KU CHILDREN'S SERVICES
121st ANNUAL REPORT

Proudly a not for profit organisation

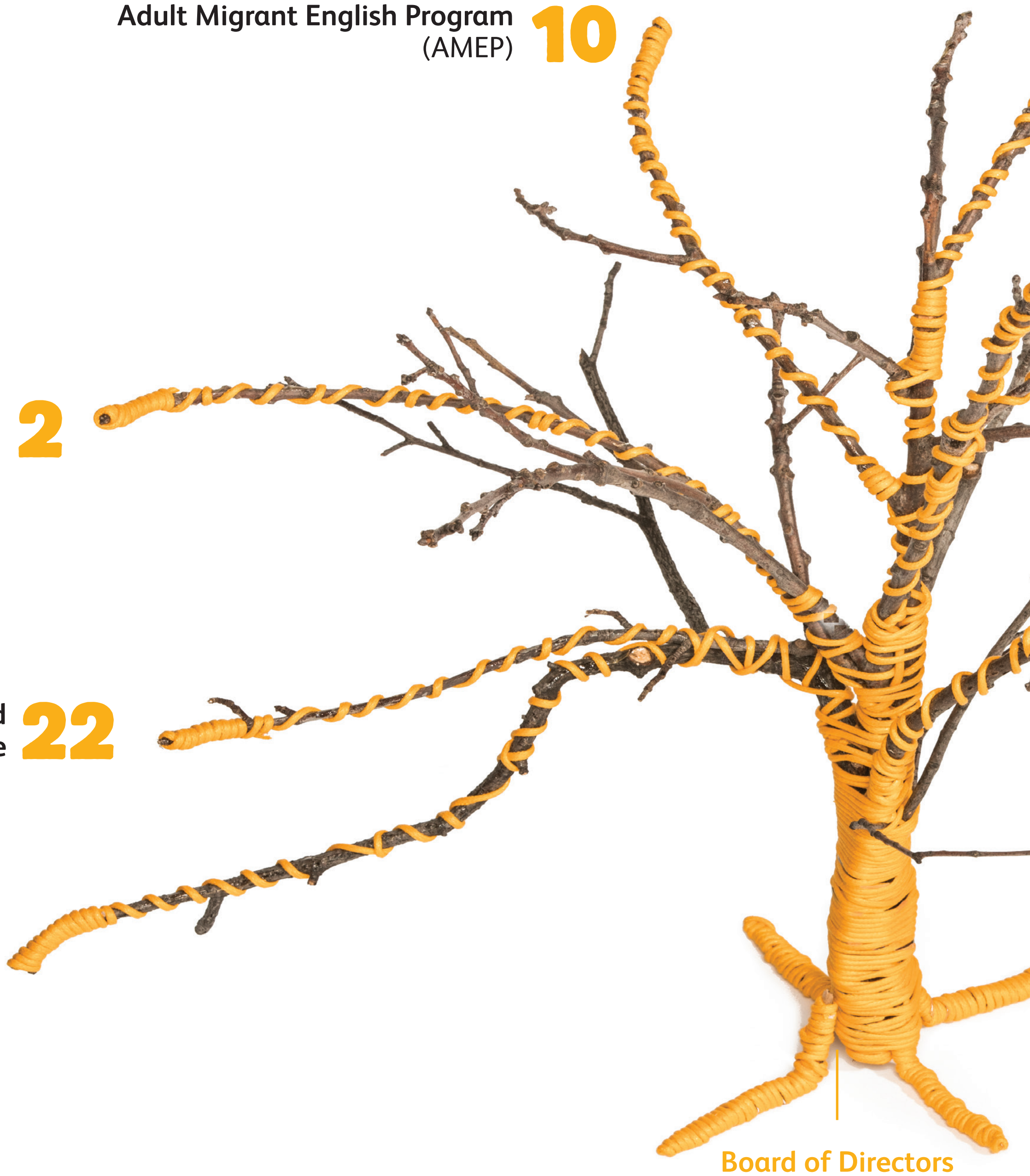
Children's Services
Since 1895

Adult Migrant English Program (AMEP) **10**

Occasional Care **2**

Community Based Long Day Care **22**

Vacation Care **1**



Board of Directors

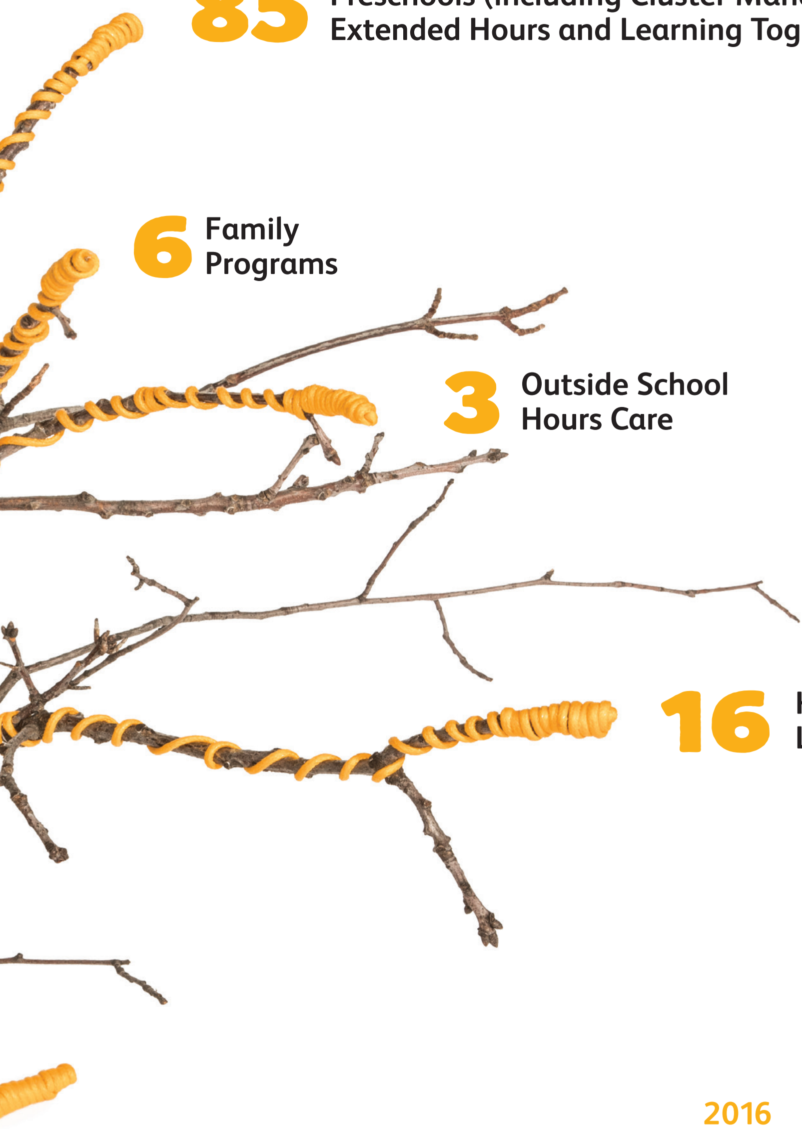
Chief Executive Officer

Early Childhood Education

General Manager
Early Education Operations
Early Education Practice Managers
Educational Programs
Compliance
Financial Monitoring, Analysis and Action
Funding Management
Advocacy

General Manager
Early Education Professional Practice
Professional Learning
Professional Services
Sustainability
Policy Development
Resource Development
Research
Advocacy

General Manager
Early Education Inclusion
Education Support
Family Programs
Aboriginal & Torres Strait Islander Programs
Adult Migrant English Program (AMEP)
Inclusion Agencies (IA)
Inclusion Development Fund Manager (IDFM)
National Disability Insurance Scheme Advocacy



85 Preschools (including Cluster Managed, Extended Hours and Learning Together)

6 Family Programs

3 Outside School Hours Care

16 KU Managed Long Day Care

2016
KU SERVICES AND SUPPORT

People & Culture

General Manager People Services & IT
Human Resources
Payroll
Recruitment
Employee Wellness and Safety
Information Technology & Telecommunication

Engagement

General Manager Partnerships, Development & Engagement
Corporate Communications
Marketing
Public Relations and Media
Events Management
Relationships
Business Development
Contract Management
Advocacy & Campaigns

Finance

Chief Financial Officer
Finance
Risk Management
Property and Facilities Management
Procurement

Other Reports

Company Secretary
Child Wellbeing & Privacy

Chair's Report

KU respectfully acknowledges the traditional owners of the many lands on which our services are delivered. The contribution by Aboriginal and Torres Strait Islander people to the education of young children existed long before our story began.

For more than 120 years KU has responded to the changing needs of families, and more recently, the competitive nature of the childcare market. As the custodians of KU – today and into the future, the Board's responsibility is to shape an organisation that meets our families' needs and ensures the delivery of high quality education for generations to come.

This Annual Report presents a challenging and rewarding chapter in KU's journey - delivering the Strategic Plan 2013 to 2016: *Building on the KU Difference*, to ensure a strong, sustainable KU that is well equipped for the years ahead.

Our achievements over the past four years have been many, and 2016 was no exception.

Our programs and services lead the sector's quality standards by an enviable margin. We continue to train, develop and retain the best educators in the country, and we continue our commitment to social inclusion, launching in 2016 the KU Reconciliation Action Plan.

A small operating deficit in 2014 led the Board and Management to focus on realigning KU's operating model, shifting the organisation into a more financially sound position, and underpinning KU's financial sustainability in the long term. To this end - the Board and Executive committed to a Return on Revenue target annually of between 3 and 4.5 %.

Our commitment to surplus allows us to invest in high quality educational programs that deliver exceptional results for children and their families, and alongside KU's continued investment in social impact outcomes, reaching and supporting the most vulnerable children. Delivery of this surplus will have KU well positioned to continue innovating, leading and evolving the organisation.

Following a sound financial result in 2015, we are pleased to again report a surplus in 2016 alongside our commitment to reinvest that surplus in accordance with our values and strategic priorities.

2016 saw us expend over $800,000 in social impact investment, supporting some of our most vulnerable children. For 2017 we have committed up to $2.2m to continue and expand this work, including the operation of centres in areas of social disadvantage and extended inclusion programs. We are providing continuity for families of children with severe disabilities as we transition specialised support programs, such as KU Starting Points, to new funding models. KU will continue investment in the development of innovative reconciliation, and welcoming more Aboriginal and Torres Strait Islander children and staff into the KU family.

Throughout 2016, the development of KU's Strategic Plan for 2017 to 2019 '*Creating, Thinking and Doing for today and tomorrow*' has identified significant objectives for the next three years. This new plan proudly looks toward a bold vision for our future, and sets the pathway for making that vision a reality.

In 2017 KU has budgeted a $315,000 investment in an expanded research agenda aimed at developing knowledge that contributes to the evidence base that shapes quality practice across KU and the early education sector.

In coming years, KU will make significant investment in expanding our footprint and ensuring more children experience the KU difference by reaching more families in more communities, affirming our sector leadership position. We will continue to showcase our exemplary practice in ways that inspire better practice in others. We will explore new learning environments and develop learning excellence in our current centres.

As I retire from my time on the Board, I am proud to be farewelling a KU that is forward looking, continuing to increase quality, and has at its core a more sustainable business model. We are a stronger KU; better prepared for tomorrow, supported by an engaged workforce with a sharpened focus on our strategic objectives, and a solid robust operating platform.

David McCracken
Chair, Board of Directors

CEO's Report

KU AWARDED

KU Children's Services
Employer of Choice Award
Australian Business Awards

The Joey Club Brisbane
Service of the Year
Australian Family Early Education and Care Award

KU Ourimbah
Environmental Education Award
UNAA World Environment Day Awards

KU Starting Points Macarthur
Advocacy for Children Award
NSW Children's Week Awards

Laure Hislop (Director, KU Killara Park)
Early Childhood Teaching Scholarship
NSW Premier's Teacher Scholarships

KU Greenwood
Child Care Services Award
Local Business Awards, North Sydney

2016 was a year of success and transformation for KU. Our centres continued to achieve outstanding National Quality Standard (NQS) results with 98 % of our 106 centres assessed, being rated 'Meeting' or 'Exceeding' the NQS; a proportion significantly higher than the sector. Three KU centres gained the highest rating of 'Excellent'.

Our focus was to embed and consolidate the outcomes of our transformation program, Evolution, into our organisational culture.

We recognised our Centre Directors as both educational and small business leaders, investing in developing their ability to positively influence and effect our financial sustainability, and re-focusing operating models where we needed to.

KU received an Employer of Choice Award from the Australian Business Awards and a number of our centres and individual staff received external recognition for their work.

KU's depth of expertise in delivering programs and advocating for the inclusion of children with additional needs was further recognised through the awarding of expanded contracts and responsibilities under the new Inclusion Support Programme. In conjunction with our partner organisations, KU now provides inclusion support to all Commonwealth funded services in NSW, ACT, QLD and VIC, and manages the Inclusion Development Fund nationally.

The impact of shifting Government policy and funding mechanisms continue to influence our operations, reinforcing the need to maintain our key advocacy role in the sector.

In 2016, a number of KU's NSW preschools transitioned to Commonwealth approved services operating for eight or more hours per day for at least 48 weeks of the year. All other preschools realigned their operational hours in response to the Universal Access requirement that children be able to access preschool programs for '15 hours per week' in the year before school. Towards the end of the year, those preschools received a very

welcome injection of new Start Strong Funding resulting in reduced fees in 2017.

The Victorian Government announced Early Years Management will replace the existing Kindergarten Cluster Management model, prompting a review of the management services KU offers to preschools in that State.

At the Commonwealth level, KU worked with the broader sector to advocate for the finalisation of the $3.1b Jobs for Families Package and KU continued to be a member of the Ministerial Advisory Group.

Reviews of lease and management agreements by landlords and partners at times provide opportunities for KU, however sadly in 2016 this led to the closure of KU Macquarie Park Children's Centre, KU East Killara Preschool and Emerald Hill Child Care Centre.

Pleasingly, our collective efforts delivered an operational surplus of $5.6m. This surplus will enable us to implement our bold objectives in our Strategic Plan 2017-2019 *Creating, Thinking and Doing for Today and Tomorrow*, and our Innovate Reconciliation Action Plan. We will increase our investment in and engagement with our people; increase our social investment to benefit vulnerable and disadvantaged children; implement our new initiatives; and increase our involvement in evidence based research. Together, these two documents and our financial performance set us on a solid roadmap that will take us into the future as a strong and agile organisation committed to the provision of inclusive quality early education programs for children and families.

Thank you to our Board and all our teams who contributed to making the KU difference a reality for children in 2016.

Christine Legg
Chief Executive Officer

NURTURING THE FUTURE

In 2016 we supported future leaders in education through excellence awards at:

Charles Sturt University

Macquarie University

University of Canberra

University of Newcastle

University of Notre Dame

Western Sydney University

TAFE NSW

Find out more at ku.com.au.

MAKING THE KU DIFFERENCE

Individual excellence and joint endeavour are the basis for KU's approach to quality. In 2016 we recognised:

Kristin Sheldon, KU Mayfield Preschool
for making the KU Difference for children

Fiona Eadie, KU Cheltenham Memorial Preschool
for making the KU Difference for families

KU Gwynneville Preschool Staff
for making the KU Difference for communities

KU's IT&T Team
for making the KU Difference for staff

KU Ourimbah Preschool and Children's Centre Staff
for making the KU Difference through quality

Charlotte Paterson, KU Carillon Avenue Children's Centre
for making the KU Difference through sustainability

Lisa Maybury, NSW/ACT Inclusion Agency
for making the KU Difference through innovation

Debbie Creake, KU Rydalmere Preschool
for making the KU Difference by representing KU

KU Lance Preschool and Children's Centre Staff
for making the KU Difference through reconciliation

Gisella Wilson, KU Manager, Aboriginal and Torres Strait Islander Programs
The KU Marcia Burgess Award

Read their stories at ku.com.au

Understanding STEM and the role of technology

STEM, a term receiving a great deal of attention at all levels of education recently, relates to the focus on the disciplines of Science, Technology, Engineering and Mathematics. Contemporary thinking and practice also explores the relationship between science and 'Arts'; often expressed as STEAM.

KU Killara Park demonstrates how integrating STEM into a high quality play-based preschool program can enhance children's thinking and learning. In 2016 the preschool was awarded the coveted Excellent rating under the National Quality Standard, as a result of its specialisation in the use of technology.

"We use technology to provide opportunities that traditional teaching methods don't allow," then Preschool Director, Laure Hislop, explains.

"Every day we have access to a variety of technology tools such as tablets, cameras, smart tables and robotics. With educators, the children use these tools to conduct research, experiment with coding, and to aid and document their own learning and development."

Using STEM principles, educators combine technology with real experiences to better support the child's inquisitive nature; physics apps mixed together with real life play using cogs and wheels. At KU Killara Park children explore the outside environment in all kinds of weather, wearing rain suits and gum boots, or hats and sunscreen. Using technology, these experiences quickly evolve into 'live' research projects, with devices used to investigate, record and share the process.

Laure, who was the recipient of a 2016 NSW Premier's Teacher Scholarship to support her continued exploration of the 'T' in STEM, believes technology used wisely can help develop children's problem-solving skills, team work, persistence and perseverance. The learning process moved from knowledge to understanding and evaluating, creating and refining the creation to make the creation better.

When using technology with children, Laure recommends parents and educators use the pause button! "Take the time to pause and wonder together. It is all about engaging with children; co-viewing, co-playing, and questioning."

Many KU centres continue to pursue an interest in STEM and STEAM in their own unique ways.

PARENT SATISFACTION
KU'S 2016 NET PROMOTER SCORE: +68.3

Net Promoter Score® is an index used internationally to measure and benchmark customer satisfaction and loyalty. Scores range from -100 to +100. Any positive score is good, and scores of 50+ are generally considered exceptional.

CREATING IMPACT

Investing in social outcomes

In 1895 KU was founded on the principle that vulnerable children often benefit most from high quality early education; a fact now well documented around the world. Today KU remains deeply committed to high quality early education for all children, and re-invests heavily in inclusion programs to provide additional support to vulnerable children and children with additional needs.

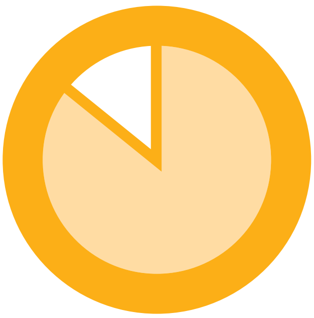
KU Starting Points Macarthur is one such program in which KU invests. An early intervention and family support program for children with disabilities or developmental delay, the program provides access to specialist educational and support staff, home visits, speech pathology, assessments and referrals, as well as a supportive network of other families with children with similar needs.

As one KU Starting Points parent explains, the impact of a service like KU Starting Points is immeasurable.

"Like most children with disabilities or not, the need to be nurtured, supported and encouraged in life with learning, developmental skills and love is a necessity. Our daughter has been supported by specialists, surgeons, geneticists, doctors, nurses, therapists, early intervention services, family and friends since she was born. Without a doubt, the most rewarding service she and our family have been a part of is KU Starting Points.

"Once being referred to KU Starting Points, they worked with us to give our daughter opportunities for social experiences, developing trust in other adults, and enjoying typical play. I didn't realise how much it would help our whole family to have a supportive network that advocates, understands, listens and encourages us on our journey through the unknown.

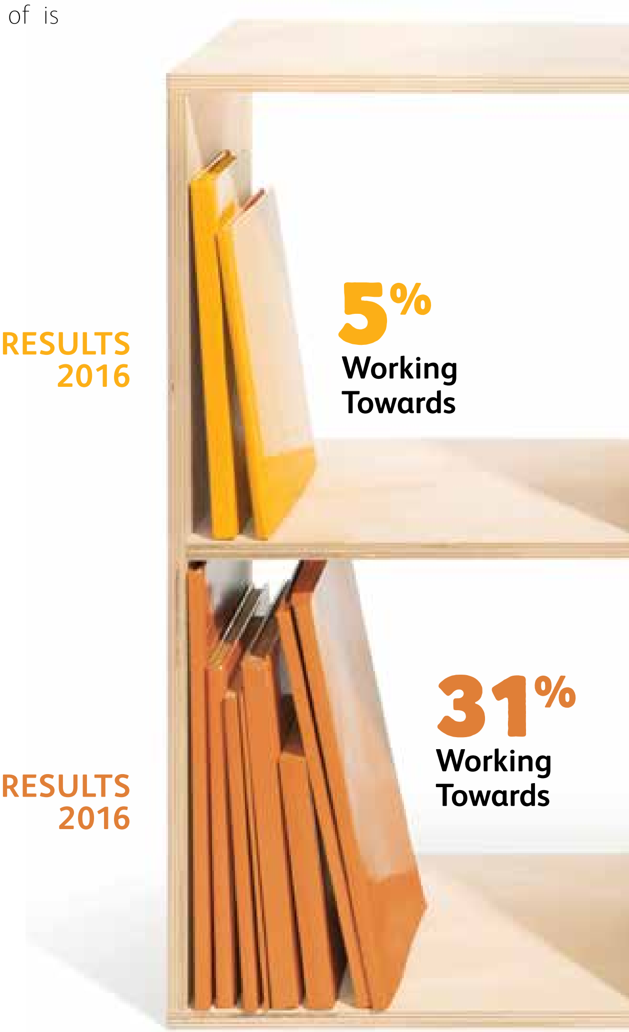
KU SERVICES ASSESSED THUS FAR



KU centres assessed 86%
KU centres yet to be assessed 14%

KU NQS RESULTS 2016

SECTOR NQS RESULTS 2016



"Our daughter has now reached goals that we never thought she would; walking independently on her wooden trolley, making friends, experiencing new activities, and becoming more confident in her own abilities. The unknown journey we started at the beginning seems to be less daunting with the support of KU Starting Points."

In KU's Strategic Plan 2017-2019 we remain committed to making a real difference for vulnerable children. We will be increasing our investment, and our impact, over the next three years with 30% of budgeted operating surplus being reinvested in social impact activities and programs.

As the impact of the NDIS on KU Starting Points remains unclear, KU has committed up to $300,000 to support the program. These funds will enable us to provide continuity for families as we transition to a new model in 2017, and conduct research to better document the benefits of early intervention.

KU'S QUALITY DIFFERENCE

Source: NQF Snapshot Q4 2016, ACECQA

ACKNOWLEDGING THE PAST, EMBRACING THE FUTURE

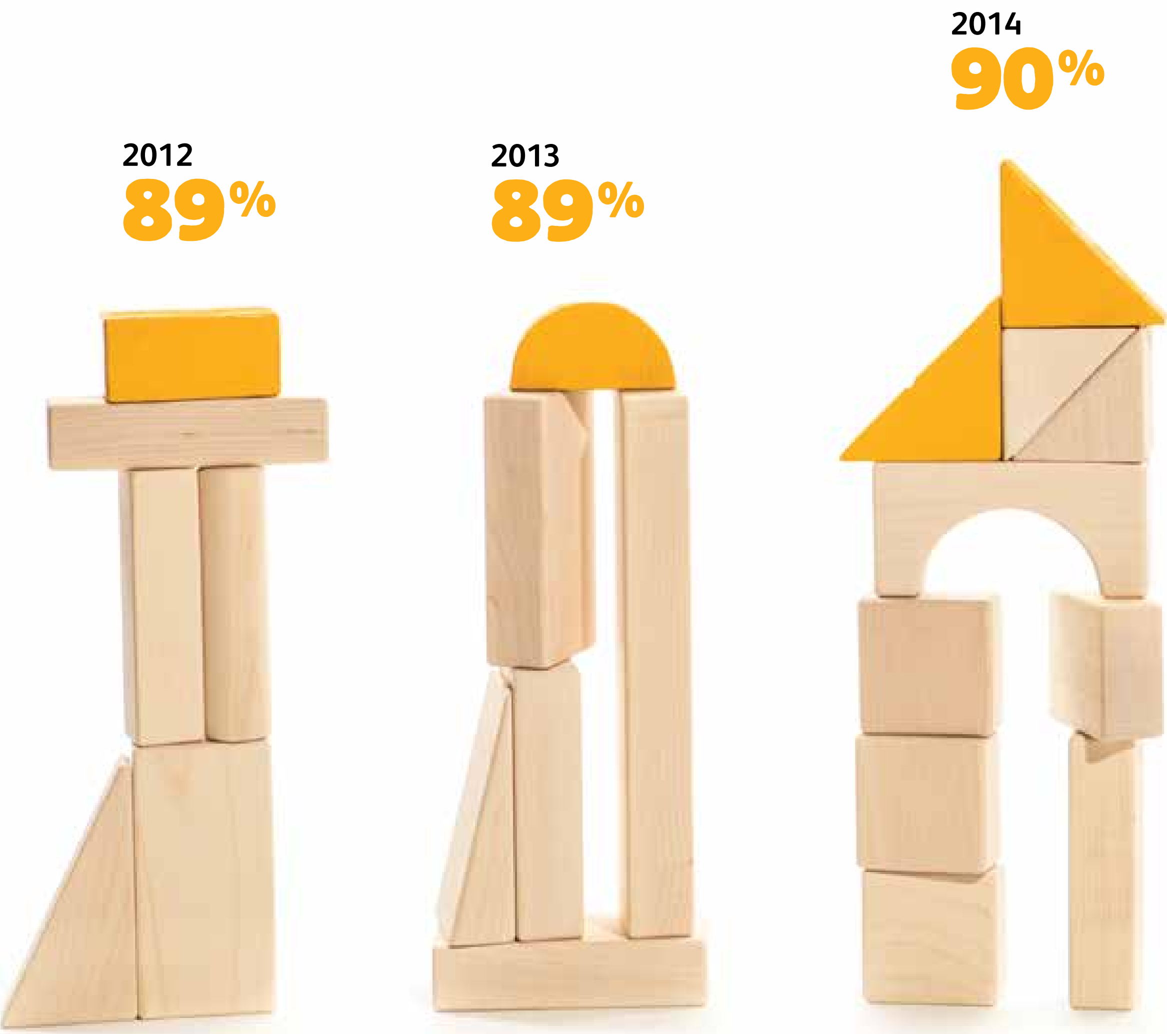
Our Journey to Reconciliation

In October, KU proudly launched our first Reconciliation Action Plan (RAP), which conveys KU's ongoing learning and understanding of Aboriginal and Torres Strait Islander histories, cultures and communities, and reflects KU's deep commitment to diversity and inclusion.

Gisella Wilson, KU's Manager Aboriginal and Torres Strait Islander Programs, explains "This significant milestone for the organisation demonstrates KU's commitment to promoting positive change for Aboriginal and Torres Strait Islander Peoples."

The RAP program, developed by Reconciliation Australia, is a framework within which organisations realise their vision for reconciliation. There are four different levels of RAP within the program – Reflect, Innovate, Stretch and Elevate; each progressing further along the reconciliation continuum.

"In advising KU to develop our first RAP at the second level, Innovate, Reconciliation Australia recognised the many steps toward reconciliation KU has already made," said Gisella. "I was pleased and proud of the existing and sustained commitment to reconciliation within



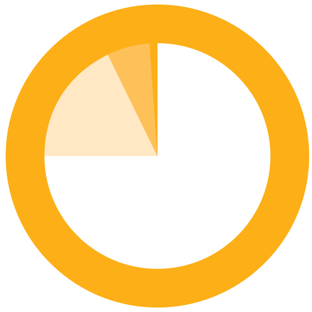
KU's ongoing work, and what it meant for beginning to develop our RAP."

Developing KU's RAP has been a three-year journey involving a working group of KU staff representatives, including Aboriginal and Torres Strait Islander people. That group worked closely with Reconciliation Australia, members of KU's Aboriginal and Torres Strait Islander Reference Group, the KU Executive Team and KU Board.

We look forward to implementing KU's Innovate RAP over the next two years and embedding its philosophy in our day to day operations. Each KU centre will use the Narragunnawali Program to develop their own centre RAP; identifying goals and actions specific to each centre's journey of reconciliation.

In celebration, an artwork by Aboriginal artist, Karen Maber, was commissioned by KU. The painting reflects the tree of learning acknowledging that we have so much to learn from our First Nation's peoples, their history of cultures rich in family and kinship, and their strong sense of belonging to and caring for their country, that goes back thousands of years.

STAFF TENURE



< 10 years: 75 %
10 to 19 years: 18 %
20 to 29 years: 6 %
30+ years: 1 %

2015
88%

2016
86%

CONSISTENCY FUELS QUALITY
STAFF RETENTION RATES

Creating, Thinking and Doing for today and tomorrow

From humble beginnings in 1895, our organisation has grown and evolved into a modern KU for today's children and Australian families. In 2016 the Board and Executive worked together to reflect on KU's experiences in today's operating landscape, and to develop a Strategic Plan for 2017-2019, becoming the organisation's roadmap to the future, and specifically the next three years.

This bold Strategic Plan builds on, and aligns with, our existing six core values. While continuing to value Childhood, Leadership, Innovation, Sustainability, and Diversity and Inclusion, we have expanded the value of Integrity. The value 'Relationships and Integrity' better reflects the important role engaged relationships play in our interactions with children and families, each other, and our environment.

Together we will work towards our core vision; a world where "*Every child has the right to feel safe, nurtured, valued and heard*". KU's Purpose in this vision is to continue delivering, supporting and leading high quality inclusive play-based learning programs. We provide opportunities for children to become the creators, thinkers and doers of today and tomorrow.

In delivering our strategic objectives and goals, KU must continue to do what it does well and leverage our existing strengths. Just as we nurture and support children to develop and grow, we need to nurture the organisation to continue to improve, evolve, create and grow.

A sustainable, scalable business model empowering our future. **2.**

Achieving excellence to advance the status and standing of early childhood education. **4.**

The Board and Executive were proud to launch KU's Strategic Plan 2017 to 2019; *Creating, Thinking and Doing for today and tomorrow*. It is a plan developed to challenge both KU and others in the sector. Over the next three years, we will look beyond what we do today to see what's possible, and to push the boundaries of early education in Australia. Five ambitious goals form the basis of our Strategic Plan.

Turning the plan into reality will require KU focusing our energy, efforts and resources on our people and current operation with a view to expanding our platforms and programs, while maintaining and shaping the systems and knowledge required to support both. We will be investing in social impact, research and exemplary practice. We will explore the characteristics of the best learning environments to deliver new centres and spaces. We will continue to influence the sector and governments on the keys issues and policies that matter most.

Listed below are the five ambitious goals that form our roadmap, and that together ensure that KU will be a consistently strong, agile and innovative leader in the early childhood sector come 2019 and beyond.

STRATEGIC PLAN 2017 TO 2019 **OUR OBJECTIVES**

1. **Engaged families, staff and other stakeholders** actively delivering outcomes for our KU.

3. **Social policy and investment** driving relevant and impactful outcomes for children.

5. **Producing knowledge** that progresses the sector.

OUR REACH IN 2016

KU at a glance

KU FAMILY

14,491
children participated in KU services and programs.

13,098
families chose KU for their children's early childhood education.

5,739
members played an important role in KU's structures of governance as a not for profit organisation.

2,173
staff helped us make the KU Difference for Australian children.

65
children received specialist speech pathology assessments through KU services.

114
Aboriginal and Torres Strait Islander children accessed early childhood education through KU services.

706
families increased their child's engagement with the community through KU Family Programs.

669
children with additional needs were included in KU services assisted by KU's Education Support Team.

2,335
children from refugee and new migrant families were welcomed to Australia through childcare in KU's Adult Migrant English Program (AMEP) services.

INCLUSION & DIVERSITY

801,000
KU dollars invested on reaching and supporting vulnerable children.

7,347
early childhood education services were supported by KU Inclusion Agency staff in six months July-December 2016.

8,757
funding applications were assessed by KU's National Inclusion Support Subsidy Provider and Inclusion Development Fund Manager teams.

PROFESSIONAL LEARNING

3,375
educators and support staff furthered their professional development through KU's Professional Services and Learning Programs.

219
professional learning sessions were delivered for educators and staff nationally.

697
delegates attended KU's Annual Conference events.

Directors' Report

The Directors present their report on KU Children's Services (the Company) for the financial year ended 31 December 2016. The Directors report as follows:

Operating Result and Cash flow

KU's finances are overseen by KU's Board of Directors and KU's Audit & Risk Management Committee who review the financial reports regularly and provide strategic direction to KU management.

KU is a financially viable organisation with a strong balance sheet and adequate reserves. KU's long history of responsible financial management confirms KU is financially sound and progressive. KU has no subsidiary or related organisations.

At 31 December 2016, KU had a net surplus of $5,563,232 (2015: $5,340,237), Assets of $69,904,640 (2015: $63,885,772) and net assets of $28,228,521 (2015: $22,665,289).

Short and Long Term Objectives of the Company

KU Children's Services has been operating continually since 1895 and has a strong commitment to the provision of high quality early education, inclusion and social responsibility.

During 2016, KU extended the implementation of the Strategic Plan 2013-2015 "Building on the KU Difference" to fully complete the objectives of the plan. The new Strategic Plan 2017-2019 was also developed and launched at the Annual Conference held in the latter part of the year. Some of the highlights of this period are detailed in the 121st Annual Report for the year ended 31 December 2016.

Our Vision

Every child can experience high quality early childhood education, where they can play, discover and learn.

Our Objectives

1. Deliver the best possible outcomes for children and families
2. Inspire a community of professionals
3. The "KU Difference" is understood and valued
4. Develop and operate innovative service models
5. Equitable access and participation
6. Shape sector and government thinking and policies
7. Well managed and sustainable organisation

Principal Activities of the Company

The principal activities of KU during the current year have been the provision of early childhood education and care services.

Performance Measurement

The Annual Report of the Company details the achievements and performance over the past year measured against the strategic goals. KU continued to achieve and perform strongly when measured against these strategic goals. KU's key performance indicators are utilisation, staff turnover and financial performance of individual services.

Company Limited by Guarantee

The Company is incorporated as a company limited by guarantee. In accordance with the Constitution, every member of the Company undertakes to contribute $2 to the assets of the Company in the event of it being wound up, while he/she is a member or within one year after he/she ceases to be a member. The Company has 5,739 members (2015: 5,714 members).

Directors

The names of the Directors of the Company who have held office during or since the end of the financial year are:

Directors Name & Qualifications	Special Responsibilities
David McCracken, BAppSc-BE	Chair of the Board, Chair of KU Marcia Burgess Foundation Committee, Member of Nomination & Remuneration Committee
Richard Richards BCom/LLB(Hons), LLM, MAPPFIN, FTIA, CA, Admitted Solicitor NSW	Deputy Chair of the Board, Chair (appointed 28/02/17) and Member of Audit & Risk Management Committee, Member of KU Marcia Burgess Foundation Committee, Member of Nomination & Remuneration Committee
Dr Christine Woodrow PhD, M.Ed, B.Ed, DipTch (ECE)	Board Member, Chair of Education Committee
Stacey Brown (Resigned 28/02/17) B.Bus, CA, GAICD	Board Member, Chair of Audit & Risk Management Committee, Member of Marcia Burgess Foundation Committee
Dr Jennifer Skattebol Dip Ed (EC), B.Ed. PhD	Board Member, Member of Education Committee
Laura Hartley BA (Hons), LLB	Board Member, Member of Audit & Risk Management Committee
Gareth Bennett BA (Hons) 1st, GAICD, FCIPD	Board Member, Chair of Nomination & Remuneration Committee, Member of Education Committee
Elizabeth Hristoforidis B.Com (Marketing), LLB, Grad Dip Leg Prac, MLM, GAICD	Board Member, Member of Nomination & Remuneration Committee, Member of Marcia Burgess Foundation Committee
Sema Musson B.Bus, M.Mngt, GAICD	Board Member, Member of Audit & Risk Management Committee

Directors' Attendance at Board Meetings

The following table sets out the number of Directors' meetings (including meetings of committees of Directors) held during the financial year and the number of meetings attended by each Director (while they were a Director or committee member).

	Board of Directors		Audit & Risk Management Committee		Education Committee		Nomination & Remuneration Committee		KU Marcia Burgess Foundation Committee	
Directors	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**
David McCracken	10	10					3	1	2	2
Richard Richards	10	8	4	4			3	2	2	2
Christine Woodrow	10	9			3	3				
Stacey Brown	10	9	4	4					2	2
Laura Hartley	10	9	4	3						
Jennifer Skattebol*	5	3			3	2				
Gareth Bennett	10	8			3	3	3	3		
Sema Musson	10	10	4	4						
Elizabeth Hristoforidis	10	10					3	3	1	1

A Number of meetings held during the year while the Director was a member of the Board or Committee.

B Number of meetings attended by the Director during the year while the Director was a member of the Board or Committee.

* Jennifer Skattebol was approved to have a leave of absence by the Board for 5 Board Meetings.

The auditors' independence declaration is included on page 8 of the financial report.

Signed in accordance with a resolution of the Directors.

On behalf of the Directors

David McCracken
Chair, Board of Directors
Sydney, 29 March 2017

Richard Richards
Chair, Audit & Risk Management Committee
Sydney, 29 March 2017

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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Australia

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www.deloitte.com.au

The Board of Directors
KU Children's Services
129 York Street
Sydney NSW 2000

29 March 2017

Dear Board Members

KU Children's Services

In accordance with Subdivision 60-C Australian Charities and Not-for-profits Commission Act 2012, I am pleased to provide the following declaration of independence to the directors of KU Children's Services.

As lead audit partner for the audit of the financial statements of KU Children's Services for the financial year ended 31 December 2016, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements as set out in the Australian Charities and Not-for-profits Commission Act 2012 in relation to the audit; and
(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Gaile Pearce

Gaile Pearce
Partner
Chartered Accountants

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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Independent Auditor's Report to the members of KU Children's Services

Opinion

We have audited the financial report of KU Children's Services (the "Entity"), which comprises the statement of financial position as at 31 December 2016, the statement of profit and loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration as set out in pages 13-35. In addition, we have audited KU Children's Services' compliance with specific requirements of the *Charitable Fundraising Act 1991* for the year ended 31 December 2016.

In our opinion

(a) the accompanying financial report of the Entity, is in accordance with Division 60 of the Australian Charities and Not-for-profit Commission Act 2012 (the ACNC Act), including:

(i) Giving a true and fair view of the Entity's financial position as at 31 December 2016 and of its financial performance for the year then ended; and

(ii) Complying with Australian Accounting Standards – Reduced Disclosure Regime and Division 60 of the Australian Charities and Not-for-profits Commission Regulations 2013.

(b) the financial report agrees to the underlying financial records of KU Children's Services, that have been maintained, in all material respects, in accordance with the *Charitable Fundraising Act 1991* and its regulations for the year ended 31 December 2015; and

(c) monies received by KU Children's Services, as a result of fundraising appeals conducted during the year ended 31 December 2015, have been accounted for and applied, in all material respects, in accordance with the *Charitable Fundraising Act 1991* and its regulations.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Entity in accordance with the *Australian Charities and Not-for-profits Commission Act 2012* and 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

The Board of Directors is responsible for the other information. The other information comprises the directors' report for the year ended 31 December 2016, but does not include the financial report and our auditor's report thereon.

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

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors' for the Financial Report

The Board of Directors is responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards Australian Accounting Standards – Reduced Disclosure Regime and the *Australian Charities and Not-for-profits Commission Act 2012* and for compliance with the *Charitable Fundraising Act 1991* and for such internal control as the Board of Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Board of Directors is responsible for assessing the ability of the Entity's to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intend to liquidate the Entity or to cease operations, or have no realistic alternative but to do so.

*Auditor's Responsibilities for the Audit of the Financial Repor*t

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 the 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 this financial report.

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

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

We communicate with Board of Directors 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.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Gaile Pearce

Gaile Pearce
Partner
Chartered Accountants
Sydney, 29 March 2017

Directors' Declaration

The Directors declare that:

a) in the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

b) in the Directors' opinion, the attached financial statements and notes thereto are in accordance with the Australian Charities and Not-for-profits Commission Act 2012 (Cth) and Charitable Fundraising Act 1991, including compliance with accounting standards, and giving a true and fair view of the financial position and performance of the Company.

Signed in accordance with a resolution of the Directors made pursuant to S.60.15 of the Australian Charities and Not-for-profits Commission Regulations 2013.

On behalf of the Directors

David McCracken
Chair, Board of Directors
Sydney, 29 March 2017

Richard Richards
Chair, Audit & Risk Management Committee
Sydney, 29 March 2017

Declaration by Board of Directors in Respect of Fundraising Appeals

In the opinion of the Board of Directors:

(i) the financial statements give a true and fair view of all income and expenditure of the Company with respect to fundraising appeals;

(ii) the Statement of Financial Position gives a true and fair view of the state of affairs with respect to fundraising appeals;

(iii) the provisions of the Charitable Fundraising Act 1991 and the regulations under that Act and the conditions attached to the authority have been complied with; and

(iv) the internal controls exercised by the Company are appropriate and effective in accounting for all income received.

Signed in accordance with a resolution of the Board of Directors.

David McCracken
Chair, Board of Directors
Sydney, 29 March 2017

Richard Richards
Chair, Audit & Risk Management Committee
Sydney, 29 March 2017

Statement of Profit or Loss and Other Comprehensive Income
for the Financial Year Ended 31 December 2016

	Note	2016	2015
		$	$
Continuing operations			
Revenue from fees	5 (i)	78,218,348	73,310,967
Revenue from non-capital government funding	5 (ii)	44,976,663	37,210,349
Other revenue	5 (iii)	5,927,112	5,682,913
		129,122,123	116,204,229
Employee costs		93,832,304	89,287,707
Operational expenses		13,459,750	7,709,919
Occupancy expenses		5,543,723	5,176,575
Depreciation & amortisation	5 (v)	1,933,337	1,915,657
Administrative expenses		5,428,189	4,309,499
Repairs & maintenance		1,887,880	1,365,778
Marketing expenses		447,286	401,547
Finance costs	5 (v)	30,770	25,265
Other expenses		1,270,062	1,220,184
		123,833,301	111,412,131
Surplus from ordinary operations		**5,288,822**	**4,792,098**
Other income	5 (iv)		
Government capital grant funding		274,410	548,139
Gain on sale of investment		-	-
Surplus for the year	5	**5,563,232**	**5,340,237**
Other Comprehensive Income		-	-
Total comprehensive income for the year		**5,563,232**	**5,340,237**

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

Statement of Financial Position
as at 31 December 2016

	Note	2016 $	2015 $
Assets			
Current assets			
Cash and cash equivalents	21 (b)	38,770,776	31,169,874
Term deposits	22	15,000,000	16,000,000
Trade and other receivables	6	1,306,485	1,009,387
Other assets	7	907,457	1,025,478
Total current assets		55,984,718	49,204,739
Non-current assets			
Property, plant and equipment	8	13,027,124	13,844,256
Intangible assets	9	892,798	836,777
Total non-current assets		13,919,922	14,681,033
Total assets		69,904,640	63,885,772
Liabilities			
Current liabilities			
Trade and other payables	10	12,791,896	15,240,534
Finance leases	11	535,252	636,153
Unearned income	12	12,534,747	10,379,055
Provisions	13	12,705,383	11,815,425
Total current liabilities		38,567,278	38,071,167
Non-current Liabilities			
Non-current provisions	13	3,108,841	3,149,316
Total non-current liabilities		3,108,841	3,149,316
Total liabilities		41,676,119	41,220,483
Net Assets		**28,228,521**	**22,665,289**
Equity			
Retained Earnings			
General funds	14	25,898,504	20,396,125
Fundraising reserve	15	1,213,017	1,204,164
Program reserve	16	1,117,000	1,065,000
Total Retained Earnings		**28,228,521**	**22,665,289**

The Statement of Financial Position is to be read in conjunction with the notes.

Statement of Changes in Equity
for the Financial Year Ended 31 December 2016

	General Funds	Fundraising Reserve	Program Reserve	Total
	$	$	$	$
Balance at 1 January 2015	15,076,060	1,233,992	1,015,000	17,325,052
Surplus for the year	5,340,237	-	-	5,340,237
Other comprehensive income	-	-	-	-
Transfer (from)/to retained earnings	(20,172)	(29,828)	50,000	-
Balance at 31 December 2015	20,396,125	1,204,164	1,065,000	22,665,289
Balance at 1 January 2016	20,396,125	1,204,164	1,065,000	22,665,289
Surplus for the year	5,563,232	-	-	5,563,232
Other comprehensive income	-	-	-	-
Transfer (from)/to retained earnings	(60,853)	8,853	52,000	-
Balance at 31 December 2016	**25,898,504**	**1,213,017**	**1,117,000**	**28,228,521**

The Statement of Changes in Equity is to be read in conjunction with the attached notes.

Statement of Cash Flows
for the Financial Year Ended 31 December 2016

	Note	2016 $	2015 $
Cash flows from operating activities			
Receipts from customers, government bodies and centres		117,498,175	113,700,087
Receipts from government brokered programs		16,535,879	8,245,596
Payments to suppliers and employees		(110,064,862)	(104,840,052)
Allocations to recipients of brokered programs		(16,946,074)	(7,698,116)
Net cash generated by/(utilised in) operating activities	21(a)	7,023,118	9,407,515
Cash flows from investing activities			
Payment for property, plant and equipment		(1,068,176)	(1,322,645)
Receipts from government capital grants		63,374	520,088
Interest received		894,997	757,172
Finance cost		(30,770)	(25,266)
Transfers of Cash to/(from) Term Deposits		1,000,000	(4,000,000)
Net cash (utilised in)/generated by investing activities		859,425	(4,070,651)
Cash flows from financing activities			
Payment for finance leases		(281,641)	(258,187)
Net cash utilised by financing activities		(281,641)	(258,187)
Net (decrease)/ increase in cash and cash equivalents		7,600,902	5,078,677
Cash and cash equivalents at the beginning of the financial year		31,169,874	26,091,197
Cash and cash equivalents at the end of the financial year	21(b)	**38,770,776**	**31,169,874**

The Statement of Cash Flows is to be read in conjunction with the attached notes.

Notes to the Financial Statements
for the Financial Year Ended 31 December 2016

1. Corporate Information

The financial statements of KU Children's Services (the Company) for the year ended 31 December 2016 were authorised for issue in accordance with a resolution of the Directors on 29 March 2017.

2. Application of new and revised Accounting Standards

In the current year, the Company has applied a number of the new and revised AASBs issued by the Australian Accounting Standards Board (AASB) including AASB 2016-1 Amendments to Australian Accounting Standards arising from Annual Improvements 2010-2012 and 2011-2013 Cycle. The application of these new and revised Accounting Standards does not have any material impact on the financial statements.

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective:

a) AASB 9 'Financial Instruments', and the relevant amending standards, effective for annual periods beginning 1 January 2018. Expected to be initially adopted for the financial period ending 31 December 2018.

b) AASB 2014-4 'Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation' effective for annual periods beginning 1 January 2016. Expected to be initially adopted for the financial period ending 31 December 2016.

c) AASB 16 'Leases' effective for reporting periods beginning 1 January 2019. Expected to be initially adopted for the financial period ending 31 December 2019.

d) AASB 2015-6 'Amendments to Australian Accounting Standards – Extending Related Party Disclosures to Non-for-Profit Public Sector Entities' effective for annual periods beginning 1 July 2016. Expected to be initially adopted for the financial period ending 31 December 2017.

e) AASB 2015-7 'Amendments to Australian Accounting Standards – Fair Value Disclosures of Not-for-Profit Public Sector Entities' effective for annual periods beginning 1 July 2016. Expected to be initially adopted for the financial period ending 31 December 2017.

f) AASB 2016-2 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB107' effective for annual periods beginning 1 January 2017. Expected to be initially adopted for the financial period ending 31 December 2017.

g) AASB 2016-4 'Amendments to Australian Accounting Standards - Recoverable Amount of Non-Cash-Generating Specialised Assets of Not-for-Profit Entities' effective for annual periods beginning 1 January 2017. Expected to be initially adopted for the financial period ending 31 December 2017.

h) AASB 2017-2 'Amendments to Australian Accounting Standards – Further Annual Improvements 2014-2016 Cycle' effective for annual periods beginning 1 January 2017. Expected to be initially adopted for the financial period ending 31 December 2017.

3. Summary of Accounting Policies

Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Division 60 of the Australian Charities and Not-for-profits Commission Act 2012, and Australian Accounting Standards – Reduced Disclosure Requirements and comply with other requirements of the law.

A statement of compliance with IFRS cannot be made due to the application of not-for-profit sector specific requirements contained in the Australian Accounting Standards.

3. Summary of Accounting Policies (continued)

Basis of preparation

The financial report has been prepared on the basis of historical cost, except for the revaluation of certain financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars. The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

a) Property, plant and equipment

Land and buildings, leasehold improvements, furniture and office equipment, motor vehicles and computers are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is provided on furniture and office equipment, motor vehicles and computers, including freehold and leasehold buildings but excluding land. Depreciation is calculated on a straight line basis so as to write off the net cost of each asset over its expected useful life to its estimated residual value. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period.

The following estimated useful lives are used in the calculation of depreciation:

- Buildings: 40 years
- Buildings fixtures and fittings: 4-10 years
- Leasehold Improvements: lease term or 10 years
- Furniture and office equipment: 4-10 years
- Motor vehicles: 6-7 years

The Company reviews its estimate of the useful lives of leasehold improvements at each reporting date, based on the period over which an asset is expected to be available for use by the Company. The useful life of leasehold improvements has been assessed to equal the lease term, or 10 years where no lease term was applicable. Land is carried at cost and is not depreciated.

b) Intangible Assets

Intangible Assets comprise software assets. The estimated useful lives used to calculate amortisation are between 3-5 years.

c) Employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave and rostered days off when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of employee benefits expected to be settled within 12 months are measured using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Company in respect of services provided by employees up to reporting date.

The Company pays contributions to certain defined contribution plans. Contributions are recognised in profit or loss in the periods during which services are rendered by employees.

3. Summary of Accounting Policies (continued)

d) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

i) where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or

ii) for receivables and payables which are recognised inclusive of GST.

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

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

e) Financial Assets

All financial assets are initially stated at cost, being the fair value of consideration given plus acquisition costs. Purchases and sales of financial assets are recognised on trade date which is the date on which the Company commits to purchase or sell the asset. Accounting policies for each category of financial assets subsequent to initial recognition are set out below:

Loans and receivables

Trade receivables, loans, and other receivables are recorded at amortised cost using the effective interest rate method less impairment. Impairment losses are measured as the difference between the investment's carrying amount and the present value of estimated future cash flows, excluding future credit losses that have not been incurred. The cash flows are discounted at the investment's original effective interest rate. Impairment losses are recognised in profit or loss.

Available-for-sale financial assets

Available-for-sale investments are those financial assets that are designated as available-for-sale. When available-for-sale financial investments are recognised initially, they are measured at fair value. Any available-for-sale financial investments donated to the Company are recognised at fair value at the date the Company obtains control of the asset.

After initial recognition available-for-sale financial investments are measured at fair value with gains or losses being recognised in other comprehensive income until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously recognised in other comprehensive income is reclassified to the Statement of Comprehensive Income.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date. For investments with no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument that is substantially the same, discounted cash flow analysis, and option pricing models.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted.

3. Summary of Accounting Policies (continued)

f) Impairment

The carrying values of property, plant and equipment are reviewed for impairment at each reporting date, with the recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

The recoverable amount of property, plant and equipment is the higher of fair value less costs to sell and value in use. Depreciated replacement cost is used to determine value in use. Depreciated replacement cost is the current replacement cost of an item of plant and equipment less, where applicable, accumulated depreciation to date, calculated on the basis of such cost.

g) Leased assets

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. All other leases are classified as operating leases.

Company as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Assets held under finance leases are initially recognised as assets of the company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the Statement of Financial Position as a finance lease obligation. Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Company's general policy on borrowing costs.

Lease incentives

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

h) Revenue

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of discounts, refunds and amounts collected on behalf of third parties. The Company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Company and specific criteria have been met for each of the Company's activities as described below.

Fundraising

Fundraising is recorded when the income is received or receivable.

Rendering of services

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract.

Government funding - operational

Government funding agreements are contracted agreements with the Government to provide a variety of early childhood education and care programs in the community. They are received in the form of transfers of resources to the Company in return for past or future compliance with certain conditions relating to the operating activities of the Company. Non-reciprocal government funding monies, other than monies held in trust, are credited to income when received in accordance with AASB 1004 "Contributions". Other service revenues from government agencies are recognised upon delivery of services in accordance with AASB 118 "Revenue".

3. Summary of Accounting Policies (continued)

Government funding - capital

Funds are received from government departments in accordance with contracts to undertake capital works programs on behalf of the department. In accordance with AASB 1004 "Contributions", this income is recognised upfront once control of the funds or the commitment to receive funds has been satisfied.

Government Brokered Programs

Funds are received from Government Brokered Programs by KU for the allocation to recipients who provide a variety of early childhood education and care programs in the community. The funds received and allocated are recognised in the Statement of Profit or Loss and Other Comprehensive Income in accordance with AASB 118 "Revenue". Cash flows are included in the Statement of Cash Flows on a gross basis.

Unit trust distributions and interest revenue

Unit trust distributions from investments are recognised when the unit holder's right to receive payment has been established.

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial assets to that asset's net carrying amount.

i) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits. Cash equivalents are short- term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

j) Term deposits

Term deposits comprise investment deposits held with banks with short to medium term maturity periods. The investments are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate.

k) Trade and other receivables

Trade receivables, which comprise amounts due from services provided, are recognised and carried at original invoice amount less an allowance for uncollectible amounts. Normal terms of settlement are 7 days. The carrying amount of the receivable is deemed to reflect fair value.

An allowance for doubtful debts is made when there is objective evidence that the Company will not be able to collect the debts. Bad debts are written off when identified.

l) Income tax

The Company is exempt from income tax under s50-5 of the Income Tax Assessment Act, as it is an income tax exempt charitable entity. As a consequence, there is no income tax attributable to the operating result.

m) General funds and reserves

General Funds

The general funds represent the retained earnings of the Company that are not designated for particular purposes.

Fundraising Reserve

The fundraising reserve arises from the accumulated surpluses generated as a result of the efforts of parents and staff to allow services to purchase toys and equipment, to assist the service to expand and develop to meet local needs and to allow parents to share in the life of the service and to make a concrete contribution to their children's lives.

Program Reserve

The Program reserve arises from surpluses on the programs that have been allocated to the Company for future liabilities that may arise which the Company will be accountable for.

3. Summary of Accounting Policies (continued)

n) Donations in kind

Over the course of the year the Company has received donations in kind from a number of local councils in the form of the right to use premises at discounted rent. The Company is of the view that it is not feasible to fair value the services received accurately and as such it has not brought to account discounted rent as a donation.

o) Trade and other payables

Trade payables and other payables represent liabilities for goods and services provided to the Company prior to the end of the financial year that are unpaid. These amounts are usually settled within 30 days. The carrying amount of the creditors and payables is deemed to reflect fair value.

p) Provisions

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

q) Unearned income

The liability for unearned income is the unutilised amounts of grants received on the condition that specified services are delivered or conditions are fulfilled. The services are usually provided or the conditions usually fulfilled within 12 months of receipt of the grant. Where the amount received is in respect of services to be provided over a period that exceeds 12 months after the reporting date or the conditions will only be satisfied more than 12 months after the reporting date, the liability is discounted and presented as non-current.

4. Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other various factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements:

4.1 Employee entitlements

Management judgement is applied in determining the following key assumptions used in the calculation of long service leave at balance date:

- future increases in wages and salaries;
- future on-cost rates; and
- experience of employee departures and period of service including future years in which long service leave is expected to be taken.

4. Critical accounting judgements and key sources of estimation uncertainty (continued)

4.2 Leasehold improvements

As described at 3(a) above, the Company reviews the estimated useful lives of property, plant and equipment at the end of each reporting period.

4.3 Impairment

In assessing impairment, the Company estimates the recoverable amount of each asset based on the depreciable replacement cost in accordance with AASB 136 "Impairment of assets".

4.4 Make good provision

Provisions for make good are included, where applicable, using the present value of anticipated costs for future restoration of leased premises. The provision includes future cost estimates associated with closure of the premises.

5. Surplus for the year

	2016 $	2015 $
(i) Revenue from fees		
Parent's fees	78,218,348	73,310,967
(ii) Revenue from non-capital government funding		
Government funding	44,976,663	37,210,349
(iii) Other revenue		
Other revenue from ordinary operations consisted of the following items:		
Management fees	1,329,793	1,414,177
Gross fundraising income	456,947	619,811
Interest income	894,997	757,171
Consultancy fees	33,918	118,211
Sales of publications and courses	445,615	173,601
Sponsor support	2,412,987	2,305,861
Loss on disposal of PPE	(24,289)	(18,901)
Other sundry revenue	377,144	312,982
	5,927,112	5,682,913
(iv) Other income		
Government capital grant funding	274,410	548,139
(v) Surplus		
Surplus has been arrived at after (charging)/ crediting the following items:		
Depreciation and amortisation of property, plant and equipment and intangibles	(1,933,337)	(1,915,657)
Operating lease rental expenses:		
Minimum lease payments	(2,561,976)	(2,345,840)
Net bad and doubtful debts	(90,857)	(33,255)
Finance costs	(30,770)	(25,265)

6. Trade and Other Receivables

	2016	2015
	$	$
Trade receivables		
Trade receivables	1,021,242	692,780
Allowance for doubtful debts	(171,554)	(85,868)
Accrued income	176,370	192,086
	1,026,058	798,998
Other receivables		
Other receivables	280,428	210,389
	1,306,485	1,009,387
Reconciliation of allowance for doubtful debts		
Balance 1 January	85,868	123,288
Increase in provision	85,686	87,574
Impairment recovery	0	(124,994)
Balance 31 December	171,554	85,868

Parent fees are paid either in advance or weekly in arrears. The average credit period on rendering of services is 3 days. No interest is charged on the trade receivables. An allowance has been made for estimated irrecoverable trade receivable amounts arising from the past rendering of services, determined by reference to past default experience. The Company has provided fully for all such receivables outstanding at year end because historical experience is that receivables past due beyond year end are generally not recoverable.

7. Other Assets

Prepayments	879,343	983,630
Finance lease asset	28,114	41,848
	907,457	1,025,478

8. Property, Plant and Equipment

	Land and buildings $	Leasehold improvements $	Furniture and Office equipment $	Motor Vehicles $	Make Good $	Finance Lease Asset $	Total $
Gross Carrying Amount							
Balance at 1 January 2015	6,442,618	16,337,088	1,767,705	256,631	1,554,194	1,168,179	27,526,415
Additions	91,761	706,351	213,118	-	35,000	54,359	1,100,589
Assets under construction (WIP)	5,750	18,105	485,875	-	-	-	509,730
Reclassification	(1,453)	(397)	1,850	-	-	-	0
Disposals	-	(191,249)	(4,432)	-	-	-	(195,681)
Balance at 31 December 2015	6,538,676	16,869,898	2,464,116	256,631	1,589,194	1,222,538	28,941,053
Additions	14,601	548,469	268,558	76,100	-	140,462	1,048,190
Assets under construction (WIP)	14,318	-	780	-	-	-	15,098
Reclassification and prior year adjustment	-	-	-	-	-	-	-
Disposals	0	(1,920)	(5,938)	(153,485)	(66,135)	(16,675)	(244,153)
Balance at 31 December 2016	**6,567,595**	**17,416,447**	**2,727,516**	**179,246**	**1,523,059**	**1,346,325**	**29,760,188**
Accumulated Depreciation							
Balance at 1 January 2015	(2,000,897)	(8,208,400)	(1,142,153)	(144,262)	(1,027,488)	(999,140)	(13,522,340)
Disposals	0	174,372	2,408	-	-	-	176,780
Reclassification	1,453	(1,299)	(154)	-	-	-	-
Depreciation expense	(189,784)	(970,294)	(154,513)	(29,085)	(228,412)	(179,149)	(1,751,237)
Balance at 31 December 2015	(2,189,228)	(9,005,621)	(1,294,412)	(173,347)	(1,255,900)	(1,178,289)	(15,096,797)
Disposals	-	95	48	85,503	-	5,308	90,954
Reclassification and prior year adjustment	-	-	-	-	-	(3,748)	(3,748)
Depreciation expense	(193,072)	(979,085)	(368,575)	(18,003)	(88,850)	(75,888)	(1,723,473)
Balance at 31 December 2016	**(2,382,300)**	**(9,984,611)**	**(1,662,939)**	**(105,847)**	**(1,344,750)**	**(1,252,617)**	**(16,733,064)**
Net Book Value							
As at 31 December 2015	4,349,448	7,864,277	1,169,704	83,284	333,294	44,249	13,844,256
As at 31 December 2016	**4,185,295**	**7,431,836**	**1,064,577**	**73,399**	**178,309**	**93,708**	**13,027,124**

8. Property, Plant and Equipment (continued)

	2016 $	2015 $
Depreciation:		
Land and buildings	193,072	189,784
Leasehold Improvements	979,085	970,294
Furniture and office equipment	368,575	154,513
Motor vehicles	18,003	29,085
Make Good Asset	88,850	228,412
Finance Lease Asset	75,888	179,149
	1,723,473	1,751,237

9. Intangible Assets

	Software $	Total $
Gross Carrying Amount		
Balance at 1 January 2015	1,360,986	1,360,986
Additions	29,556	29,556
Assets under construction (WIP)	336,012	336,012
Balance at 31 December 2015	1,726,554	1,726,554
Additions	95,984	95,984
Assets under construction (WIP)	178,993	178,993
Reclassification and prior year adjustment	(9,092)	(9,092)
Balance at 31 December 2016	1,992,439	1,992,439
Accumulated Depreciation		
Balance at 1 January 2015	(725,357)	(725,357)
Amortisation expense	(164,420)	(164,420)
Balance at 31 December 2015	(889,777)	(889,777)
Amortisation expense	(209,864)	(209,864)
Balance at 31 December 2016	(1,099,641)	(1,099,641)
Net Book Value		
As at 31 December 2015	836,777	836,777
As at 31 December 2016	892,798	892,798

10. Trade and Other Payables

	2016 $	2015 $
Salary and superannuation accruals	1,193,748	1,420,338
Prepaid centre fees and holding deposits	4,390,527	4,317,705
GST Payable	424,466	414,573
Other payables and accruals	335,890	1,455,564
Trade payables	2,234,570	2,576,546
WBS & Brokered program surpluses	4,212,695	5,055,808
	12,791,896	15,240,534

11. Finance Leases

	2016 $	2015 $
Finance Lease Liability	535,252	636,153
Minimum Lease Payments		
Less than 1 year	284,619	244,170
Between 1 and 5 years	250,633	391,983
	535,252	636,153

In 2016 total lease payments of $281,642 (2015: $258,187) were made.

12. Unearned Income

Prepaid government funding	11,260,425	9,898,986
Prepaid special education income	1,274,322	480,069
	12,534,747	10,379,055

13. Provisions

Current		
Employee Benefits:		
Provision for annual leave and rostered days off	7,117,729	6,570,825
Provision for long service leave	5,107,030	4,570,305
	12,224,759	11,141,130
Provision for Make Good Liability:		
Make good liability	480,624	674,295
	12,705,383	11,815,425
Non-current		
Employee Benefits:		
Provision for long service leave	2,066,406	2,234,417
Provision for Make Good Liability:		
Make good liability	1,042,435	914,899
	3,108,841	3,149,316

A provision for make good was taken up for the first time in 2013 to account for commitments related to decommissioning of leased properties.

14. General Funds

Balance at beginning of financial year	20,396,125	15,076,060
Net surplus	5,563,232	5,340,237
Net transfers from General Funds (note 15 & 16)	(60,853)	(20,172)
Balance at end of financial year	25,898,504	20,396,125

15. Fundraising Reserve

	2016	2015
	$	$
Balance at beginning of financial year	1,204,164	1,233,992
Transfer from/(to) general funds	8,853	(29,828)
Balance at end of financial year	1,213,017	1,204,164

The fundraising reserve arises from the accumulated efforts of parents and staff to allow services to purchase optional toys and equipment, to assist the service to expand and develop to meet local needs and to allow parents to share in the life of the service and to make a concrete contribution to their children's lives.

Further notes on fundraising are set out in Note 23.

16. Program Reserve

Balance at beginning of financial year	1,065,000	1,015,000
Transfer from general funds	52,000	50,000
Balance at end of financial year	1,117,000	1,065,000

The Program reserve relates to reserves set aside by the Company related to the Adult Migrant English Program (Navitas). This reserve will be utilised for potential future commitments on this program which the Program owner is not contractually bound to meet.

17. Commitments for Expenditure

Operating Leases

Leasing arrangements

Operating leases relate to centre facilities and computer leases. KU does not have an option to purchase the leased assets at the expiry of the lease period.

Non-cancellable operating lease payments

Not longer than 1 year	1,069,771	1,436,374
Longer than 1 year and not longer than 5 years	916,470	1,789,156
Longer than 5 years	62,816	80,728
	2,049,057	3,306,258

18. Contingent Liabilities

	2016 $	2015 $
Bank Guarantee 22 October 1998 to Commonwealth	191,291	191,291
Bank Guarantee 31 January 1995 to Sydney City Council	5,000	5,000
Bank Guarantee 21 January 2014 to Central Coast Regional Development Corporation	4,796	4,796
Bank Guarantee 30 April 2015 to Marrickville Council	15,400	15,400
Bank Guarantee 8 September 2016 to Clearview Holdings Pty Ltd	2,930	-
Bank Guarantee 8 September 2016 to R N & K M REIMIERS	9,350	-
Bank Guarantee 12 September 2016 to Abalon Properties Pty Ltd	7,400	-
Bank Guarantee 12 September 2016 to Kearley Investments Pty Ltd	9,900	-
Bank Guarantee 12 September 2016 to Clearview Holdings Pty Ltd	12,696	-
	258,763	216,487

Mortgage and facilities

The National Australia Bank currently holds a mortgage over 129 York Street, Sydney which is their security over the $1.2m market rate facility. This remains undrawn as at 31 December 2016.

19. Economic Dependency

As disclosed at note 5, a significant source of revenue is government funding. This funding supports programs for early childhood education and care.

20. Related Party Disclosures

a) Directors' compensation

The Directors act in an honorary capacity and receive no compensation for their services (2015: nil).

b) Transactions with Director-related entities

During the year, no amounts were paid to Director-related parties. No amounts are payable to or receivable from Directors or Director related entities at the reporting date. If a Director utilises the services of KU Children's Services they pay the arms length market rates for provision of these services.

c) Key Management Personnel Remuneration

The aggregate compensation of the key executive management personnel of the Company is set out below:

Total compensation	1,775,442	1,674,055

21. Notes to the Cash Flow Statement

	2016 $	2015 $
(a) Reconciliation of Surplus for the period to Net Cash Flows From Operating Activities		
Surplus for the period	5,563,232	5,340,237
Depreciation and Amortisation of non-current assets	1,933,337	1,915,657
Loss on sale of non-current assets	24,289	18,901
Interest received	(894,997)	(757,171)
Interest paid	30,770	25,265
Government capital funding	(63,374)	(520,088)
Finance Lease adjustments	(13,734)	12,497
Make good adjustments	66,135	(35,000)
Movements in working capital:		
Decrease in trade receivables and other assets	(179,078)	(182,196)
Increase/(Decrease) in trade payables and other liabilities	(292,946)	2,757,390
Increase in provisions	849,483	832,023
Net cash generated from/(utilised in) operating activities	7,023,118	9,407,515

(b) Reconciliation of Cash and Cash Equivalents

For the purposes of the cash flow statement, cash and cash equivalents include cash at bank and on hand. Cash and cash equivalents at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the balance sheet as follows:

Cash and cash equivalents	38,770,776	31,169,874

Cash includes $6,937,189 (2015: $6,056,921) which is held for disbursement in accordance with government funding agreements and $5,442,485 (2015: $6,045,251) in relation to Work Based Services.

22. Term deposits

Term deposits	15,000,000	16,000,000
	15,000,000	16,000,000

Term deposits comprise term deposit investments held with various banks. The maturity periods on these investments from the date of purchase range between 3 to 10 months.

23. Information & Declarations to be Furnished Under the Charitable Fundraising Act 1991

Under this Act, KU holds a single authority to fundraise for KU centres. The authority does not extend to services which KU manages on behalf of another organisation. Preparation of the following information reflects the level of disclosure existing in management systems in use by the organisation.

(a) Statement of Fundraising Income and Expenditure

Detailed income statement for the year ended 31 December 2016

	2016	2015
	$	$
Raffles	22,223	31,260
Functions	184,225	283,952
Sale of Items	173,377	207,792
Interest	420	2,563
Donations	76,702	94,244
Gross Proceeds from Fundraising	456,947	619,811
Raffles	(1,618)	(187)
Functions	(122,973)	(248,045)
Sale of Items	(87,798)	(115,221)
Total Cost of Fundraising	(212,389)	(363,453)
Net Proceeds from Fundraising	244,558	256,358

(b) Accounting Principles and Methods adopted in Fundraising accounts

The fundraising financial statements have been prepared on an accrual basis and in accordance with Australian Accounting Standards as per Note 3.

(c) Application of Fundraising Proceeds in 2016

Opening balance	1,204,164	1,233,992
Net proceeds from fundraising	244,558	256,358
Centre Improvement and Equipment	(235,326)	(285,693)
Bank charges	(379)	(493)
Total Reserve (Note 15)	1,213,017	1,204,164

(d) Details of Gross Income and Aggregate Expenditure of Appeals Conducted Jointly with Traders

For the purpose of this note all fundraising involving the Sale of Items (e.g. chocolates, sun hats, sunscreen, etc) is deemed to have involved a trader.

Gross income received from sale of items	173,377	207,792
Total expenditure incurred	87,798	115,221

(e) Forms of Fundraising Appeals Conducted in 2016

For the purposes of reporting under the requirements of the Charitable Fundraising Act 1991, KU classifies all fundraising activities under five categories; raffles, functions, sale of items, donations and interest.

(f) Key Indicators for Fundraising Activities

Total Cost of Fundraising $212,389 (2015: $363,453) divided by Gross Income from Fundraising $456,947 (2015: $619,811) equals 46 % (2015: 59 %).

Net Surplus from Fundraising $244,558 (2015: $256,358) divided by Gross Income from Fundraising $456,947 (2015: $619,811) equals 54 % (2015: 41 %).

24. Additional Company Information

KU is a public company limited by guarantee, incorporated and operating in Australia.

Principal Registered Office and Principal Place of Business: 129 York Street Sydney NSW 2000

25. Government Grant Funding

During the course of the calendar year specific Government Funding that required acquittal reporting included the following Programmes:

Program	Funding $ 31-Dec-16	Funding $ 31-Dec-15
Macarthur Starting Points		
NSW Department of Education	131,932	133,325
Penrith Starting Points		
NSW Department of Education	11,216	10,561
Early Learning Inclusion Program		
NSW Department of Education	135,400	63,368
KU Marcia Burgess Autism Specific Early Learning & Care Centre		
NSW Department of Education	82,642	73,930
	30-Jun-16	**30-Jun-15**
Early Language & Literacy Initiative		
Australian Government Department of Social Services	-	160,699
KU Children's Speech Therapy		
NSW Department of Ageing, Disability and Home Care	40,431	39,441
Inner West Play & Chat		
NSW Department of Family & Community Services	357,974	327,783
Newcastle Supported Playgroups		
NSW Department of Family & Community Services	135,058	129,640
Macarthur Parenting		
Australian Government Department of Social Services	-	133,900
Macarthur Stepping Stones		
NSW Department of Ageing, Disability and Home Care	386,009	377,078
KU Starting Points Penrith		
NSW Department of Ageing, Disability and Home Care	174,481	200,700
Early Childhood Intervention Extended Service		
NSW Department of Ageing, Disability and Home Care	-	116,550
KU Marcia Burgess Autism Specific Early Learning & Care Centre		
Australian Government Department of Social Services	422,750	890,000
National Inclusion Support Subsidy		
Australian Government Department of Education and Training	2,249,234	2,290,448
Inclusion Support Agency		
Australian Government Department of Education and Training	5,331,114	4,758,071
SWS Skills Development		
NSW Department of Ageing, Disability and Home Care	644,787	227,194
Supplementary Assistance		
Department of the Prime Minister and Cabinet	132,765	68,918
Research Project		
Australian Government Department of Social Services	83,125	-
Steps to Starting School		
The Smith Family	88,000	-

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ABN 89 000 006 137
ACN 000 006 137
Authority holder under the provisions of
Section 16 of the Charitable Fundraising Act 1991.
Fundraising Authority No. CFN 10313