

ANNECTO INC

REG No. A00 375 63T

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

ANNECTO INC
REG No. A00 375 63T
FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2019

Contents

	Page
Statement of Profit or Loss and Other Comprehensive Income	1
Balance sheet	2
Statement of Cash Flows	3
Statement of Changes in Equity	4
Notes to the Financial Statements	5
Statement by Directors	20
Independent Audit Report	21

General Information

The financial statements cover annecto Inc as a consolidated entity. The financial statements are presented in Australian dollars, which is annecto Inc's functional and presentation currency.

Annecto Inc is a not for profit incorporated association, incorporated and domiciled in Australia.

The financial statements were authorised for issue on the date of signing this report.

ANNECTO INC
REG No. A00 375 63T

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2019

	Note	2019 \$	2018 \$
Income			
Revenue from operating activities	6(i)	40,177,918	36,635,901
Other revenue	6(ii)	368,595	171,533
Gain on Merrimu acquisition	4	815,036	-
Total income		<u>41,361,549</u>	<u>36,807,434</u>
Expenses			
Depreciation expense	10(a)	(201,757)	(171,639)
Amortisation expense	11(a)	(199,609)	(262,171)
Salaries and employee benefits expense		(28,208,548)	(24,441,972)
Other expenses	6(iii)	(13,006,629)	(12,320,146)
Total expenses		<u>(41,616,543)</u>	<u>(37,195,928)</u>
Surplus/(loss) for the year		<u>(254,994)</u>	<u>(388,494)</u>
Other economic flows – other comprehensive income			
Fair value movements for property, plant and equipment	10(a)	590,000	-
Total comprehensive income/(loss) for the year		<u>335,006</u>	<u>(388,494)</u>

The accompanying notes form part of these financial statements

ANNECTO INC
REG No. A00 375 63T

BALANCE SHEET
AS AT 30 JUNE 2019

	Note	2019 \$	2018 \$
CURRENT ASSETS			
Cash and cash equivalents	7	4,357,343	10,928,878
Trade and other receivables	8	3,364,037	1,626,455
Other assets		294,908	141,428
Financial assets	9	7,663,263	2,435,966
TOTAL CURRENT ASSETS		<u>15,679,551</u>	<u>15,132,727</u>
NON-CURRENT ASSETS			
Property, plant and equipment	10	9,259,558	7,948,499
Intangible assets	11	428,893	606,629
TOTAL NON-CURRENT ASSETS		<u>9,688,451</u>	<u>8,555,128</u>
TOTAL ASSETS		<u>25,368,002</u>	<u>23,687,855</u>
CURRENT LIABILITIES			
Trade and other payables	12	2,196,553	1,896,740
Other liabilities	13	3,477,971	2,955,814
Provisions	14	3,543,602	3,267,876
TOTAL CURRENT LIABILITIES		<u>9,218,126</u>	<u>8,120,430</u>
NON-CURRENT LIABILITIES			
Provisions	14	495,465	248,020
TOTAL NON-CURRENT LIABILITIES		<u>495,465</u>	<u>248,020</u>
TOTAL LIABILITIES		<u>9,713,591</u>	<u>8,368,450</u>
NET ASSETS		<u>15,654,411</u>	<u>15,319,405</u>
EQUITY			
Reserves	15	4,987,541	4,397,541
Retained earnings		10,666,870	10,921,864
TOTAL EQUITY		<u>15,654,411</u>	<u>15,319,405</u>

The accompanying notes form part of these financial statements.

ANNECTO INC
REG No. A00 375 63T

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

	Note	2019 \$	2018 \$
CASH FLOW FROM OPERATING ACTIVITIES			
Cash receipts in the course of operations		39,361,855	37,913,049
Interest received		293,976	99,561
Cash payments in the course of operations		(41,163,900)	(37,302,836)
Net GST received from/(paid to) the Australian Taxation Office		20,252	(122,021)
Net cash provided by operating activities		<u>(1,487,817)</u>	<u>587,753</u>
CASH FLOW FROM INVESTING ACTIVITIES			
Payment for property, plant, equipment and intangibles		(90,973)	(216,041)
Net proceeds from/(payments for) investments		(5,227,297)	(309,888)
Proceeds from disposal of fixed assets		-	9,152
Cash received from business combination		234,552	-
Net cash used in investing activities		<u>(5,083,718)</u>	<u>(516,777)</u>
Net increase / (decrease) in cash and cash equivalents held		<u>(6,571,535)</u>	<u>70,976</u>
Cash and cash equivalents at beginning of financial year		10,928,878	10,857,902
Cash and cash equivalents at end of financial year	7	<u>4,357,343</u>	<u>10,928,878</u>

The accompanying notes form part of these financial statements.

ANNECTO INC
REG No. A00 375 63T

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

	Retained Earnings \$	Reserves \$	Total Equity \$
Balance at 1 July 2017	11,310,358	4,397,541	15,707,899
Comprehensive Income			
Surplus/(loss) for the year	(388,494)	-	(388,494)
Other comprehensive income	-	-	-
Total comprehensive income	(388,494)	-	(388,494)
Balance at 30 June 2018	10,921,864	4,397,541	15,319,405
Comprehensive Income			
Surplus for the year	(254,994)	-	(254,994)
Other comprehensive income	-	590,000	590,000
Total comprehensive income	(254,994)	590,000	335,375
Balance at 30 June 2019	10,666,870	4,987,541	15,654,411

The accompanying notes form part of these financial statements.

ANNECTO INC
REG No. A00 375 63T

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

Annecto Inc is a not for profit incorporated association that coordinates services, and provides advice, advocacy and support, for people with disabilities, older people, families and carers.

The registered office and principal place of business of the association is:

81 Cowper Street
Footscray VIC 3011

NOTE 1: SUMMARY OF 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.

(a) Basis of preparation

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards - Reduced Disclosure Requirements issued by the Australian Accounting Standards Board ('AASBs'). It has been prepared to satisfy the financial reporting requirements of the *Australian Charities and Not-for-profits Commission Act 2012*.

The financial report, except for the cash flow information, has been prepared on an accruals basis and is based on historical costs and does not take into account changing money values or, except where stated, current valuations of non-current assets. The financial statements have been prepared on a going concern basis.

All amounts in the financial statements are presented in Australian dollars and have been rounded to the nearest one dollar.

Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosures.

(b) Basis of consolidation

The consolidated financial statements comprise the financial statements of annecto Incorporated and its subsidiaries as at 30 June 2019 (the Group). Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. Details of these controlled entities are contained within Note 3(b).

The financial statements of the subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies, unless otherwise stated.

In preparing the consolidated financial statements, all intergroup balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

(c) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, deposits at call and highly liquid investments with an original maturity of 3 months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value.

(d) Financial Assets

Term deposits with a maturity of greater than 3 months are classified as financial assets.

(e) Prepayments

Prepayments include payments in advance of receipt of goods or services or that part of expenditure made in one accounting period covering a term extending beyond that period.

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Property, Plant and Equipment

(i) Recognition and measurement

Items of property, plant & equipment are measured at cost less accumulated depreciation and impairment losses.

Land and buildings are recognised initially at cost and subsequently measured at fair value less accumulated depreciation and impairment.

When parts of an item of property, plant & equipment have different useful lives, they are accounted for as separate items (major components) of property, plant & equipment.

(ii) Subsequent costs

The Association recognises in the carrying amount of an item of property, plant & equipment the cost of replacing part of such an item when that cost is incurred if it is probable that future economic benefits embodied within the item will flow to the Association and that the cost of the item can be measured reliably. All other costs are recognised in the statement of profit or loss and other comprehensive income as an expense as incurred.

(iii) Depreciation

The depreciable amount of property plant and equipment are depreciated over the useful lives of the assets to the Association commencing from the time the asset was held ready for use.

The depreciation rates and useful lives used for each class of depreciable assets are as follows:

Class of Asset	Depreciation Rates	Depreciation basis
Buildings	2 – 6.67%	Prime Cost
Plant & Equipment	20 – 33.3%	Diminishing Value / Prime Cost
Motor Vehicles	18.75 - 22.5%	Diminishing Value/ Prime Cost
Leasehold Improvements	N/A	To be depreciated over the life of the lease

The residual value, the useful life and depreciation method applied to an asset are reassessed at the reporting date.

(g) Intangible assets

Intangible assets represent identifiable non-monetary assets without physical substance such as computer software and development costs. Intangible assets are initially recognised at cost. Subsequently, intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses. Costs incurred subsequent to initial acquisition are capitalised when it is expected that additional future economic benefits will flow to the Association.

The amortisation rates and useful lives used for each class of amortised asset are as follows:

Class of Asset	Depreciation Rates	Depreciation basis
Software	20%-33.33%	Diminishing Value / Prime Cost

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Trade and other receivables

Trade debtors are carried at nominal amounts due and are due for settlement within 30 days from the date of recognition. Collectability of debts is reviewed on an ongoing basis, and debts, which are known to be uncollectible, are written off. A provision for doubtful debts is recognised when there is objective evidence that an impairment loss has occurred. Bad debts are written off when identified.

(i) Employee benefits

Defined contribution superannuation funds

Obligations for contributions to defined contribution superannuation funds are recognised as an expense in the income statement when they are due.

Long-term service benefits

The Association's net obligation in respect of long-term service benefits, other than defined contribution superannuation funds, is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The benefit is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates, and is discounted using the rates attached to the Commonwealth Government bonds at the balance sheet date which have maturity dates approximating to the terms of the Association's obligations.

Short-term benefits

Liabilities for employee benefits for wages, salaries and annual leave that are expected to be settled within 12 months of the reporting date represent present obligations resulting from employees' services provided to reporting date, are calculated at undiscounted amounts based on remuneration wage and salary rates that the Association expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax. Non-accumulating non-monetary benefits, such as medical care, housing, cars and free or subsidised goods and services, are expensed based on the net marginal cost to the Association as the benefits are taken by the employees.

(j) Impairment

At the end of each reporting period, the Association reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is recognised in profit or loss.

Where the future economic benefits of the asset are not primarily dependent on the asset's ability to generate net cash inflows and when the Association would, if deprived of the asset, replace its remaining future economic benefits, value in use is determined as the depreciated replacement cost of an asset.

Where it is not possible to estimate the recoverable amount of an assets class, the Association estimates the recoverable amount of the cash-generating unit to which the class of assets belong.

Where an impairment loss on a revalued asset is identified, this is recognised against the revaluation surplus in respect of the same class of asset to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that class of asset.

ANNECTO INC
REG No. A00 375 63T

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Leases

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

(l) Revenue

Fee income

Fee income is recognised at fair value of the consideration received net of the amount of goods and services tax (GST). Exchanges of goods or services of the same nature and value without any cash consideration are not recognised as revenues. Revenue is recognised when the Association obtains control over assets comprising the revenue.

Grants

Grants are recognised at their fair value where there is a reasonable assurance that the grant will be received and all attached conditions will be complied with.

Interest Income

Interest income is recognised in the income statement as it accrues, using the effective interest method.

(m) Income Tax

As the company is a charitable institution in terms of subsection 50-5 of the *Income Tax Assessment Act 1997*, as amended, it is exempt from paying income tax.

(n) Property, Plant & Equipment Revaluation Reserve

The property, plant and equipment revaluation reserve is used to record increments and decrements on the revaluation of non-current assets.

Revaluation increments are credited directly to the property, plant and equipment revaluation reserve, except that, to the extent that an increment reverses a revaluation decrement in respect of that class of asset previously recognised at an expense in net result, the increment is recognised as income in the net result.

Revaluation decrements are recognised immediately as expenses in the net result, except that, to the extent that a credit balance exists in the asset revaluation reserve in respect of the same class of assets, they are debited directly to the asset revaluation reserve.

Revaluation increases and revaluation decreases relating to individual assets within an asset class are offset against one another within that class but are not offset in respect of assets in different classes.

Asset revaluation reserves are not transferred to accumulated funds on derecognition of the relevant asset.

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Goods and Services Tax (GST)

Income, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the Australian Taxation Office (ATO). In this case it is recognised as part of the cost of 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 ATO is included with other receivables or payables in the Balance Sheet.

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

Commitments and contingent assets and liabilities are presented on a gross basis.

(p) 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.

(r) New, revised or amending Accounting Standards and Interpretations adopted

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

Certain new Australian accounting standards and interpretations have been published that are not mandatory for 30 June 2019 reporting period. As at 30 June 2019, the following standards and interpretations that are expected to have a material impact on the association had been issued but were not mandatory for the reporting period ended 30 June 2019. The Association has not and does not intend to adopt these standards early.

ANNECTO INC
REG No. A00 375 63T

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) New, revised or amending Accounting Standards and Interpretations adopted (cont.)

Standard	Summary	Application for reporting periods beginning on or ending on	Impact on Association's Financial Report
AASB 15 <i>Revenue from Contracts with Customers</i>	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. Note that amending standard AASB 2015-8 <i>Amendments to Australian Accounting Standards – Effective Date of AASB 15</i> has deferred the effective date of AASB 15 to annual reporting periods beginning on or after 1 January 2019, instead of 1 January 2018.	1 January 2019	The changes in revenue recognition requirements in AASB 15 may result in changes to the timing and amount of revenue recorded in the financial statements. The Standard will also require additional disclosures on service revenue and contract modifications.
AASB 2016-7 <i>Amendments to Australian Accounting Standards – Deferral of AASB 15 for Not-for-Profit Entities</i>	This Standard defers the mandatory effective date of AASB 15 for not-for-profit entities from 1 January 2019 to 1 January 2019.	1 January 2019	This amending standard will defer the application period of AASB 15 for not-for-profit entities to the 2019-20 reporting period.
AASB 16 <i>Leases</i>	This amending standard will eliminate the classifications of operating leases and finance leases. Subject to exceptions, the standard will require a right of use asset to be capitalized in the statement of financial position. A liability corresponding to the capitalized lease will also be recognized.	1 January 2019	The changes in recognition requirements in AASB 16 will result in the recognition of operating leases on the balance sheet, and may result in changes to the timing and amount of expenses recorded in the financial statements relating to leases held.

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

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 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 incorporated 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.

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.

ANNECTO INC
REG No. A00 375 63T

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

NOTE 3: PRIOR PERIOD ADJUSTMENTS

Adjustments were made to prior period balances and transactions due to errors in the timing of revenue recognition and an accounting error resulting in revenue being overstated.

This has led to the following:

	Initially reported 2018 \$	Restated 2018 \$
<i>Restatement of balances and transactions</i>		
Revenue from operating activities	40,318,945	36,807,434
Other liabilities	2,744,303	2,955,814
Opening retained earnings	8,010,358	11,310,358

This has the combined impact of:	\$
<i>Balances misstated</i>	
Revenue overstated by:	3,511,511
Liabilities understated by:	211,511
Opening retained earnings understated by:	3,300,000

As a result of the above, the following restatements were required to the face statements of the financial report:

Statement of profit or loss and other comprehensive income

	Initially reported 2018	Adjustment	Restated 2018
Revenue from operating activities	40,147,412	(3,511,511)	36,635,901
Total income	40,318,945	(3,511,511)	36,807,434
Total expenses	37,195,928	-	37,195,928
Surplus/(loss) for the year	3,123,017	(3,511,511)	(388,494)
Total comprehensive income for the year	3,123,017	(3,511,511)	(388,494)

Statement of financial position

	Initially reported 2018	Adjustments prior to 2018	Adjustments to 2018	Restated 2018
Total assets	23,687,855		-	23,687,855
Other liabilities	2,744,303		211,511	2,955,814
Total liabilities	8,156,939		211,511	8,368,450
Net assets	15,530,916	3,300,000	(3,511,511)	15,319,405

Statement of changes in equity

	Initially reported 2018	Adjustments prior to 2018	Adjustments to 2018	Restated 2018
Opening balance	12,407,899	3,300,000	-	15,707,899
Surplus/(loss) for the year	3,123,017		(3,511,511)	(388,494)
Closing balance	15,530,916	3,300,000	(3,511,511)	15,319,405

ANNECTO INC
REG No. A00 375 63T

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

NOTE 4: BUSINESS COMBINATIONS

On 1 February 2019, annecto Incorporated acquired 100 per cent of the net assets of Merrimu Services Incorporated for nil consideration. The annecto Incorporated Board also replaced the former Board of Merrimu Services Incorporated from this date.

Details of the acquisition are as follows:

	2019 \$
Fair value of net assets acquired	
<i>Assets</i>	
Cash and cash equivalents	234,552
Prepayments	72,995
Receivables and accruals	344,995
Inventory	11,994
Property, plant and equipment	808,518
<i>Liabilities</i>	
Payables and accruals	(308,811)
Employee benefit provisions	(309,657)
Other liabilities	(39,550)
Net assets	<u>815,036</u>
Net gain on acquisition	<u>815,036</u>

ANNECTO INC
REG No. A00 375 63T

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

	2019 \$	2018 \$
NOTE 5: PARENT ENTITY INFORMATION		
(a) Information relating to annecto Inc:		
Current assets	15,213,601	14,716,208
Non-current assets	9,688,451	8,555,121
Total assets	24,902,052	23,271,329
Current liabilities	9,188,351	8,114,949
Non-current liabilities	495,465	248,020
Total liabilities	9,683,816	8,362,969
Retained earnings	10,230,696	10,510,819
Asset revaluation reserve	4,987,541	4,397,541
Total equity	15,218,236	14,908,360
Net operating result of the parent entity	(280,124)	(410,626)
Amount owing from annecto controlled entities	609,283	-

- (b) The consolidated financial statements include the financial statements of annecto Incorporated and controlled entities listed in the following table.

Name	Country of Incorporation	% Ownership Interest		% Voting Power	
		2019	2018	2019	2018
Merrimu Services Incorporated	Australia	-	-	100	-
annecto Nominee Inc as The Trustee of annecto Capital Trust and annecto Foundation					
annecto Capital Fund Trust	Australia	-	-	100	100
annecto Foundation Trust	Australia	-	-	100	100

NOTE 6: REVENUE AND EXPENSES

The surplus for the year includes the following revenues and expenses whose disclosure are relevant in explaining the performance of the entity:

(i) Revenue from operating activities		
Government grants and service fee income	22,995,306	21,976,879
Program & fees income	8,590,938	3,220,488
State grant & services income	8,591,674	11,438,534
Total revenue from operating activities	40,177,918	36,635,901
(ii) Other income		
Donations and fundraising	22,585	12,387
Interest	282,085	123,855
Sundry income	63,925	35,291
Total other revenue	368,595	171,533
(iii) Other expenses from ordinary activities		
Agency costs	7,166,127	7,477,936
Office costs	3,439,753	2,782,284
Transport costs	1,033,980	897,537
Computer costs	381,100	477,267
Communication costs	719,188	502,590
Bank and interest charges	13,519	11,082
Bad debts	124,047	58,390
Other expenses	128,915	113,060
Total other expenses from ordinary activities	13,006,629	12,320,146

ANNECTO INC
REG No. A00 375 63T

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

	2019 \$	2018 \$
NOTE 7: CASH AND CASH EQUIVALENTS		
CURRENT		
Cash on hand	10,168	13,595
Cash at bank	3,831,270	10,454,362
Deposits at call	130,972	126,069
Term deposits (less than 3 months maturity)	384,933	334,852
	<u>4,357,343</u>	<u>10,928,878</u>
NOTE 8: TRADE AND OTHER RECEIVABLES		
CURRENT		
Trade debtors	2,016,486	869,389
Less allowance for doubtful debts	(117,032)	(60,000)
Accrued income	1,221,904	602,764
Other receivables (incl. GST receivable)	154,334	162,946
Security deposits receivable	88,345	51,356
	<u>3,364,037</u>	<u>1,626,455</u>
NOTE 9: FINANCIAL ASSETS		
CURRENT		
Term Deposits (greater than 3 months maturity)	1,857,750	1,820,833
Available for sale financial assets	5,805,513	615,133
	<u>7,663,263</u>	<u>2,435,966</u>

ANNECTO INC
REG No. A00 375 63T

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

	2019 \$	2018 \$
NOTE 10: PROPERTY, PLANT AND EQUIPMENT		
NON-CURRENT		
LAND		
Freehold land:		
At Directors valuation ⁽ⁱ⁾	6,620,000	6,030,000
BUILDINGS		
At Directors valuation ⁽ⁱⁱ⁾	100,000	100,000
At cost	89,348	58,910
Less accumulated depreciation	(45,163)	(41,225)
Total buildings	144,185	117,685
PLANT AND EQUIPMENT		
Motor vehicles		
At cost	879,344	368,726
Less accumulated depreciation	(829,008)	(366,340)
	50,336	2,386
Office equipment		
At cost	1,377,149	682,090
Less accumulated depreciation	(1,086,436)	(451,737)
	290,713	230,353
Total plant and equipment	341,049	232,739
LEASEHOLD IMPROVEMENTS		
At cost	3,592,202	2,255,351
Less accumulated depreciation	(1,437,878)	(687,276)
Total leasehold improvements	2,154,324	1,568,075
Total property, plant and equipment	9,259,558	7,948,499

(i) Land has been valued by the Directors based on independent valuations conducted by Colliers International as at 30 June 2019.

(ii) Buildings have been valued by the Directors based on independent valuations conducted by Knight Frank as at 30 June 2017. Managerial fair value assessment performed at 30 June 2019 assessed that the current carrying value to be a reasonable approximation of fair value.

ANNECTO INC
REG No. A00 375 63T

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

NOTE 10: PROPERTY, PLANT AND EQUIPMENT (Continued)

(a) 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.

	Freehold land	Buildings	Motor vehicles	Office equipment	Leasehold improvements	TOTAL
	\$	\$	\$	\$	\$	\$
Balance at 1 July 2018	6,030,000	117,685	2,386	230,353	1,568,075	7,948,499
Additions	-	30,438	1,945	39,543	48,475	120,401
Transfers from Merrimu	-	-	59,813	88,312	660,393	808,518
Disposals	-	-	(6,103)	-	-	(6,103)
Revaluation increment	590,000	-	-	-	-	590,000
Depreciation expense	-	(3,938)	(7,705)	(67,495)	(122,619)	(201,757)
Balance at 30 June 2019	6,620,000	144,185	50,336	290,713	2,154,324	9,259,558

NOTE 11: INTANGIBLE ASSETS
NON-CURRENT
SOFTWARE

At cost

Less accumulated amortisation

	2019	2018
	\$	\$
	1,541,028	1,519,155
	(1,112,135)	(912,526)
	428,893	606,629

(a) Movements in Carrying Amounts

Movement in the carrying amounts for each class of intangible assets between the beginning and the end of the current financial year.

	Software	TOTAL
	\$	\$
Balance at 1 July 2018	606,629	606,629
Additions	21,873	21,873
Amortisation expense	(199,609)	(199,609)
Balance at 30 June 2019	428,893	428,893

ANNECTO INC
REG No. A00 375 63T

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

	2019 \$	2018 \$
NOTE 12: TRADE AND OTHER PAYABLES		
CURRENT		
Trade creditors & accruals	1,498,788	1,769,624
PAYG and superannuation payable	565,861	367
Other payables	131,904	126,749
	<u>2,196,553</u>	<u>1,896,740</u>

NOTE 13: OTHER LIABILITIES

CURRENT		
Deferred grant funding	79,426	212,243
HCP client balances*	3,398,545	2,743,571
	<u>3,477,971</u>	<u>2,955,814</u>

*Where annecto is appointed as the administrator of a client's package it has responsibility for transactions and balances relating to the client and their package. As a result, income and expenditure managed on behalf of the client is not recognised in the profit and loss statement, except to the extent that it applies to services directly rendered by annecto to, or on behalf, of the client.

NOTE 14: PROVISIONS

Employee benefit provisions

CURRENT		
Annual leave	1,862,898	1,599,993
Long service leave	1,680,704	1,667,883
	<u>3,543,602</u>	<u>3,267,876</u>
NON-CURRENT		
Long Service Leave	309,465	152,020
	<u>3,853,067</u>	<u>3,419,896</u>

Total employee benefit provisions

Other provisions

NON-CURRENT		
Make good provision	186,000	96,000
	<u>4,039,067</u>	<u>3,515,896</u>
Total provisions		
	3,543,602	3,267,876
Total current provisions	495,465	248,020

NOTE 15: RESERVES

Asset Revaluation Reserve

This reserve is used to record increments and decrements on the revaluation of non-current assets.

Asset revaluation reserve

Opening balance at beginning of financial year	4,397,541	4,397,541
Movement during the year	590,000	-
Closing balance at end of financial year	<u>4,987,541</u>	<u>4,397,541</u>

ANNECTO INC
REG No. A00 375 63T

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

	2019	2018
	\$	\$
NOTE 16: COMMITMENTS		
Operating lease commitments		
Future operating lease rentals of premises, motor vehicles and plant and equipment not provided for in the financial statements and payable:		
- not later than one year	824,813	1,153,810
- later than one year and not later than five years	869,114	826,268
- later than five years	-	77
	<u>1,693,927</u>	<u>1,980,155</u>

NOTE 17: CONTINGENT ASSETS AND LIABILITIES

There were no contingent assets or liabilities for the year ended 30 June 2019 (2018: Nil).

NOTE 18: RELATED PARTIES

Related parties of the association include all key management personnel (KMP) and their close family members and personal business interests (controlled entities, joint ventures and entities they have significant influence over).

KMP of the association include the Board of Directors and those employees who have authority and responsibility for planning, directing and controlling the activities of the Association.

(a) Key management personnel compensation

Compensation provided to KMPs comprises employee benefits in all forms of consideration paid, payable or provided in exchange for services rendered, and is disclosed in total below:

	2019	2018
	\$	\$
Total compensation of KMPs	<u>1,398,359</u>	<u>1,398,345</u>

The Board of Directors have not received compensation for their services as directors.

(b) Related party transactions

Michael Johns is a partner of Maddocks Lawyers.

Maddocks provided services to the association on reduced terms and conditions during the 2019 financial year.

Total amounts paid for services provided during the 2019 financial year were \$115,288 (2018: \$64,653).

NOTE 19: EVENTS AFTER THE REPORTING PERIOD

No matter or circumstance has arisen since 30 June 2019 that has significantly affected, or may significantly affect the incorporated association's operations, the results of those operations, or the incorporated association's state of affairs in future financial years.

ANNECTO INC
REG No. A00 375 63T

STATEMENT BY DIRECTORS


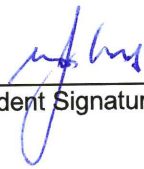
In the opinion of the directors the financial report as set out on pages 1 to 19:

The directors declare that in their opinion:

- there are reasonable grounds to believe that the registered entity is able to pay all of its debts, as and when they become due and payable; and
- the financial statements and notes satisfy the requirements of the *Australian Charities and Not-for-profits Commission Act 2012*.

Signed in accordance with subsection 60.15(2) of the Australian Charities and Not-for-profit Commission Regulation 2013.

	
Treasurer Name	Treasurer Signature

	
President Name	President Signature

Dated this 21st day of October 2019

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF ANNECTO INC.**

Opinion

We have audited the consolidated financial report of annecto Inc. which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated 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 annecto Inc. is in accordance with the *Australian Charities and Non-for-profits Commission Act 2012*, including:

- (a) giving a true and fair view of the financial position of the Association 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 (including the Australian Accounting Interpretations) and Division 60 of the *Australian Charities and Non-for-profits Commission Act 2012*.

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 Association 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 Association's annual report for the year ended 30 June 2019, but does not include the financial report and our auditor's report thereon. The other information is expected to be made available to us after the date of this auditor's report.

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.

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 Association'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 Association or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Association'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 Association'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 Association'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 Association 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
Chartered Accountants

Robert Wernli

Robert Wernli
Partner

21 October 2019
Melbourne