

The **Fred Hollows**
Foundation

2011 General Purpose Financial Statements

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The Fred Hollows Foundation

A.C.N. 070 556 642

Directors' Report

The Directors of The Fred Hollows Foundation submit their report for the year ended 31 December 2011.

BOARD OF DIRECTORS

The Directors in office during the financial year and until the date of this report are as follows:

| Name | Position | Experience & Professional Background |
|--|---|--|
| Les Fallick Chairman (Director from May 2010) | Chair of the Board; Chair of the Governance & Nominations Committee; and ex-officio Member of the Finance & Audit Committee | Director, Principle Advisory Services |
| Michael Johnson (Director from May 1992 to May 2005; and then from May 2006) | Vice-Chair of the Board; Member of the Finance & Audit Committee and the Governance & Nominations Committee | Associate Professor, School of Social Science and International Studies, University of NSW |
| Graham Skeates (Director from May 2010) | Treasurer and Chair of the Finance & Audit Committee | Chartered Accountant |
| Sarah Elliott (Director from May 2005) | Honorary Secretary; Chair of the Program Advisory Committee and Member of the Finance & Audit Committee | Principal Policy Officer, Department of Housing Services, NSW |
| Robert Dalziel (Director from May 2004) | Member of the Governance & Nominations Committee | Company Director |
| Howard Davies (Director from May 1998) | Member of the Governance & Nominations Committee; and Director of FHF New Zealand and FHF United Kingdom | Director of Analoufi Pty Ltd |
| Gabi Hollows (Director from April 1995) | Founding Director | Orthoptist |
| Brent Impey (Director from March 2009) | Director of FHF New Zealand | Lawyer with extensive experience in media companies |
| Jamie La Nauze (Director from May 2010) | Chair of the Medical Advisory Committee | Ophthalmologist |
| Mary Kostakidis (Director from May 2008 - resigned May 2011) | Member of the Governance & Nominations Committee | Commentator and human rights activist with extensive media experience |
| Romlie Mokak (Director from May 2008 - resigned May 2011) | Member of the Program Advisory Committee | CEO, Australian Indigenous Doctors Association |
| Stephanie Young (Director from May 2006) | Member of the Medical Advisory Committee and the Governance & Nominations Committee | Ophthalmologist and Medical Officer at Concord Repatriation General Hospital |
| Peter Hearl (Director from May 2011) | Member of the Governance & Nominations Committee. | Director of Goodman Fielder and Treasury Wine Estate |

COMPANY SECRETARY

Elizabeth Hounslow

OBJECTIVES, STRATEGIES, PRINCIPAL ACTIVITIES AND PERFORMANCE MEASURES

The Foundation is an independent, non-profit, non-political and secular development agency whose vision is a world in which no person is needlessly blind and Indigenous Australians exercise their right to good health.

For the 2011 to 2014 period, The Foundation has four key strategic objectives:

- end avoidable blindness by 2020 in the communities and countries in which we work
- improve Indigenous health
- build a strong organisation
- create an international structure.

As a direct result of The Foundation's work in 2011:

- Eye health programs were conducted in 18 countries in Africa and Asia, and in remote Indigenous communities in Australia.
- 247,870 eye operations and other sight saving or improving interventions were performed.
- 74 surgeons and 341 nurses and other support staff received clinical training.
- 2,004 existing eye health professionals were up-skilled.
- 8,338 community health workers received eye care training.
- 31 eye health facilities were constructed or upgraded.
- Equipment to the value of \$3,389,496 was provided.

In pursuit of its objectives in 2011, The Foundation also:

- conducted research, advocacy, community education and fundraising activities; and
- strengthened business infrastructure in the areas of information technology, financial management, electronic document systems, risk management and human resources.

Based on the multi-year Strategic Framework, the Board approved the 2011 budget and work plan and monitored their implementation. A comprehensive set of Key Performance Indicators (KPIs) were used by Management to measure organisational performance at periodic intervals, with a formal Results Report produced for the Board.

OPERATING RESULTS FOR THE YEAR

The gross operating revenue of The Foundation was \$44,950,535 (2010: \$38,643,254) and expenses amounted to \$42,738,437 (2010: \$35,557,596) resulting in an operating surplus of \$2,212,098 (2010: \$3,085,658). Total equity as at 31 December 2011 stood at \$18,445,776 (2010: \$16,233,678). The cash balance including term-deposits was \$18,680,822 (2010: \$11,738,771).

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

There has been no significant change in the state of affairs of The Foundation during the year.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

Up to the date of this report, there have been no significant events after the balance date that should be included in this financial report.

INDEMNIFICATION AND INSURANCE OF DIRECTORS

The Foundation held Directors and Officers Liability cover during 2011. The amount of cover is reviewed periodically.

DIRECTORS' MEETINGS

The Board met four times in 2011, and its various Committees also met regularly or as the need arose.

The number of Board and Committee meetings held during 2011, and the number of meetings attended by each Director, are set out in the following table.

| | Full Board | Finance & Audit Committee | Program Advisory Committee | Medical Advisory Committee | Governance & Nominations Committee |
|---|---------------------|---------------------------|----------------------------|----------------------------|------------------------------------|
| No. of meetings | 4 | 5 | 5 | 2 | 4 |
| Meetings attended: | | | | | |
| Les Fallick (Chair) | 4 | 2 | N/A | N/A | 4 |
| Michael Johnson (Vice-Chair) | 4 | 5 | N/A | N/A | 4 |
| Graham Skeates | 4 | 5 | N/A | N/A | N/A |
| Robert Dalziel | 4 | N/A | N/A | N/A | 3 |
| Howard Davies | 4 | N/A | N/A | N/A | 3 |
| Sarah Elliott | 4 | 3 | 5 | N/A | N/A |
| Gabi Hollows | 4 | N/A | N/A | N/A | N/A |
| Brent Impey | 3 | N/A | N/A | N/A | N/A |
| Mary Kostakidis <i>(resigned in May)</i> | 1 of a possible 1 | N/A | N/A | N/A | 1 of a possible 2 |
| Romlie Mokak <i>(resigned in May)</i> | 1 of a possible 1 | N/A | 1 of a possible 1 | N/A | N/A |
| Jamie La Nauze | 4 | N/A | N/A | 2 | N/A |
| Stephanie Young | 4 | N/A | N/A | 2 | N/A |
| Peter Hearl <i>(joined Board in May)</i> | 2 out of possible 3 | N/A | N/A | N/A | 3 out of a possible 3 |

A number of Foundation members and associates who are not Directors also served on various Board Committees during 2011 as set out below:

Finance & Audit Committee Christine Hawkins
Program Advisory Committee Jo Thomson and Kate Gilbert
Medical Advisory Committee Dr David Moran; Dr Sanduk Ruit; Dr Katherine Smallcombe;
Dr Paul Torzillo

LIMITATION OF MEMBERS LIABILITY

The Fred Hollows Foundation is a company limited by guarantee. In accordance with its Constitution, the liability of its Members is limited to \$50.00 per person in the event of the company being wound-up.

AUDITOR'S INDEPENDENCE

The Directors have received an independent declaration from the auditor of The Fred Hollows Foundation, Ernst & Young.

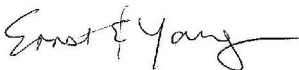
Signed in accordance with a resolution of the Directors.



John Leslie Fallick
Chair
11 April 2012
Sydney, NSW Australia

Auditor's Independence Declaration to the Directors of The Fred Hollows Foundation

In relation to our audit of the financial report of The Fred Hollows Foundation for the period ended 31 December 2011, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

A stylized, handwritten signature of the Ernst & Young firm.

Ernst & Young

A handwritten signature of Nigel Stevenson.

Nigel Stevenson
Partner
Sydney,
11 April 2012

Statement of comprehensive income

For the year ended 31 December 2011

| | 2011 | 2010 |
|---|-------------------|-------------------|
| | \$ | \$ |
| INCOME FROM CONTINUING OPERATIONS | | |
| Community and corporate support | | |
| Donations and gifts | | |
| - Monetary | 24,723,145 | 21,122,498 |
| Bequests and legacies | 10,053,451 | 8,703,822 |
| Grants | | |
| - AusAID | 6,445,552 | 5,710,432 |
| - Other Australian government | 283,917 | 331,009 |
| - Corporate/trusts | 2,525,707 | 2,555,380 |
| Net gains/(losses) on investments at fair value | 588,874 | 247,628 |
| Other income | 329,889 | (27,515) |
| Total income | 44,950,535 | 38,643,254 |
| EXPENDITURE FROM CONTINUING OPERATIONS | | |
| International aid and development programs expenditure | | |
| International Programs | | |
| - Funds to international programs | 17,858,617 | 14,502,386 |
| - Program support costs | 4,488,370 | 3,953,702 |
| Community education | 1,805,972 | 1,655,798 |
| Fundraising costs | | |
| - Public fundraising | 6,446,038 | 5,328,576 |
| - Government, multilateral and private | 65,111 | 62,420 |
| Accountability and administration | 2,004,277 | 1,576,687 |
| Total international aid and development programs expenditure | 32,668,385 | 27,079,569 |
| Domestic aid and development programs expenditure | | |
| Domestic Programs | 6,888,474 | 5,778,202 |
| Community Education | 556,692 | 518,394 |
| Fundraising costs | 2,007,066 | 1,687,804 |
| Accountability and administration | 617,820 | 493,627 |
| Total domestic aid and development programs expenditure | 10,070,052 | 8,478,027 |
| Total Expenditure | 42,738,437 | 35,557,596 |
| Other comprehensive income | - | - |
| Net surplus/(deficit) for the period | 2,212,098 | 3,085,658 |

Notes:

- (a) There was no non-monetary donations and gifts received during the reporting periods.
- (b) There are no revenue nor expenditure for international political or religious proselytisation programs.
- (c) The above Statement of comprehensive income should be read in conjunction with accompanying notes.

The Fred Hollows Foundation
A.C.N. 070 556 642
Statement of financial position
As at 31 December 2011

| | Note | 2011 | 2010 |
|--------------------------------------|------|-------------------|------------|
| | | \$ | \$ |
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | | 2,303,412 | 3,384,210 |
| Other interest bearing deposits | | 16,377,410 | 8,354,561 |
| Trade and other receivables | 7 | 2,584,442 | 4,015,908 |
| Prepayments | | 415,536 | 365,317 |
| Total current assets | | 21,680,800 | 16,119,996 |
| Non-current assets | | | |
| Financial assets at fair value | 8 | 6,906,398 | 7,245,020 |
| Property, plant and equipment | 9 | 2,285,216 | 1,956,553 |
| Total non-current assets | | 9,191,615 | 9,201,574 |
| TOTAL ASSETS | | 30,872,414 | 25,321,569 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Trade and other payables | 10 | 11,364,245 | 7,937,465 |
| Borrowings | 11 | 0 | 281,581 |
| Provisions | 12 | 697,742 | 549,849 |
| Total current liabilities | | 12,061,987 | 8,768,895 |
| Non-current liabilities | | | |
| Provisions | 12 | 135,723 | 91,203 |
| Deferred liability | 14 | 228,928 | 227,793 |
| Total non-current liabilities | | 364,651 | 318,996 |
| TOTAL LIABILITIES | | 12,426,638 | 9,087,891 |
| NET ASSETS | | 18,445,776 | 16,233,678 |
| EQUITY | | | |
| Accumulated funds | | 18,445,776 | 16,233,678 |
| TOTAL EQUITY | | 18,445,776 | 16,233,678 |

Notes:

(a) There are no net tax liabilities. See related Notes 7 and 10.

(b) Items having nil balances in 2010 and 2011 are not shown above. See Note 17.

(c) The above Statement of financial position should be read in conjunction with accompanying notes.

Statement of cash flows

For the year ended 31 December 2011

| | 2011 | 2010 |
|---|--------------------|--------------------|
| | \$ | \$ |
| Cash flows from operating activities | | |
| Receipt from donors | 24,723,145 | 18,153,270 |
| Receipts from bequests | 9,449,137 | 7,649,125 |
| Receipt of government grants | 6,716,016 | 9,977,954 |
| Receipt of international corporate donations | 1,749,792 | 3,370,077 |
| Payment of program expenditures | (24,657,342) | (20,961,121) |
| Payment to suppliers and employees | (11,620,773) | (13,813,314) |
| Others | - | (184,145) |
| | <hr/> | <hr/> |
| Net cash flows from/(used in) operating activities | 6,359,976 | 4,191,846 |
| | <hr/> | <hr/> |
| Cash flows from investing activities | | |
| Acquisition of plant and equipment | (842,748) | (881,880) |
| Disposal of plant and equipment | 43,500 | 30,000 |
| Purchase of financial assets at fair value | - | (6,650,000) |
| Disposal of financial assets at fair value | 924,053 | 6,320,827 |
| Purchase of other interest bearing deposits | (8,022,849) | (8,014,312) |
| Interest received | 664,460 | 311,843 |
| Dividends received | 81,106 | 203,795 |
| | <hr/> | <hr/> |
| Net cash flows from/(used in) investing activities | (7,152,479) | (8,679,726) |
| | <hr/> | <hr/> |
| Cash flows from financing activities | | |
| Repayment of bank loan- principal | (281,581) | (456,429) |
| Repayment of bank loan- interest | (6,713) | (37,789) |
| | <hr/> | <hr/> |
| Net cash flows from/(used in) financing activities | (288,294) | (494,218) |
| | <hr/> | <hr/> |
| Net increase/(decrease) in cash and cash equivalents | (1,080,797) | (4,982,098) |
| Cash and cash equivalents at beginning of the period | 3,384,210 | 8,366,308 |
| | <hr/> | <hr/> |
| Cash and cash equivalents at end of the period | 2,303,413 | 3,384,210 |
| | <hr/> <hr/> | <hr/> <hr/> |

The above statement of cash flows should be read in conjunction with accompanying notes.

The Fred Hollows Foundation
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Statement of changes in equity
For the year ended 31 December 2011

| | Accumulated funds \$ |
|---|-------------------------------------|
| Balance at 1 January 2011 | <u>16,233,678</u> |
| Surplus for the year | 2,212,098 |
| Other comprehensive income | - |
| Total comprehensive income for the period | <u>2,212,098</u> |
| As at 31 December 2011 | <u><u>18,445,776</u></u> |
| | |
| Balance at 1 January 2010 | <u>13,148,019</u> |
| Surplus for the year | 3,085,658 |
| Other comprehensive income | - |
| Total comprehensive income for the period | <u>3,085,658</u> |
| As at 31 December 2010 | <u><u>16,233,678</u></u> |

(a) The above Statement of changes in equity should be read in conjunction with accompanying notes.

The Fred Hollows Foundation

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Notes to financial statements

Year ended 31 December 2011

1 Corporate information

The financial report of The Fred Hollows Foundation for the year ended 31 December 2011 was authorised in accordance with a resolution of the Directors on 11 April 2012.

2 Summary of significant accounting policies

(a) Basis of preparation

The financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Australian Accounting Standards and the Corporations Act 2001, the Charitable Fundraising Act 1991, the Charitable Collections Act 1946 (WA) and the Australian Council for International Development (ACFID) Code of Conduct. The financial report has been prepared in accordance with the historical cost convention except for the investments which are measured at fair value.

(b) Statement of Compliance

The financial report complies with Australian Accounting Standards - Reduced Disclosure Requirements as issued by the Australian Accounting Standards Board (AASB).

Except as described below, Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by The Foundation for the annual reporting period ended 31 December 2011. The impact of these standards and interpretations has been assessed and they are not expected to have a material effect on The Foundation.

As stated in the 2010 financial statements, The Foundation has elected to early adopt the following accounting standards and amendments effective 1 January 2010:

- AASB 1053 - Application of Tiers of Australian Accounting Standards (AAS)
- AASB 2010-2 Amendments to AAS Arising from Reduced Reporting Requirements

(c) Cash and cash equivalents

Cash and cash equivalent in the Statement of financial position comprise of cash at bank and in hand and short term deposits with an original maturity of three months or less.

(d) Other interest bearing deposits

These are short-term deposits with maturities over three months but less than one year.

(e) Trade and other receivables

Trade receivables are recognised and carried at original invoice amount less a provision for any uncollectible debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

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Notes to financial statements

Year ended 31 December 2011

2 Summary of significant accounting policies

(f) Financial Assets at fair value

All financial assets are initially recognised at fair value of the consideration given plus the transaction costs associated with the investment. The investments are then recorded at fair value through Statement of comprehensive income on subsequent measurements.

The fair value of the financial assets of The Foundation have been determined as follows:

Managed Funds

Managed funds are valued at redemption price as at balance date quoted by the investment manager.

(g) Impairment

At each reporting date, assets other than mentioned under item (e) are reviewed to determine if there is any objective evidence of impairment.

The impairment for these assets is recognised directly against Statement of comprehensive income for the class of asset.

(h) Property, Plant and equipment

(i) Cost and valuation

The Foundation does not own any realty. Items of plant and equipment are valued at cost, less accumulated depreciation and any accumulated impairment.

(ii) Depreciation

Depreciation is provided for on a straight line basis at rates over the estimated useful lives of the assets as follows:

| | 2011 | 2010 |
|--------------------------------|------------|------------|
| Motor vehicles | 3-5 years | 3-5 years |
| Office machines and equipment | 3-10 years | 3-10 years |
| Office furniture and equipment | 3-10 years | 3-10 years |
| Leasehold improvements | 5-15 years | 5-15 years |

The assets' residual values, useful lives and amortisation methods are reviewed at the end of each financial year.

(iii) Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

(i) Trade and other payables

Trade and other payables are carried at amortised cost and due to their short-term nature they are not discounted. They represent liabilities for goods and services provided to The Foundation prior to the end of the financial year that are unpaid and arise when The Foundation becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

(j) Borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless The Foundation has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date, in which case borrowings are classified as non-current liabilities.

The Fred Hollows Foundation

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Notes to financial statements

Year ended 31 December 2011

2 Summary of significant accounting policies

(k) Provisions

Provisions are recognised when The Foundation has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When The Foundation expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the Statement of comprehensive income net of any reimbursement.

(i) Wages, salaries and annual leave

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

(ii) Long service leave

The liability for long service leave is recognised and 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 discounted present value 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 currencies that match, as closely as possible, the estimated future cash outflows.

(l) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

(i) Donation income and grants

Control of a right to receive the donation is attained, usually evidenced by receipt of cash. Donations and grants received, which are unspent at balance date and are for a specific project not yet complete, are only recognised as income when the project occurs as these amounts are repayable if not fully utilised on the specific project.

(ii) Net gains or losses on financial instruments at fair value

Gains or losses (excluding interest and dividend income) on financial instruments at fair value through profit or loss is calculated as the difference between the fair value at sale or at year end, and the fair value at the previous valuation point. This includes both realised and unrealised gains and losses.

Dividend income and interest revenue arising from financial assets at fair value is also included in "net gains and losses on financial instruments at fair value". Dividends are recognised at the time the right to receive dividends has been established, usually through a formal announcement of the company distributing the dividends.

Interest revenue is recognised using the effective interest method, with interest accrued over the relevant period using the effective interest rate, which is the rate that exactly discounts the estimated future cash flows over the expected life of the financial asset to the net carrying amount of the financial asset.

(m) Taxes

(i) Income tax

The Foundation has been registered under the provisions of The Charitable Fundraising Act 1991 and under Subdivision 50-B of the Income Tax Assessment Act 1997, it is an income tax exempt charitable entity.

The Fred Hollows Foundation

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Notes to financial statements

Year ended 31 December 2011

2 Summary of significant accounting policies (continued)

(m) Taxes (continued)

(ii) Goods and Services Tax (GST)

Revenue, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of financial position.

Cash Flows are included in the Statement of cash flow on a gross basis and the GST component of the cash flows arising from investing and financing activities, which is recoverable or payable to, the taxation authority are classified as cash flows from operations.

(n) Foreign currency translations

Foreign currency in relation to overseas currency bank accounts are translated to local currency using rates of exchange prevalent at the end of the financial year.

Expenditures in foreign currency are translated at the monthly average rate.

(o) Fundraising activities

As a charitable institution, The Foundation has requirements under the Charitable Fundraising Act 1991. This act provides the manner in which fundraising appeals are conducted, controlled and reported. These are shown in Note 20 of the financial statements.

(p) Operating Leases

Leases where the lessor retains substantially all the risks and benefits of the ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term.

Operating lease payments are recognised as an expense in the Statement of comprehensive income on a straight-line basis over the term of the lease.

(q) Government grants

Government grants are recognised in the Statement of financial position as a liability when the grant is received.

When the grant relates to a future program costs (provision of program services), it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

(r) Significant accounting judgments

Management has identified the following critical accounting policies for which significant judgments, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

(i) Valuation of investments

The Foundation classifies its investments in listed and unlisted securities at fair value. The fair value of listed shares has been determined by reference to published price quotations in an active market. The fair values of unlisted securities not traded in an active market are determined by appropriately qualified independent professional valuers commissioned by The Foundation's fund managers.

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Notes to financial statements

Year ended 31 December 2011

2 Summary of significant accounting policies (continued)

(r) Significant accounting judgments (continued)

(ii) Estimation of useful lives of assets

The estimation of the useful lives of assets has been based on historical experience as well as on manufacturers' warranties (for plant and equipment), and turnover policies (for motor vehicles). In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustments to useful lives are made when considered necessary.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

(s) Consolidation

Consolidated financial statements have not been prepared in accordance with AASB 127 Consolidated and Separate Financial Statements on the grounds that the controlled entities are not material to these financial statements. The controlled entities are FHF Eastern Africa and The Fred Hollows Foundation (UK).

3 Financial risk management objectives and policies

The Foundation's principal financial instruments comprise cash and short-term deposits, receivables, payables, bank borrowings and investments.

Risk exposures and responses

The Foundation manages its exposure to key financial risks, including interest rate and currency risk in accordance with The Foundation's financial risk management policy. The objective of the policy is to support the delivery of the Foundation's financial targets while protecting future financial security.

The main risks arising from The Foundation's financial instruments are interest rate risk, foreign currency risk, credit risk, price risk and liquidity risk. The Foundation uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rate, equity price risk and foreign exchange risk and assessments of market forecasts for interest and foreign exchange rates as well as prices of shares in equity. Ageing analyses and monitoring of specific credit allowances are undertaken to manage credit risk. Liquidity risk is monitored through the development of future rolling cash flow forecasts.

The Board reviews and agrees policies for managing each of these risks as summarised below.

Primary responsibility for identification and control of financial risks rests with the Finance and Audit Committee under the authority of the board.

(a) Interest rate risk

The Foundation's exposure to market interest rates relates primarily to The Foundation's cash balances. No interest rate risk relates to bank borrowings as they are under fixed interest rate and are carried at amortised cost.

(b) Foreign currency risk

The Foundation's international program prepares local currency budgets. The Foundation's commitments are limited the Australian dollar equivalent to local currency budgets.

(c) Price risk

The Foundation's investment in equity securities are subject to price risk. To limit this risk The Foundation has a policy to diversify its portfolio ensuring the majority of the equity investments are of a high quality and are publicly traded. The Foundation's investments are currently placed in a fund called Responsible Investment Leaders Balanced Fund managed by AMP Investors Capital Limited.

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Notes to financial statements

Year ended 31 December 2011

3 Financial risk management objectives and policies (continued)

Risk exposures and responses (continued)

(d) Credit risk

Credit risk represents the risk that the counterparty to the financial instrument will fail to discharge an obligation and cause The Foundation to incur financial loss.

The Foundation's exposure to credit risk arises from default of the counterparty, with the current maximum exposure at the reporting date equal to the fair value of these instruments as disclosed in the Statement of financial position. This does not represent the maximum risk exposure that could arise in the future as a result of changes in values.

The majority of The Foundation's receivables are from the Australian government; trade receivables are not material and historically The Foundation is not exposed to normal trading risk. There are no financial assets that are past due or impaired and the foundation holds no collateral as security or any other credit enhancements.

(e) Liquidity risk

Liquidity risk arises from the financial liabilities of The Foundation and its subsequent ability to meet its obligation to repay these liabilities as and when they fall due.

The Foundation's objective is to maintain a balance between continuity of funding and flexibility through the use of cash and bank loans.

The Foundation manages its liquidity risk by monitoring the total cash inflows and outflows expected on a monthly basis. In addition, The Foundation maintains sufficient cash to meet worldwide programs' normal operating requirements.

(f) Fair value

The Foundation uses various methods in estimating the fair value of a financial instrument. These methods include: fair value using quoted prices in active markets; fair value estimates using inputs from observable prices either directly (as prices) or indirectly (derived from prices); and fair value estimates using inputs from non-observable market data.

Quoted market price represents the fair value determined based on quoted prices on active markets as at the reporting date without any deduction for transaction costs. The fair value of the listed equity investments are based on quoted market prices.

For financial instruments not quoted in active markets, The Foundation's investment managers uses a direct feed valuation provided daily by professional valuers. The investment managers conduct, where available, validation process that include reference to secondary pricing sources before releasing the updated prices on daily basis.

4 Net gains or losses on investments at fair value

Dividend, interest, realised and unrealised gains/losses on FX contracts and investments

| | 2011 | 2010 |
|--|----------------|---------|
| | \$ | \$ |
| | 588,874 | 247,628 |

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Notes to financial statements

Year ended 31 December 2011

5 Other income

This includes income or losses from disposal of plant and equipment, foreign currency transactions and other sundry receipts.

| | | 2011 | 2010 |
|--|------|------------------|------------------|
| | | \$ | \$ |
| 6 Expenses | | | |
| (a) Finance costs | | | |
| Interest on bank borrowings | | 6,713 | 37,789 |
| | | <u>6,713</u> | <u>37,789</u> |
| (b) Depreciation, impairment and amortisation included in Statement of comprehensive income | | | |
| Depreciation | | 425,370 | 366,261 |
| | | <u>425,370</u> | <u>366,261</u> |
| (c) Lease payments and other expenses included in Statement of comprehensive income | | | |
| Minimum lease payments - operating lease | | 607,235 | 541,817 |
| | | <u>607,235</u> | <u>541,817</u> |
| 7 Trade and other receivables | | | |
| | | 2011 | 2010 |
| | | \$ | \$ |
| Trade receivables | | 195,385 | 2,933,591 |
| Receivables from related parties | 7(a) | 1,102,109 | 664,397 |
| Equipment Advances | | 396,950 | - |
| Dividend and interest receivables | | 255,827 | 173,963 |
| GST receivable | 7(b) | 593,820 | 210,102 |
| Others | | 40,350 | 33,854 |
| | | <u>2,584,442</u> | <u>4,015,908</u> |

Trade receivables are non-interest bearing and are generally on 30-60 day terms. A provision for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired. As at balance date all trade receivables are current and collectible and no impairment provision has been recognised.

(a) Receivables from related parties

These represent remittance of monies to Fred Hollows entities intended for program expenditure and has been unspent as of balance date. The balance represents remainder of the most current remittances.

(b) Net tax liability

At reporting dates the net GST is a receivable per Note 7. Other tax liabilities (PAYG and FBT) are shown separately in Note 10. The net of GST and other tax liabilities were a receivable of \$473,246 and \$110,690 as at balance date of 2011 and 2010 respectively.

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Notes to financial statements

Year ended 31 December 2011

| | 2011 | 2010 |
|---|------------------|------------------|
| | \$ | \$ |
| 8 Financial assets at fair value | | |
| AMP Responsible Industry Leader Fund | 6,713,001 | 6,959,312 |
| ANZ Endowment Fund | 170,199 | 182,538 |
| Directly Held Listed Domestic Shares | - | 54,554 |
| Queensland Community Foundation | 10,203 | 10,127 |
| JB Were portfolio investment | | |
| - International Managed Funds | 12,996 | 38,489 |
| | <u>6,906,398</u> | <u>7,245,020</u> |

AMP Responsible Industry Leader Fund represents investments in diversified portfolio across all asset types with emphasis on growth assets (shares and property) where the Foundation holds interest expressed in units.

ANZ Endowment Fund is payable on demand. Queensland Community funds are held in trust for perpetuity. Investments in JB Were are remnants of investments retired in mid 2010 and will finally be settled in late 2012.

The fair value of listed investments has been determined directly by reference to published price quotations in an active market.

The fair value of the unlisted investments has been estimated by The Foundation's fund managers using valuation techniques based on assumptions, which are outlined in note 3. Management believes the estimated fair value resulting from the valuation techniques and recorded in the Statement of financial position and the related changes in fair value recorded in Statement of comprehensive income are reasonable and most appropriate at the reporting date.

9 Property, plant and equipment

(a) Carrying amount as of balance date

| | 2011 | 2010 |
|--------------------------------|------------------|------------------|
| | \$ | \$ |
| Motor vehicles | - | 20,638 |
| Office furniture and equipment | 2,383,746 | 1,738,725 |
| Leasehold improvements | 998,245 | 955,942 |
| Accumulated depreciation | (1,096,774) | (758,752) |
| | <u>2,285,216</u> | <u>1,956,553</u> |

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Notes to financial statements

Year ended 31 December 2011

(b) Reconciliation of carrying amounts at the beginning and end of the period

Movement in non-current assets

| | Motor vehicles | Office furniture & equipment | Leasehold improve- ments | Total |
|---|---------------------------|---|---|--------------|
| | \$ | \$ | \$ | \$ |
| As at 1 January 2011 net of accumulated depreciation and impairment | 18,787 | 1,083,931 | 853,835 | 1,956,553 |
| Reclassifications | - | - | - | - |
| Additions | - | 721,220 | 121,528 | 842,748 |
| Disposals, cost less accumulated depreciation | (18,148) | (2,657) | (67,910) | (88,715) |
| Depreciation charge for the year | (639) | (332,003) | (92,728) | (425,370) |
| | (0) | 1,470,491 | 814,725 | 2,285,216 |

| | Motor vehicles | Office furniture & equipment | Leasehold improve- ments | Total |
|---|---------------------------|---|---|--------------|
| | \$ | \$ | \$ | \$ |
| As at 1 January 2010 net of accumulated depreciation and impairment | - | 838,474 | 625,732 | 1,464,206 |
| Reclassifications | - | (20,529) | 20,529 | - |
| Additions | 40,781 | 555,543 | 285,556 | 881,880 |
| Disposals, cost less accumulated depreciation | (15,972) | (6,034) | (1,266) | (23,272) |
| Depreciation charge for the year | (6,022) | (283,523) | (76,716) | (366,261) |
| | 18,787 | 1,083,931 | 853,835 | 1,956,553 |

| 10 Trade and other payables | 2011 | 2010 |
|------------------------------------|-------------------|-------------|
| | \$ | \$ |
| Trade payables | 1,699,669 | 857,751 |
| Accrued expenses | 492,497 | 186,896 |
| Deferred grants: | | |
| - Government grants | 8,117,371 | 5,056,421 |
| - Other grants | 671,927 | 1,447,842 |
| Tax liabilities | 120,574 | 99,411 |
| Other Creditors | 262,207 | 289,144 |
| | 11,364,245 | 7,937,465 |

(a) Government grants

Government grants are credited with interest and have an average term of one year.

(b) Tax liabilities

Tax liabilities are credit balance of PAYG and fringe benefits tax liabilities. There is no liability for GST since GST payments are shown under GST Receivable under Note 7.

(c) Other payables

Other payables are non-interest bearing and have an average term of 6 months.

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| 11 Borrowings | 2011 | 2010 |
|----------------------------|-------------|----------------|
| | \$ | \$ |
| Obligations under mortgage | | |
| Current | - | 281,581 |
| | <u>-</u> | <u>281,581</u> |

(a) Loan contract

In July 2009, The Foundation moved its principal office to Rosebery to accommodate an expansion in staffing and operations and entered into mortgage contract to finance the move as well as the fit out of new workstations and the purchase of new furniture. The total contracted amount was \$924,288 payable in 24 monthly installments of \$41,185 commencing on 1 September 2009. The loan was fully repaid in 2011.

| 12 Provisions | 2011 | 2010 |
|---------------------------------|----------------|----------------|
| | \$ | \$ |
| (a) Current | | |
| Annual leave | | |
| As at 31 December | <u>629,692</u> | <u>488,568</u> |
| Long service leave | | |
| As at 31 December | <u>68,050</u> | <u>61,281</u> |
| Total current provisions | | |
| As at 31 December | <u>697,742</u> | <u>549,849</u> |
| (b) Non current | | |
| Long service leave | | |
| As at 31 December | <u>135,723</u> | <u>91,202</u> |

13 Key management personnel

As per section 8.1 of The Fred Hollows Foundation's Constitution, no money or benefit will be given by The Foundation to any its directors.

Compensation paid or payable to key personnel of The Foundation, whether as an executive officer or otherwise, is as follows:

| | 2011 | 2010 |
|-----------------------------------|----------------|----------------|
| | \$ | \$ |
| Short-term employee benefits | 465,095 | 435,461 |
| Other long-term employee benefits | 22,276 | 20,569 |
| | <u>487,371</u> | <u>456,030</u> |

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14 Leasing commitments

In 2009, the Foundation moved its principal office to Rosebery to accommodate an expansion in staffing and operations and as such entered into a commercial lease for six years from 1 May 2009 to 21 January 2016 with four month free rental.

In Darwin, The Foundation also moved its main office to Casuarina to accommodate further expansion and as such entered into a commercial lease for five years from 1 April 2010 to 31 March 2015 (with option for further five years) and with four-month free rental. In Melbourne, The Foundation secured a new lease from 5 September 2011 to 9 October 2016. The Foundation also has existing operating leases on motor vehicles and other premises in Brisbane and the Northern Territory. These leases have an average life of between one and four years with no renewal option included in the contracts. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at 31 December are as follows:

| | 2011 | 2010 |
|---|------------------|------------------|
| | \$ | \$ |
| Within one year | 905,021 | 686,621 |
| After one year but not more than five years | 2,659,184 | 2,236,128 |
| After more than five years | - | 23,032 |
| Total minimum lease payments | <u>3,564,205</u> | <u>2,922,748</u> |

The balances of the rent free amounts have been determined and brought to account at balance date, as well as recognition of future rental increases during the term of the lease. As at balance date these amounts are \$228,928 (\$227,793 in 2010), and are shown in the Statement of financial position as deferred liability.

15 Events subsequent to reporting date

The Directors are not aware of any material events occurring after balance date of this report that would require further disclosure in these financial statements.

16 Limitation of members' liability

The Fred Hollows Foundation is a company limited by guarantee and in accordance with its Constitution, in the event of The Fred Hollows Foundation being wound up, the liability of members will not exceed \$50.00 per member.

17 ACFID Code of Conduct

Certain lines of items required in the ACFID Code of Conduct reporting including but not limited to Inventories, Assets held for sale, Intangibles, Investment property and reserves have nil balances for both the reporting periods covered.

18 Related party disclosure

The Fred Hollows Foundation UK (FHF UK), The Fred Hollows New Zealand (FHF NZ), and The Fred Hollows Foundation SA (FHF SA) operate under licensing agreement with The Fred Hollows Foundation (FHF). FHF funds part of the program activities undertaken by FHF NZ and FHF SA and also funds the operational costs of FHF UK.

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Notes to financial statements

Year ended 31 December 2011

19 Auditors remuneration

The auditors of The Fred Hollows Foundation is Ernst and Young.

| | 2011 | 2010 |
|---|---------------|---------------|
| | \$ | \$ |
| <i>Amounts received or due and receivable by Ernst & Young (Australia) for:</i> | | |
| Audit of financial report | 70,000 | 60,500 |
| Taxation Services | 5,390 | - |
| Other non-audit services | - | 33,568 |
| | <u>75,390</u> | <u>94,068</u> |

20 Information furnished under the Charitable Fundraising Act 1991

a) Details of aggregate gross income and total expenditure of fundraising appeals

| | 2011 | 2010 |
|---|-------------------|-------------------|
| | \$ | \$ |
| <u>Proceeds from fundraising appeals</u> | | |
| Donations | 14,183,137 | 12,711,665 |
| Functions and special events | 384,574 | 301,497 |
| Bequests | 10,053,451 | 8,703,822 |
| Miracle Club | 10,155,434 | 8,109,336 |
| Gross proceeds from fundraising appeals | <u>34,776,596</u> | <u>29,826,320</u> |

Direct costs of fundraising appeals

| | | |
|---|------------------|------------------|
| Donations | 7,666,843 | 6,434,746 |
| Functions and special events | 8,169 | 5,366 |
| Bequests | 213,128 | 213,298 |
| Miracle Club | 544,893 | 343,429 |
| Cost of raising Government funds | 85,182 | 81,963 |
| Total direct costs of fundraising appeals | <u>8,518,215</u> | <u>7,078,801</u> |

| | | |
|--------------------------------------|-------------------|-------------------|
| Net surplus from Fundraising appeals | <u>26,258,381</u> | <u>22,747,519</u> |
|--------------------------------------|-------------------|-------------------|

(b) Statement showing how funds received are applied for charitable purposes

| | | |
|---|--------------------|--------------------|
| Net surplus obtained from Fundraising appeals | <u>26,258,381</u> | <u>22,747,519</u> |
| Applied for charitable purposes as follows: | | |
| Office administration | <u>2,622,097</u> | 2,070,314 |
| Expenditures on direct services: | | |
| Community education | 2,362,664 | 2,174,192 |
| International programs | 22,346,987 | 18,456,088 |
| Indigenous programs | 6,888,474 | 5,778,202 |
| | <u>31,598,125</u> | <u>26,408,482</u> |
| Total expenditure | <u>34,220,222</u> | <u>28,478,796</u> |
| Surplus/(Shortfall) | <u>(7,961,841)</u> | <u>(5,731,277)</u> |

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Notes to financial statements

Year ended 31 December 2011

| (c) Statement showing how funds received are applied for charitable purposes (continued) | 2011 | 2010 |
|---|-------------------|------------------|
| | \$ | \$ |
| Shortfall was provided by the following sources: | | |
| AusAID grants | 6,445,552 | 5,710,432 |
| Other government grants | 283,917 | 331,009 |
| Corporate funding | 2,525,707 | 2,555,380 |
| Investment income | 588,874 | 247,628 |
| Miscellaneous | 329,889 | (27,515) |
| | 10,173,939 | 8,816,934 |
| (Deficit) Surplus transfer to Accumulated Funds for future use | 2,212,098 | 3,085,658 |

| (d) Comparison by monetary figures and percentages | 2011 | 2010 |
|---|-------------|-------------|
| | \$ | \$ |
| Gross income from fundraising appeals | 34,776,596 | 29,826,320 |
| Total direct cost of fundraising appeals | 8,518,215 | 7,078,801 |
| Total direct cost of fundraising as a percentage of gross income from fundraising appeals | 24% | 24% |
| Net surplus from fundraising appeals | 26,258,381 | 22,747,519 |
| Net surplus from fundraising as a percentage of gross income from fundraising appeals | 76% | 76% |
| Total cost of direct services | 31,598,125 | 26,408,482 |
| Total expenditure (excluding direct cost of fundraising appeals) | 34,220,222 | 28,478,796 |
| Total cost of Direct services as a percentage of total expenditure | 92% | 93% |
| Total income received (including net profit from fundraising appeals) | 26,258,381 | 22,747,519 |
| Total cost of direct services as a percentage of total income received | 120% | 116% |

(e) Fundraising appeals conducted during the financial period:

All fundraising activities are related to Public Appeals.

21 Information furnished under the ACFID Code of Conduct

(a) Non-monetary gifts and expenditures

Non-monetary donations and gifts are not included in the Statement of comprehensive income. No non-monetary donations or gifts were made during the period.

(b) Revenue (expenditure) for international political or religious

No revenue was earned nor expenditure incurred for the year on international political or religious proselytisation programs.

(c) Table of Cash Movements for Designated Purpose

No single appeal or other form of fundraising for a designated purpose generated 10% or more of total income for the year ended 31st December 2011.

Directors Declaration

In accordance with a resolution of the directors of The Fred Hollows Foundation, I state that:

In the opinion of the directors:

1. The financial statements, notes and the additional disclosures included in the directors' report designated as audited, of The Foundation are in accordance with the Corporations Act 2001, including:

(a) Giving a true and fair view of The Foundation's financial position as at 31 December 2011 and of its performance for the year ended on that date.

(b) Complying with Accounting Standards and Corporations Act 2001, the Charitable Fundraising Act 1991, the Charitable Collections Act 1946 (WA) and the Australian Council for International Development (ACFID) Code of Conduct.

2. There are reasonable grounds to believe that The Foundation will be able to pay its debts as and when they become due and payable.

A handwritten signature in black ink that reads "Les Fallick". The signature is written in a cursive style with a horizontal line underneath the name.

Les Fallick
Director
11 April 2012
Sydney, Australia

Independent auditor's report to the members of The Fred Hollows Foundation

Report on the financial report

We have audited the accompanying financial report of The Fred Hollows Foundation, which comprises the statement of financial position as at 31 December 2011, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001*, the Charitable Fundraising Act 1991, and the Charitable Collections Act 1946 and Regulations 1947 (WA) and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

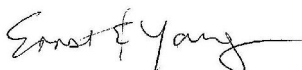
Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report. We confirm that the Auditor's Independence Declaration would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

- a. the financial report of Company is in accordance with the *Corporations Act 2001*, including:
 - i giving a true and fair view of the company's financial position as at 31 December 2011 and of its performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the Charitable Fundraising Act 1991, including:
 - i the financial report of The Fred Hollows Foundation shows a true and fair view of the financial results of fundraising appeals for the year ended 31 December 2011;
 - ii the financial report and associated records of The Fred Hollows Foundation have been properly kept during the year in accordance with the Act;
 - iii money received as a result of fundraising appeals conducted during the year has been properly accounted for and applied in accordance with the Act; and
 - iv as at the date of this report, there are reasonable grounds to believe that The Fred Hollows Foundation will be able to pay its debts as and when they fall due.
- c. the Charitable Collections Act 1946 and Regulations 1947(WA), including:
 - i the financial report of The Fred Hollows Foundation shows a true and fair view of the financial results of fundraising appeals for the year ended 31 December 2011;
 - ii the financial report and associated records of The Fred Hollows Foundation have been properly kept during the year in accordance with the Act and Regulations;
 - iii money received as a result of fundraising appeals conducted during the year has been properly accounted for and applied in accordance with the Act and Regulations;
 - iv as at the date of this report, there are reasonable grounds to believe that The Fred Hollows Foundation will be able to pay its debts as and when they fall due; and
 - v based on our audit, we have not become aware of any matter that makes us believe that The Fred Hollows Foundation has not complied with the obligations imposed by the Act and Regulations.



Ernst & Young



Nigel Stevenson
Partner
Sydney
11 April 2012