROFIT & LOSS

REVENUE

Revenue increased by \$846,595 with Export contributing the majority of the increase. Package fee increases reflected the changes implemented on 1 July while Registrations, Subscriptions, Genomic Testing and transfers were down which is not really surprising given the continuing difficult terms of trade being experienced in the dairy industry.

Classification excluding export inspections was also below the previous year but as there were significantly less classifiers in the field we gained significant benefits through lower expenses.

A positive equities market in the second half of the financial year saw continued growth for the investment portfolio that also contributed to revenue.

EXPENSES

Reviewing Expenses and excluding Export Service Charges (which reflect export growth) there was a reduction of \$204,659, headlined by lower total salaries, classification expenses and the accumulation of small savings over a number of items.

It is worth noting that during the 2018/19 financial year Holstein moved offices to AgriBio which was achieved under budget and importantly did not drain our cash reserves to complete the move and fit out. One immediate knock on is on-going rent will be reduced by approximately 50% from our Hawthorn office.

Expenses increased for Marketing and the Journal as we have invested in broadening Holstein's reach beyond our traditional communications model. Consistent social media presence, Holstein Dispatch, increased Holstein news across news outlets and the Dairy News Australia marketing campaign have lifted the profile of Holstein and the Holstein cow across the industry.

SUMMARY

Holstein's financial position improved dramatically during 2018/19 which is reflected in a significant surplus and much improved cash flow position.

Holstein cannot take for granted such a positive outcome and we need to continue to promote Holstein services to hold and hopefully increase revenue while at the same time managing expenses responsibly.

BUDGET 2019/20

The 2019/20 Budget forecasts a small surplus based around conservative revenue numbers and consistent expense estimates.

REVENUE

The most significant variation compared to the previous year is the conservative approach to Export which also impacts classification through export inspections.

For Member Services we have generally reflected a slight decrease or little change as we believe that sections of the industry will continue to be under financial pressure.

There are revenue increases for genomic testing and transfers as early indications that there would be growth in activity. Additionally, it has been forecast that the GINFO project will expand to include more herds and this will create further demand for classification.

EXPENSES

The goal of the year will be to further consolidate the savings that have been made over recent years. We will see some expense growth around Classification with a 4th classifier added and genomic testing volumes increase.

SUMMARY

Early results from the July/August trading period are ahead of budget for revenue while being within expectations for expenses.

As the year progresses updates will be made available to members.

Garry Carpenter
Representative, the Finance Committee



2019 BREED DEVELOPMENT and CONFORMATION COMMITTEE REPORT TO THE 2018/19 AGM

Jenny Grey, BDCC Chair, Kiama, NSW

Good morning everybody!

Once again it is my pleasure to present the Breed Development and Conformation Committee Report. This year I would like to focus on four areas: committee, competitions, breed development and classification.

COMMITTEE

The Committee was honoured to continue to have the services of Dr Mary Abdelsayed as a member during the past year. Dr Abdelsayed, a geneticist with DataGene has made a valuable contribution to our discussions throughout the year. On behalf of the Committee and our membership, I would like to thank Dr Abdelsayed for her input and as Mary is now on maternity leave will have her hands full at home taking a break from Dairy House

Two members of the BDCC have reached the end of their current terms and I would like to personally thank Wes Brown and Geoff Horrocks for their service and commitment to the committee over the last few years. Both are eligible to renominate for another term.

COMPETITIONS

One of the tasks of the BDCC is overseeing two of the major competitions of the Association, the Cow of the Year and the All Australian.

For the Cow of the Year judging the Committee was joined by member judge Declan Patten and by industry judge Peter Dixon from Semex to judge the strong field of entrants. Congratulations to the finalists and good luck for tonight.

I would like to take the opportunity to say thank you to the members who continue to support the Cow of the Year competition. While the number of entries can always be higher it's because of your entries the competition continues for another year; so Thank You

The All Australian finalists for this year's competition were selected by Lisa McKay, David Peglar and Wes Brown. This year was David's first and Wes's last year as judge of the All Australian; no doubt Wes like all past judges that come to their term's end will miss his time pouring over photos and the robust discussions that are commonplace amongst the three judges.

Again this year, the number of entrants was strong and the competition continues to be the premier photographic competition in Australia. Congratulations to the finalists and best of luck for tonight. On behalf of the Committee, I would like to thank the judges for taking the time to help shine a spotlight on the best Holsteins in Australia.

A decision that was taking by the committee during the year to encourage member participation in the competition is to allow all animals from shows with Holstein classes to be eligible for the All Australian competition.

To achieve that meant removing All Australian status from all shows across Australia something that was not taken lightly.

Commencing in this competition year all animals from shows with Holstein classes to be eligible to enter the competition provided the judge on the day is a member of the National Judges panel.

This required a small amendment to the exiting bylaw and that changed was approved before the start of the 2019/20 competition year.

BREED DEVELOPMENT

Animal Identification

Proper identification of registered Holsteins for showing and sale is something our membership believe more could be done to improve the practices around showing and selling. This would require more co-operation from our members and more enforcement from the Association.

Proper identification is the single biggest complaint we receive from both members and non-members. When selling cattle vendors must be sure that all registration certificates have either two physical identifiers on the certificate or one physical identifier and a photo. We as vendors must take responsibility for our animals and standards.

The same applies for the show ring; it is up to the member to provide the proper matching ID prior to exhibition. I share the frustration of inspectors who can't do their job because the members "has forgotten the certificate"; the ear tag has been removed or there is no photo attached or a number of other reasons.

This doesn't have to a complex issue but the BDCC is happy to receive feedback on it at any time.

You as members have the opportunity to offer that feedback during the Open Forum immediately following the AGM; so I invite you to have your say!

Production award benchmarks.

As you may know the benchmarks used in our production awards can sometimes be seen as being "maybe too high or maybe too low". For certain production is dependent on seasonal influences, feeding and management systems under which the modern Holstein produces milk. The BDCC is mindful of these vagaries that may occur and with this in mind reviewed the production award benchmarks this year. The committee concluded that the current benchmarks for production adequately reflected output and believed an adjustment would dilute the production levels required to achieve these illustrious awards.

CLASSIFICATION

Our multi-breed classification system continues with classifying multiple dairy breeds, Dexters and dairy goats. Generally speaking, the feedback from the other breeds is positive which is a pat on the back for our classifiers and a testament to the confidence breeders have in the classification system.

We also continue to hold classification workshops with several of the breed societies and where possible look forward to these as annual events.

The Committee has been in the field looking at the work of classifiers and is satisfied with the quality and consistency of the work. Our classifiers are human after all and never the less must be treated like professionals even if members don't agree with their opinions.

In closing, I would like to thank my fellow Committee members for their hard work and dedication during the past 12 months. I would also like to acknowledge the commitment of our classification team to the improvement of the breed.

As always I would like to conclude with my special thanks to all those members who allow us to train on your farms or kept animals back for monitoring.

Thank you.

Jenny Grey
Chair, Breed Development and Conformation Committee

CEO REPORT

Graeme Gillan, Chief Executive Officer

The 2018/19 year has overall been a very positive year for Holstein contrary to the industry in general. Each year is a work in progress and cannot be held in isolation and the positive result in part has been created from the negative previous year. Also what impacts members does impact Holstein and when I review member service activity in this report that connection becomes more obvious.

As already covered in the Financial report, Holstein achieved a surplus that can be argued completely reversed the member equity lost in the previous year. Holstein's challenge will be to grow revenue outside of export and to control expenses to support future outcomes.

EXPORT

I cannot present my report without highlighting export, firstly for the positive impact it has had on the financial year but also more widely across the general industry.

For the year Holstein inspected approximately 95,000 heifers for China and worked with exporters to help facilitate shipments to Japan, Indonesia, Taiwan, Vietnam and the Middle East. We sometimes have mixed thoughts around live export of heifers, but for the trade to continue at the current rate Australian Holsteins must be performing at a high level overseas, congratulations.

At farm gate, export has been a significant cash flow provider and now for some a significant source of revenue. Almost a buffer to milk prices.

OFFICE AND STAFF

Much has already been made of our office move in November 2018, shared facilities, savings for lease costs and working in the same building as a significant amount of research is undertaken for the dairy industry.

What recently came to light and is very important from my perspective is that the staff are happier working in the new office and are enjoying the company of staff from other organisations. It would appear the new working environment is more productive, a significant win for all.

Creating “back office” efficiencies has been discussed and during the current year will increase as a focus of all the organisations. A number of initiatives have been identified which have the potential to improve service and save money.

I would like to acknowledge the efforts of staff during the year as for a period just under two months we did not have an office, only borrowed facilities. Everybody just got on with their job and from a member’s perspective there was limited interruption to services.

Heading into the field, I would like to acknowledge the classification team, for 9 months of the year we operated with just three classifiers with a fourth added around April. At times we did fall behind on schedule (which I greatly appreciate the patience of members) but as the year progressed the team kept working away to achieve over 26,000 classifications, this represents a significant number of cows per classifier.

Keeping the staff theme, the Holstein management team provided great support to me, working through the good and bad days ensuring the business delivers on a day to day basis yet still looks to the future.

During the year Holstein did engage two contractors for two very different tasks, both become very valuable contributors beyond the normal input of a contractor.

Holstein is all about being a team and during 2018/19 this was very evident.

MEMBER SERVICES

In a contracting industry member services activity did reduce, drops in registrations, transfers, classification and genomic testing all dropped, this was not surprising.

We did see a surge in registrations during May/June, classification was impacted by the number of classifiers and genomic testing reflected the general dairy economy.

HOLSTEIN GENETICS

Holstein has taken a very pro-active approach to genomics and promoting genetic progress of the breed. The introduction of the Genetic Stocktake report we see as a first step to help members understand the merit of their herds. We look forward to building on this during 2019/20.

Over 2018/19 we have seen many members achieve outstanding results utilising genomics to measure individual animals genetic merit. The depth within the Australian herd grows with each run and this is now being reflected in the growing list of domestic bulls ranking with the best of the world.

Reviewing the bull lists, the Holstein breed has and continues to make tremendous progress across the majority of traits. Perhaps at one stage non-Holstein people liked to be critical of the breeds purported lack of health traits, today they are envious. The progress for Daughter Fertility, Survival and Milk Quality has been significant and adding new traits such as Feed Efficiency and Heat Tolerance only adds extra value to the Holstein breed.

SUMMARY

I would like to thank the support, guidance and contribution of the Board, individually or collectively their work on behalf of members provides a strong direction for the work of myself and staff.

To members, thank you for your positive interactions with staff and myself, it sets the tone for a positive organisation.

As mentioned Holstein Australia is a sum of many parts, all contribute to the success of the Association and the cow.

Graeme Gillan
Chief Executive Officer



**HOLSTEIN-FRIESIAN
ASSOCIATION OF AUSTRALIA INCORPORATED
ABN: 87 455 118 302**

**FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2019**

HOLSTEIN-FRIESIAN ASSOCIATION OF AUSTRALIA INCORPORATED

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HOLSTEIN-FRIESIAN ASSOCIATION OF AUSTRALIA INCORPORATED

STATEMENT BY MEMBERS OF THE COMMITTEE

In the opinion of the Members of the Committee the accompanying financial report comprising the Statement of Profit or Loss and Other Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows and Notes to and forming part of the financial report:

1. Presents a true and fair view of the financial position of Holstein-Friesian Association of Australia Incorporated as at 30 June 2019 and its performance for the year ended on that date in accordance with Australian Accounting Standards - Reduced Disclosure Requirements, other mandatory professional reporting requirements and other authoritative pronouncements of the Australian Accounting Standards Board; and
2. At the date of this statement, there are reasonable grounds to believe that Holstein-Friesian Association of Australia Incorporated will be able to pay its debts as and when they fall due.

This statement is made in accordance with a resolution of the committee and is signed for and on behalf of the Committee by:



P. Glass



G. Carpenter

Dated this 29th day of August 2019

HOLSTEIN-FRIESIAN ASSOCIATION OF AUSTRALIA INCORPORATED
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2019

	Note	2019 \$	2018 \$
Revenue			
Sales revenue	3	3,034,972	2,225,760
Other income	3	228,840	191,457
Expenses			
Classification expenses		(448,271)	(546,195)
Technical services expenses		(593,632)	(666,004)
Export services expenses		(364,286)	(105,173)
Member services expenses		(605,785)	(611,885)
Building expenses		(113,929)	(122,959)
Administration & office overhead expenses		(306,327)	(292,844)
Marketing & journal expenses		(244,198)	(215,036)
Projects & contract services expenses		(59,777)	(137,907)
Depreciation, provisions & amortisation		(168,138)	(151,886)
		<u>(2,904,343)</u>	<u>(2,849,889)</u>
Operating surplus/(loss) for the year attributable to the members of Holstein-Friesian Association of Australia Incorporated		359,469	(432,672)
Other comprehensive income			
Net fair value gain/(loss) on other financial assets	8	16,188	93,659
Total comprehensive surplus/(loss) for the year attributable to the members of Holstein-Friesian Association of Australia Incorporated		<u>375,657</u>	<u>(339,013)</u>

The Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

HOLSTEIN-FRIESIAN ASSOCIATION OF AUSTRALIA INCORPORATED

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2019

	Note	2019 \$	2018 \$
Current assets			
Cash and cash equivalents	5	551,580	460,998
Trade and other receivables	6	726,831	395,241
Other current assets	7	58,070	28,017
Total current assets		<u>1,336,481</u>	<u>884,256</u>
Non-current assets			
Financial assets	8	1,786,381	1,691,523
Property, plant and equipment	9	186,565	157,643
Intangible assets	10	212,789	269,879
Total non-current assets		<u>2,185,735</u>	<u>2,119,045</u>
Total assets		<u>3,522,216</u>	<u>3,003,301</u>
Current liabilities			
Trade and other payables	11	373,969	237,413
Employee benefits	12	174,752	172,564
Total current liabilities		<u>548,721</u>	<u>409,977</u>
Non-current liabilities			
Employee benefits	12	24,770	20,256
Total non-current liabilities		<u>24,770</u>	<u>20,256</u>
Total liabilities		<u>573,491</u>	<u>430,233</u>
Net assets		<u>2,948,725</u>	<u>2,573,068</u>
Equity			
Retained surpluses	13	2,948,725	2,573,068
Total equity		<u>2,948,725</u>	<u>2,573,068</u>

The Statement of Financial Position should be read in conjunction with the accompanying notes.

HOLSTEIN-FRIESIAN ASSOCIATION OF AUSTRALIA INCORPORATED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2019**

	Retained surpluses \$	Total equity \$
Balance at 1 July 2017	2,912,081	2,912,081
Operating (loss) for the year attributable to the members of Holstein-Friesian Association of Australia Incorporated	(432,672)	(432,672)
Other comprehensive income for the year, net of tax	93,659	93,659
Total comprehensive (loss) for the year attributable to the members of Holstein-Friesian Association of Australia Incorporated	(339,013)	(339,013)
Balance at 30 June 2018	2,573,068	2,573,068
Operating surplus for the year attributable to the members of Holstein-Friesian Association of Australia Incorporated	359,469	359,469
Other comprehensive income for the year, net of tax	16,188	16,188
Total comprehensive surplus for the year attributable to the members of Holstein-Friesian Association of Australia Incorporated	375,657	375,657
Balance at 30 June 2019	2,948,725	2,948,725

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

HOLSTEIN-FRIESIAN ASSOCIATION OF AUSTRALIA INCORPORATED

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2019**

	Note	2019 \$	2018 \$
Cash flows from operating activities			
Receipts from members		2,803,784	2,539,936
Interest received		2,543	9,738
Dividends and distributions received		95,843	57,685
Payments to suppliers and employees		(2,495,081)	(2,809,444)
Net GST payment to the Australian Taxation Office		(120,733)	(102,105)
Net cash from / (used in) operating activities		<u>286,356</u>	<u>(304,190)</u>
Cash flows from investing activities			
Payments for property, plant and equipment	9	(117,104)	(54,628)
Proceeds from financial assets	8	317,396	278,287
Payments for financial assets	8	(396,066)	(308,546)
Net cash (used) in investing activities		<u>(195,774)</u>	<u>(84,887)</u>
Net increase / (decrease) in cash and cash equivalents		90,582	(389,077)
Cash and cash equivalents at the beginning of the financial year		<u>460,998</u>	<u>850,075</u>
Cash and cash equivalents at the end of the financial year	5	<u><u>551,580</u></u>	<u><u>460,998</u></u>

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

HOLSTEIN-FRIESIAN ASSOCIATION OF AUSTRALIA INCORPORATED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

Note 1. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

New or amended Accounting Standards and Interpretations adopted

The Association has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Association.

AASB 9 Financial Instruments

The Association has adopted AASB 9 from 1 July 2018. The standard introduced new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows which arise on specified dates and that are solely principal and interest. For financial liabilities designated at fair value through profit or loss, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New impairment requirements use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment is measured using a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. For receivables, a simplified approach to measuring expected credit losses using a lifetime expected loss allowance is available.

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards - Reduced Disclosure Requirements and Interpretations issued by the Australian Accounting Standards Board ('AASB'), *Associations Incorporation Reform Act (Vic) 2012* and associated regulations, as appropriate for not-for-profit oriented entities.

Historical cost convention

The financial statements have been prepared under the historical cost convention.

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Association's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

Revenue recognition

Revenue is recognised when it is probable that the economic benefit will flow to the association and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

Interest income

Interest revenue is recognised using the effective interest rate method, which, for floating rate financial assets is the rate inherent in the instrument.

Dividend income

Dividend income is recognised when the right to receive the dividend is established.

Other income

Other income is recognised when it is received or when the right to receive payment is established.

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

Income Tax

The Association is exempt from income tax under section 50-40 of the *Income Tax Assessment Act 1997*.

HOLSTEIN-FRIESIAN ASSOCIATION OF AUSTRALIA INCORPORATED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

Note 1. Significant accounting policies (continued)

Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is current when: it is expected to be realised or intended to be sold or consumed in normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within twelve months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period. All other assets are classified as non-current.

A liability is classified current when: it is expected to be settled in normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within twelve months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period. All other liabilities are classified as non-current.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Trade and other receivables

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

Investments and other financial assets

Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement. They are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on the purpose of the acquisition and subsequent reclassification to other categories is restricted. The fair values of quoted investments are based on current bid prices.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the association has transferred substantially all the risks and rewards of ownership.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are either: i) held for trading, where they are acquired for the purpose of selling in the short-term with an intention of making a profit; or ii) designated as such upon initial recognition, where they are managed on a fair value basis or to eliminate or significantly reduce an accounting mismatch. Fair value movements are recognised in profit or loss.

Impairment of financial assets

The association assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. Objective evidence includes significant financial difficulty of the issuer or obligor; a breach of contract such as default or delinquency in payments; the lender granting to a borrower concessions due to economic or legal reasons that the lender would not otherwise do; it becomes probable that the borrower will enter bankruptcy or other financial reorganisation; the disappearance of an active market for the financial asset; or observable data indicating that there is a measurable decrease in estimated future cash flows.

Derecognition

Financial assets are derecognised when the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the association no longer has any significant continuing involvement in the risks and benefits associated with the asset.

Property, plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

HOLSTEIN-FRIESIAN ASSOCIATION OF AUSTRALIA INCORPORATED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

Note 1. Significant accounting policies (continued)

Property, plant and equipment (continued)

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment using the depreciation rates as follows:

Class of Fixed Asset	Depreciation Rate
Motor Vehicles	16 to 20%
Office Equipment	6 to 13%
Furniture, Fixtures and Fittings	4 to 6%
Computer Equipment	17 to 35%

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the Association. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

Intangibles

The Association recognises its intangible assets at cost. After initial recognition, an intangible asset shall be carried at its cost less any accumulated amortisation and any accumulated impairment losses. The amortisation rate of the intangible assets is determined by its useful life and is allocated on a straight line basis from the date that the asset is available for use. The amortisation period is reviewed on an annual basis. Intangible assets recognised relate to the transfer of the database from IRL1 system to IRL2, the development of the MatePlus and TraitPlus brands, the development of a Smartphone Registration App, and the development of the Parentage Plus system. ILR 2 and Parentage Plus have an estimated life of 10 years. The Smartphone Registration App has an estimated life of 5 years. MatePlus and TraitPlus brands have a useful life between three to five years.

Impairment of non-financial assets

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Trade and other payables

These amounts represent liabilities for goods and services provided to the Association prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Employee benefits

Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled within 12 months of the reporting date are recognised in current liabilities in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

Other long-term employee benefits

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are recognised in non-current liabilities, provided there is an unconditional right to defer settlement of the liability. The liability is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

HOLSTEIN-FRIESIAN ASSOCIATION OF AUSTRALIA INCORPORATED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

Note 1. Significant accounting policies (continued)

Employee benefits (continued)

Defined contribution superannuation expenses

Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principle market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interest. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

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

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

Note 2. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Estimation of useful lives of assets

The Association determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

Impairment of non-financial assets other than goodwill and other indefinite life intangible assets

The Association assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the Association and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

HOLSTEIN-FRIESIAN ASSOCIATION OF AUSTRALIA INCORPORATED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

Note 2. Critical accounting estimates, judgements and assumptions (continued)

Employee benefits provision

As discussed in note 1, the liability for employee benefits expected to be settled more than 12 months from the reporting date are recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

Note 3. Revenue

	2019	2018
	\$	\$
Sales		
Package fees	299,170	228,383
Subscriptions	142,317	150,835
Registrations	389,978	438,975
Transfers	76,278	103,562
Export charges	957,314	284,161
Classification	746,571	477,541
Technical services	311,572	412,549
Other operating income	111,772	129,754
	<u>3,034,972</u>	<u>2,225,760</u>
Other Income		
Projects & contract services	60,207	65,447
Interest received	2,543	9,738
Dividend and distribution income	95,843	57,685
Miscellaneous	70,247	58,587
	<u>228,840</u>	<u>191,457</u>
Total Income	<u>3,263,812</u>	<u>2,417,217</u>

Note 4. Expenses

Operating surplus before income tax includes the following specific expenses:

Depreciation and amortisation	114,263	110,269
Superannuation expense	84,017	95,923

Note 5. Cash and cash equivalents

Cash at bank	287,353	197,427
Term deposits	264,227	263,571
	<u>551,580</u>	<u>460,998</u>

Note 6. Trade and other receivables

Current

Trade receivables	701,826	375,015
Provision for impairment of receivables	(3,652)	(5,050)
	<u>698,174</u>	<u>369,965</u>
Other receivables	28,657	25,276
	<u>726,831</u>	<u>395,241</u>

HOLSTEIN-FRIESIAN ASSOCIATION OF AUSTRALIA INCORPORATED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	2019	2018
	\$	\$
Note 7. Other current assets		
Current		
Prepayments	58,070	28,017
	<u>58,070</u>	<u>28,017</u>
 Note 8. Financial assets		
Non-Current		
Held for trading securities	1,786,381	1,691,523
	<u>1,786,381</u>	<u>1,691,523</u>
 <u>Held for trading securities</u>		
Balance at beginning of the year	1,691,523	1,567,605
Purchases	396,066	308,546
Disposals	(317,396)	(278,287)
Fair value re-measurement gains/(losses)	16,188	93,659
Balance at end of the year	<u>1,786,381</u>	<u>1,691,523</u>
 Note 9. Plant and equipment		
Office Equipment		
At cost	7,369	47,736
Less: Accumulated depreciation	<u>(6,806)</u>	<u>(39,777)</u>
	563	7,959
Computer Equipment		
At cost	57,134	54,377
Less: Accumulated depreciation	<u>(51,401)</u>	<u>(46,620)</u>
	5,733	7,757
Furniture, Fixtures and Fittings		
At cost	169,108	128,715
Less: Accumulated depreciation	<u>(9,417)</u>	<u>(53,139)</u>
	159,691	75,576
Motor Vehicles		
At cost	202,814	230,804
Less: Accumulated depreciation	<u>(182,236)</u>	<u>(164,453)</u>
	20,578	66,351
Total Plant and Equipment	<u>186,565</u>	<u>157,643</u>

HOLSTEIN-FRIESIAN ASSOCIATION OF AUSTRALIA INCORPORATED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

Note 9. Plant and equipment (continued)

Movements in carrying amounts

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year

	Office Equipment \$	Computer Equipment	Furniture, Fixtures & Fittings \$	Motor vehicles \$	Total \$
Balance at beginning of year	7,959	7,757	75,576	66,351	157,643
Additions	-	2,757	114,347	-	117,104
Disposals	(5,987)	-	(20,344)	(4,678)	(31,009)
Depreciation expense	(1,409)	(4,781)	(9,888)	(41,095)	(57,173)
Balance at end of year	563	5,733	159,691	20,578	186,565

Note 10. Intangible assets

	2019 \$	2018 \$
Database System and Software	707,170	707,170
Accumulated Amortisation	(494,381)	(437,291)
	212,789	269,879

Movements in carrying amounts

Balance at beginning of year	269,879	323,595
Amortisation	(57,090)	(53,716)
Balance at end of year	212,789	269,879

Note 11. Trade and other payables

Current

Trade payables	221,121	127,544
BAS payable	73,260	41,840
Sundry payables and accrued expenses	74,581	58,422
Member fees in advance	5,007	9,607
	373,969	237,413

Note 12. Employee benefits

Current

Provision for annual leave	75,708	68,364
Provision for long service leave	99,044	104,200
	174,752	172,564

Non-current

Provision for long service leave	24,770	20,256
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HOLSTEIN-FRIESIAN ASSOCIATION OF AUSTRALIA INCORPORATED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	2019	2018
	\$	\$
Note 13. Equity - retained surpluses		
Retained surpluses at the beginning of the financial year	2,573,068	2,912,081
Operating surplus/(loss) after income tax expense for the year	375,657	(339,013)
Retained surpluses at the end of the financial year	2,948,725	2,573,068

Note 14. Responsible Persons disclosure

The following disclosures are made regarding Responsible Persons for the reporting period.

Governing Board

Patrick Glass
 Jenny Grey
 Garry Carpenter
 David Johnston
 Gino Pacitti

Note 15: Key management personnel disclosures

Compensation

The aggregate compensation made to members of key management personnel of the Association is set out below:

	2019	2018
	\$	\$
Aggregate compensation	362,373	356,341

There have been no related party transactions apart from remuneration of key management personnel noted above.

Note 16. Contingent liabilities and contingent assets

There were no specific contingent liabilities or requirements as at 30 June 2019 and 30 June 2018.

Note 17. Commitments

Operating lease commitments	2019	2018
	\$	\$
Non-cancellable operating leases contracted for but not capitalised in the financial statements		
Payable — minimum lease payments		
– within 12 months	48,440	33,104
– between 2 years and 5 years	242,198	248,300
– beyond 5 years	157,429	–
	448,067	281,404

HOLSTEIN-FRIESIAN ASSOCIATION OF AUSTRALIA INCORPORATED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

Note 18. Events after the reporting period

There were no matters that have arisen since 30 June 2019, which significantly affected, or may significantly affect the operations of the Association, the results of those operations, or the state of affairs in subsequent years.

Note 19. Australian accounting standards issued that are not yet effective

Certain new Australian Accounting Standards (AAS) have been published which are not mandatory for the 30 June 2019 reporting period.

As at 30 June 2019, the following standards and interpretations had been issued by the AASB but were not yet effective. They become effective for the first financial statements for reporting periods commencing after the stated operative dates as detailed in the table below. The Association has not and does not intend to adopt these standards early.

Topic	Summary	Effective Date	Impact on the Association's financial statements
AASB 15 Revenue from Contracts with Customers	The core principle of AASB 15 requires an entity to recognise revenue when the entity satisfies a performance obligation by transferring a promised good or service to a customer. AASB 15 establishes a five-step model to account for revenue arising from an enforceable contract that imposes a sufficiently specific performance obligation on an entity to transfer goods or services.	1 January 2019	The Association has reviewed the revenue streams and determined that the current revenue recognition treatment remains unchanged as it is in line with performance obligations. Thus, there is no material impact on the financial statements.
AASB 1058 Income of Not-for- Profit Entities	AASB 1058 supplements AASB 15 and provide criteria to be applied by not-for-profit entities in establishing the timing of recognising income for government grants and other types of contributions previously contained within AASB 1004 Contributions.	1 January 2019	The Association does not receive government grants or other contributions and it has been assessed that this standard will have no impact on the Association's financial statements.
AASB 16 Leases	AASB 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases on the balance sheet by recording a Right-Of-Use (RoU) asset and a lease liability except for leases that are shorter than 12 months and leases where the underlying asset is of low value. AASB 16 also requires the lessees to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset, and remeasure the lease liability upon the occurrence of certain events. The amount of the remeasurement of the lease liability will generally be recognised as an adjustment to the RoU asset.	1 January 2019	The Association will apply the standard using a modified retrospective approach with the cumulative effect of initial application recognised as an adjustment to the opening balance of accumulated surplus at 1 July 2019, with no restatement of comparative information. The Association will elect to use the exemptions for all short-term leases (lease term less than 12 months) and low value leases (deemed to be below \$10,000). The potential impact in the initial year of application has been estimated as follows: <ul style="list-style-type: none"> • increase in Right-of-Use asset (RoU) (\$309,458) • increase in related depreciation expense (\$33,455) • increase in lease liability (\$314,123) • increase in related interest expense (\$17,649) • decrease in rental expense (\$55,017)

HOLSTEIN-FRIESIAN ASSOCIATION OF AUSTRALIA INCORPORATED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

Note 19. Australian accounting standards issued that are not yet effective (continued)

In addition to those Accounting Standards listed above, the AASB has also released a number of other Accounting Standards and Accounting Interpretations. The application of the Accounting Standards and Interpretations are not expected to have any significant impact on the Association's financial statements, consequently they have not been specifically identified above.

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF HOLSTEIN FRIESIAN ASSOCIATION OF AUSTRALIA INC**

Opinion

We have audited the financial report of Holstein Friesian Association of Australia Inc which comprises the statement of financial position as at 30 June 2019, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the declaration by those charged with governance.

In our opinion, the accompanying financial report of Holstein Friesian Association of Australia Inc, is in accordance with the *Associations Incorporation Reform Act (Vic) 2012*, including:

- (a) gives a true and fair view of the financial position of the Entity as at 30 June 2019, and of its financial performance and its cash flows for the year then ended; and
- (b) complying with Australian Accounting Standards – Reduced Disclosure Requirements.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Entity in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Those charged with governance are responsible for the other information. The other information comprises the information included in the Entity's annual report for the year ended 30 June 2019, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Report

Management is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards – Reduced Disclosure Requirements, and for such internal control as management determines is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

DFK Kidsons Partnership

DFK Kidsons Partnership

Robert Wernli

Robert Wernli
Partner

Melbourne
29 August 2019