



KU Children's Services
122nd Annual Report

KU
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ANNUAL REPORT

OUR VISION AND PURPOSE

Every child has a right to feel safe, nurtured, valued and heard.

At KU, we contribute to this by 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.

OUR GOALS

KU's Strategic Plan 2017 to 2019 '*Creating, Thinking and Doing for today and tomorrow*' outlines five goals that together ensure KU will be a consistently strong, agile and innovative leader in the early childhood sector come 2019 and beyond.

1. Engaged families, staff and other stakeholders actively delivering outcomes for our KU.
2. A sustainable, scalable business model empowering our future.
3. Social policy and investment driving relevant and impactful outcomes for children.
4. Achieving excellence to advance the status and standing of early childhood education.
5. Producing knowledge that progresses the sector.

YEAR IN REVIEW

Chair and CEO's Report

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17

KU is an organisation committed at every level to fulfilling our purpose: delivering, supporting and leading high quality inclusive play-based learning programs, and providing opportunities for children to become the creators, thinkers and doers of today and tomorrow. Just as our values guide the Board and Executive in leading and managing KU, it is the unification of our staff and families around these values that delivers the best outcomes for children.

In 2017 we embarked upon an ambitious strategic plan, Creating, Thinking and Doing for Today and Tomorrow, leveraging KU's strengths to achieve our objectives. We are pleased and proud of the outstanding performance and results achieved throughout the year, and the foundation this work will provide for continued success over the remainder of the strategic plan and beyond.

KU's position as a provider of exceptionally high quality programs was reaffirmed as the last remaining KU services were independently assessed against the National Quality Standard in 2017, with results continuing to far exceed the sector.

This commitment to quality is recognised and valued by families, and we were honoured to receive the Canstar Blue Award for Most Satisfied Childcare Customers 2017. KU also maintains an internationally enviable Net Promoter Score of +73.3.

A number of individual KU centres and staff were also recognised with national and regional awards in the areas of early childhood education, leadership, early intervention, environment and business.

NET PROMOTER
SCORE (PARENTS)



73.3



KU
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17

The scale and diversity of KU's operations in 2017 were reflected in our \$137m annual turnover. A sound financial \$5.7m surplus result was delivered, in keeping with the commitment to a Return on Revenue target of between 3 and 4.5% annually. Most importantly, this surplus will enable ongoing re-investment in our strategic priorities.

KU continued to increase our significant investment in activities which have the greatest social impact, including supporting some of our most vulnerable children, and facilitating

our journey towards reconciliation. KU expended \$1.5m in this area throughout 2017; a significant increase on the previous year and a trend we are committed to continuing.

A focus on both expanding our reach and securing the tenure of premises saw KU purchase a preschool site in the NSW Illawarra region and welcome KU Figtree into our family. This is KU's first site acquisition in many years and we are pleased to be investing in the long term future of KU, and community based preschools.

More than \$1m was invested in improvements and upgrades to our existing facilities, ensuring our centres continue to offer safe and nurturing learning environments for children.

The ongoing development of KU staff is always a priority for KU, and an investment of more than \$600k in professional learning throughout 2017 continues to return positive outcomes for the staff, and ultimately children.



KU
20
17

For the second year running KU was recognised as an Employer of Choice by the Australian Business Awards. KU works hard to attract, develop and retain the best educators in our field and was again proud to boast exceptional levels of staff engagement and retention in 2017.

As a trusted advisor to Government, KU has long advocated for greater investment in early education, and the streamlining and simplification of funding mechanisms. Additional State Government investment in NSW preschools through the Start Strong funding was welcomed, as

was the ongoing investment and support committed by the Victorian Government.

Whilst the pending implementation of the Commonwealth Government's new Child Care Package and Child Care Subsidy in mid-2018 also promises more generous investment



to the sector overall, the complexity of the system has created some uncertainty for families and providers alike. KU actively assists and advises the Government on implementation and provides information to families as it becomes available.

At a Board level, a focus on strengthening our tools of governance saw a review of risk management processes, particularly in response to areas of emerging or increasing risk such as cyber security and environmental challenges. A new Code of Conduct was adopted throughout all levels of KU, better articulating the respectful, relationship-based workplace we value. The implementation of a Whistleblower Policy and hotline bolstered our already rigorous framework for managing feedback and complaints.

A range of works were undertaken in this first year of the Strategic Plan which will form the foundation for successful implementation of the plan to 2019 and beyond. A new website and investment in IT infrastructure have vastly improved our digital capability and reach, paving the way for increased engagement with our stakeholders online.

The articulation of KU's expanded research agenda and programs are the groundwork that will see KU developing knowledge and evidence over the coming years that will influence the way we think about and practice early education and early intervention.

As the current custodians of KU, we must always be mindful and respectful of the organisation's strong heritage and values, and be focussed on strengthening that

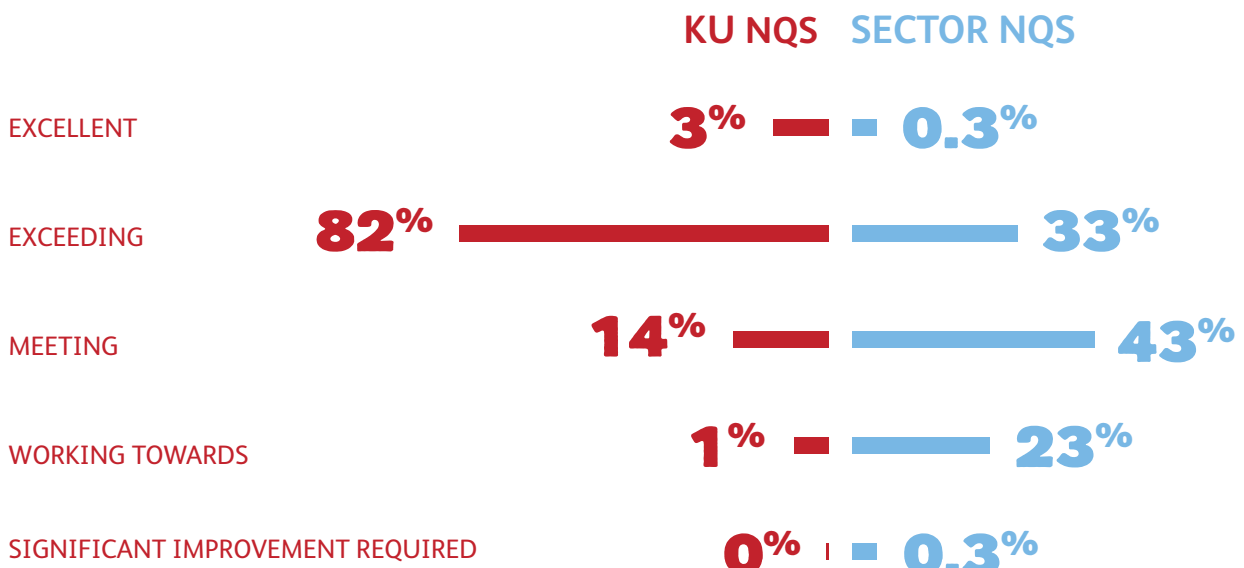
legacy for the children of tomorrow. Together, we are immensely proud of the achievements of 2017 and the progression of our strategic plan to date, and we would like to thank everyone who is contributing to Creating, Thinking and Doing for Today and Tomorrow.



Laura Hartley
Chair, Board of Directors



Christine Legg
Chief Executive Officer



KU 2017
SNAPSHOT



13,401 children
experienced the KU Difference.

91

children received specialist speech pathology assessments through KU services.

780

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

611

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

+37

EMPLOYEE NET PROMOTER SCORE (NPS)

Our Family



11,989 families

chose KU for their children.

Our Impact

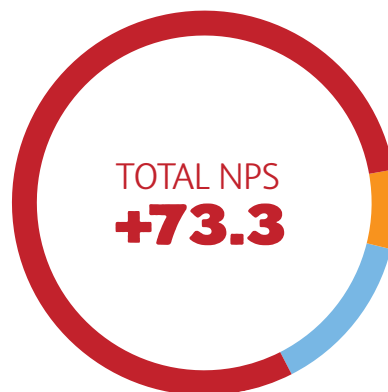
1,785

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

1,464,734

total dollars invested in socially impactful programs.

Our Results



Promoters
79.8%

Passives
6.5%

Detractors
13.7%

NET PROMOTER SCORE (PARENTS)



2,184 staff

helped us make the KU Difference for Australian children.

9,867

early childhood education services were supported by KU Inclusion Agency staff in six months July-December 2017.

8,624

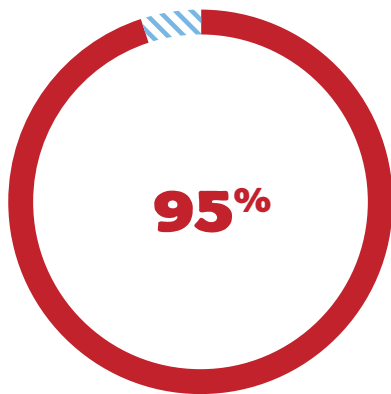
funding applications were assessed by KU's Inclusion Development Fund Manager team.

160

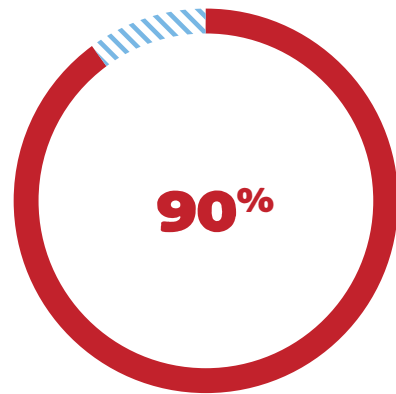
Aboriginal and Torres Strait Islander children accessed early childhood education through KU services.

22

KU centres completed their individual RAPs.



EMPLOYEE ENGAGEMENT RATE



STAFF RETENTION RATES



5,089 members

formed the foundational basis of KU's constitutional and governance structure.

5,367

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

238

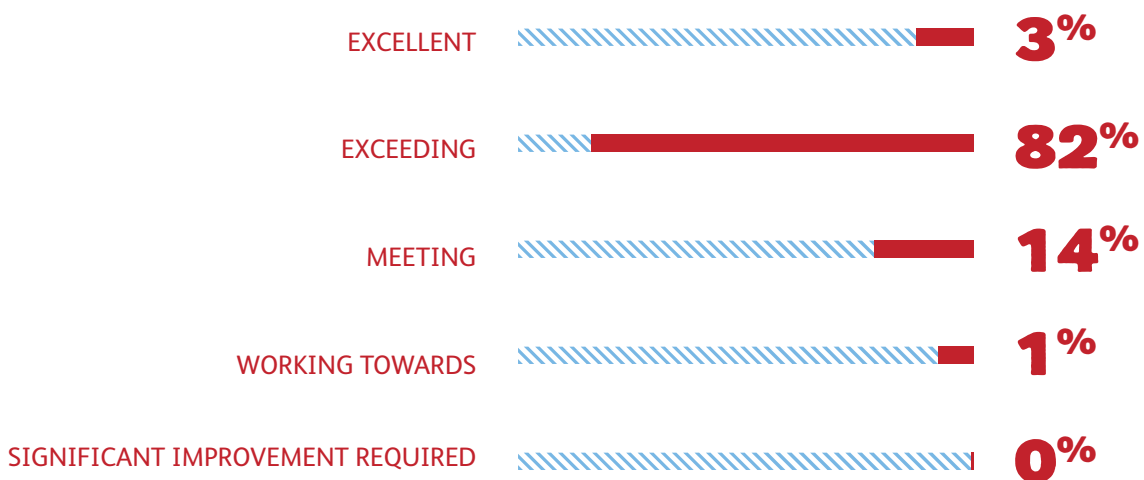
professional learning sessions were delivered for educators and staff nationally.

1,040

delegates attended KU's Annual Conference events.

17

early childhood education University and TAFE students supported through KU student awards and professional learning sponsorships.



KU QUALITY (NQS RATINGS)

**ENGAGED FAMILIES, STAFF
AND OTHER STAKEHOLDERS**

Our staff: the heart of KU

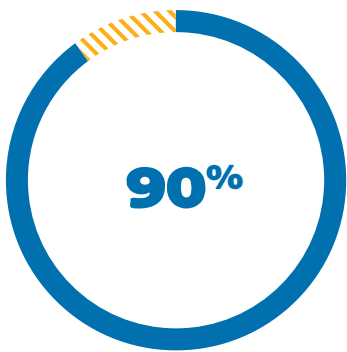
KU recognises that staff are our greatest asset, and we work hard and invest strongly in making sure the best and most experienced professionals choose and stay with KU. We know the best results are achieved when we can connect our organisational goals and values to personal values. At KU, our leadership model is clearly based around living the clearly articulated KU values, and pleasingly in the 2017 Employee Engagement Survey 95% of staff believed KU lived its values.

In 2017, KU was again honoured to be awarded as an Employer of Choice for the second consecutive year, by the Australian Business Awards. This recognises that KU's integrated

Employee Value Proposition remains at the forefront of the early education sector. This brings together our individual working environments, our approach to remuneration and benefits, the opportunities offered to staff to engage in ongoing professional learning, and our approaches to career and succession planning.

In order to remain an Employer of Choice, KU is constantly looking to improve our environments, systems and processes, and an important part of this is that staff have a strong voice in the ongoing development of KU. In 2017, staff provided critical input into the IT advisory group which informs the significant investment





STAFF RETENTION RATES

and transformation KU is making in technology and digital infrastructure. Similarly, there were broad ranging opportunities for staff input into KU’s preparedness for, and responsiveness to, the significant funding and policy shifts, some of which will see disruptive change shape our sector. Forums for engagement and contribution included targeted Director’s and Coordinator’s Days, specialist focus groups, KU Staff Association, Workplace Health and Safety Committee, and multiple online feedback mechanisms.

In such a constantly dynamic environment, KU is proud that our efforts have delivered a consistently high staff engagement rate of 95 %, and an enviable Employee Net Promoter Score of +37 (Australian benchmark +6).

At KU, staff are the heart of our organisation. In 2017 we released the KU Code of Conduct, guiding the interaction, processes and practices of everyone at KU. The enthusiasm with which this has been adopted and embraced by our frontline and Central Office support staff, Management, Executive and Board of Directors, is testament to the passion with which we are working together towards a shared vision for KU.



**SUSTAINABLE, SCALABLE
BUSINESS MODEL**

Introducing KU Figtree

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17

“We knew right away that a transition to KU would be a really positive step forward for our preschool and community. We literally couldn’t wait to become ‘KU Figtree!’”

Key to KU’s ability to continue shaping children’s lives through education, are both our financially sustainable business model and our strong commitment to the reinvestment of surplus in quality services, programs and staff. Both are most effective when we are responsive to community needs.

When KU is able to invest in scaling up, or expanding our reach into new communities, we are able to provide high quality education to more children – it’s as simple as that. Similarly, when we are able to invest in owning the properties that accommodate our services, we can secure the tenure of those services for the future.

KU was able to do both in 2017, having purchased a property in the leafy Illawarra suburb of Figtree, along with the St Columba Uniting Preschool it housed. The purchase has been warmly welcomed by the local community as having saved the preschool, the future of which was in doubt when plans to sell the site were announced earlier this year.

KU has been operating preschools in the Illawarra for more than half a century, and we are pleased to welcome the staff and families at St Columba Uniting Preschool, now KU Figtree, into the KU family.



Preschool Co-Directors Cheryl Collinson-Smith and Elen Santarelli explained that the staff and families were genuinely concerned. “In mid-2017 we were facing a very uncertain future. It looked likely that Figtree families would be without a preschool, and our preschool building and hall would be knocked down and developed into townhouses.”

“We immediately became advocates for the sale of the preschool to KU. We have worked alongside other local KU services for many years, and see how well supported they are, how committed to quality and play-based education everyone is. We knew right away that a transition to KU would be a really positive step forward for our preschool and community. We literally couldn’t wait to become ‘KU Figtree!’”

In purchasing both the preschool and the large property on which it is situated, the tenure of the preschool will remain

secure and accommodation expenses can be controlled.

In the coming years, KU will be making significant investments in expanding our footprint, ensuring more children can experience the KU difference, and more communities have the long term security of knowing their services and property are both owned and operated by KU.

At KU Figtree, the bright future is now filled with opportunity. As the community grows, so can the preschool and the services KU offers.

SOCIAL POLICY AND INVESTMENT

Reconciliation

In launching KU's first Reconciliation Action Plan (RAP) in 2016, we recognised that for reconciliation efforts to be sustained and successful, they must be embraced by the whole organisation and embedded within practice.

One of the key deliverables within our RAP is the development of centre-based RAPs in each KU centre, ensuring that KU's journey towards reconciliation is genuine, and always reflective of the local context. Throughout 2017, the first cohort of individual KU centres have embarked upon the process of developing their own RAP.

Reflecting on their environments, educational program and the connections they already have, or are yet to develop, with local Aboriginal communities, centres have

been supported by KU's dedicated Aboriginal and Torres Strait Islander Programs team. As part of KU's commitment to social investment, additional resourcing saw the team and programs expand in 2017.

Additionally, KU's Regional RAP Champions are at the forefront of achieving the objectives set out in KU's RAP. In this first year, RAP Champions have guided their own centres through the process of developing and publishing their own RAP. This saw the publishing of 22 centre RAPs in 2017, with a further 2 under review.

Perhaps most impressive is the additional 38 RAPs already being developed by centres, under the guidance and support of a RAP Champion.

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42%

INCREASE IN ABORIGINAL AND TORRES STRAIT ISLANDER CHILDREN ATTENDING KU



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As the RAP Champions, and other KU staff more broadly, continue to engage with and inspire others on the reconciliation journey, we are proud to see a new generation of leaders emerging within KU; educators and leaders with a demonstrated commitment to KU's values of diversity and inclusion.

One such RAP Champion is Mark Taylor, Director at KU Peninsula on the NSW mid-north coast. Having been amongst the very first centres to publish a RAP, Mark is now working with other KU centres to share his experience, assisting them to navigate the process of developing a plan and building community connections.

"KU Peninsula is a centre already deeply embedded in our local community," explained Mark, "so the process of RAP development was, for us, an extension of our desire to build on those connections. Incorporating Aboriginal culture within the centre and educational program adds a richness and depth that is quite unique.

"Together children and staff develop a much greater appreciation for the land, stories and history of this country and community."

KU is delighted we are already seeing these steps towards reconciliation delivering tangible results. In 2017, there was an increase in parent

participation in KU services, as educators and families engaged in conversations about reconciliation, and the RAP Working Groups began being formed. Between July and December 2017, approximately 20 Aboriginal or Torres Strait Islander people joined RAP Working Groups.

As we continue to invest more energy, time and money in our reconciliation efforts, and our Aboriginal or Torres Strait Islander Programs, we are pleased to be able to welcome more Aboriginal and Torres Strait Islander children, families, staff, Elders and friends into our centres.



ACHIEVING EXCELLENCE

Nature play

“Healing the broken bond between our young and nature is in our self-interest, not only because aesthetics or justice demand it, but also because our mental, physical and spiritual health depends on it.”

Richard Louv.

The modern world within which our children are learning and developing provides both opportunities and challenges. At KU we have long strived to create sustainable, natural learning environments for children. For many years we watched on as some childcare centres installed large plastic fixed outdoor equipment, with little regard for the benefits that come from playing in, learning about, and fostering a love of nature.

More than simply ‘playing outdoors’, nature play encourages children to take an active, hands-on approach to exploring and discovering the world around them. An increasing body of research confirms that nature play has a positive effect on a child’s physical, mental and emotional development, resulting in children that are stronger and more agile, happier and less anxious, and are more effective and considered problem solvers.

Recently, as more centres and families are seeking to reconnect with and foster a love of nature, some KU centres and educators continue to operate at the very forefront of play-based, nature pedagogy in Australia. One such centre is KU Ourimbah.

Located on the Central Coast campus of the University of Newcastle, KU Ourimbah is blessed to be surrounded by dense natural bushland, rainforest and waterways. However, the engagement of children and educators with nature is far more than circumstantial.

Director and Educational Leader, Rosanne Pugh, and her team, have intentionally implemented a Bush Preschool program, that sees the woodland and waterways as an extension of the classroom. Children venture daily into the neighbouring ‘wild space’ where they experience the seasons and learn to observe and respond to changes in the weather and environment. The trees, branches, rocks and leaf litter become the playground equipment, and children have become skilled researchers who document their discoveries and adventures.

Rosanne explains “to be hands on and delight in nature gives children the opportunity to wonder about it, to care for it and to take responsibility to look after it.”

KU Ourimbah achieved a coveted Excellent ACECQA rating and was awarded the United Nations Association of Australia World Environment Day Award for Environmental Education. Children from the centre also featured as the ‘experienced explorers’ within KU’s 2017 marketing campaign.

Rosanne is herself taking a leadership role within the sector, inspiring and influencing other educators to challenge themselves and their children to “get out and get dirty”, and is a regular presenter and educator within KU’s Professional Learning Program. The sole recipient of the 2017 Premier’s Early Childhood Education Teacher Scholarship, Rosanne received \$10,000 to undertake a month-long study tour in Australia and New Zealand, visiting schools, universities and centres that practice excellence in sustainability and reconciliation.

PRODUCING KNOWLEDGE

Action research driving curriculum



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KU recognises that the better developed an educator's knowledge and skillset, the stronger and deeper the educational program they can offer for children. This is why KU not only invests heavily in professional learning, but also committed significant additional investment in 2017 to expand KU's own research agenda. By producing knowledge based on our own experience of quality programs and service delivery, we can contribute to the evidence and knowledge base guiding early education practices more broadly.

At KU, action research is both investigative research and professional learning in one, as teachers and educators take on the role of researcher. Often working in partnership with academics or Critical Friends, action research encourages educators to examine a particular question or challenge within their own service. Together they explore current practices and reflect on and query existing ideas, with the express purpose of improving processes, enhancing the educational program, or developing practical solutions to a problem.

KU Mayfield Preschool recently undertook an action research project, exploring the differing, or similar, views held by stakeholders in relation to the 'transition to school' process.

Data was collected through children's drawings and conversations about Big School, families participated in focus groups, and surveys were conducted amongst preschool educators, as well as school principals and teaching staff.

The research identified that each group had very similar concerns about the transition to school, and perceptions about what it means to





be ‘school ready’. In their own ways, each group expressed a need or desire for children to be able to form strong connections with people and places, so they can separate more successfully from parents when starting school. Equally, an understanding of school routines and developing the self-help skills required to navigate those routines, were common expectations.

Reflecting on these findings led to the development of a series of recommendations to improve the transition to school program at KU Mayfield. Fostering greater connection between preschools and schools through reciprocal visits by

children and teachers, Transition to School Statements, and collaboration became important. Recommendations were made that children be active participants in ‘getting ready’, by documenting what they already know about their future schools. Preschoolers can also contribute retrospectively by returning to preschool to share their experiences with younger children.

Whilst the findings of action research are contextual, in some cases these recommendations could be adopted in other areas to improve transition to school processes more broadly. KU Mayfield Director, Karen Hugo, has been sharing her experience with

colleagues through KU’s professional learning program, and the research findings continue to be peer reviewed and considered for publication in Australian and international academic journals. Karen explains that one of the most rewarding things was seeing the associated professional learning for the team.

“For some educators this was their first experience of researching, and they were empowered by the process. It helped cement professional relationships with teachers at our local schools, and provided current information as rationale for changes within our program.”



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Authority holder under the provisions of
Section 16 of the Charitable Fundraising Act 1991.
Fundraising Authority No. CFN 10313



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KU Children's Services
122nd Annual Report

KU
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20
17

FINANCIAL REPORT

DIRECTORS' REPORT

The Directors present their report on KU Children's Services (the company) for the financial year ended 31 December 2017. 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 2017, KU had a net surplus of \$5,738,080 (2016: \$5,563,232), assets of \$76,715,138 (2016: \$69,904,640) and net assets of \$33,966,601 (2016: \$28,228,521).

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 impact.

In the latter part of 2016, KU launched the Strategic Plan for 2017 to 2019; 'Creating, Thinking and Doing for today and tomorrow'. This Strategic Plan outlines five goals that together ensure KU is a consistently strong, agile and innovative leader in the early childhood sector come 2019 and beyond. Some highlights of the year ended 31 December 2017 are detailed in the 122nd Annual Report.

Our Vision and Purpose

Every child has a right to feel safe, nurtured, valued and heard. At KU, we contribute to this by 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.

Our Goals

1. Engaged families, staff and other stakeholders actively delivering outcomes for our KU.
2. A sustainable, scalable business model empowering our future.
3. Social policy and investment driving relevant and impactful outcomes for children.
4. Achieving excellence to advance the status and standing of early childhood education.
5. Producing knowledge that progresses the sector.

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 5,070 members (2016: 5,739 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 (retired 16 May 2017) BAppSc-BE, KU Life Member	Chair of the Board and Chair of KU Marcia Burgess Foundation Committee until 16 May 2017, Member of Nomination & Remuneration Committee until 16 May 2017. External Member of KU Marcia Burgess Foundation Committee from 30 May 2017
Richard Richards BCom/LLB(Hons), LLM, MAPPFIN, FTIA, CA, Admitted Solicitor NSW	Deputy Chair of the Board until 16 May 2017, Chair of Audit & Risk Management Committee, Member of KU Marcia Burgess Foundation Committee, Member of Nomination & Remuneration Committee until 16 May 2017
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 KU Marcia Burgess Foundation Committee
Dr Jennifer Skattebol Dip Ed (EC), B.Ed. PhD	Board Member, Member of Education Committee
Laura Hartley BA (Hons), LLB	Chair of the Board from 16 May 2017, Board Member, Member of Audit & Risk Management Committee, Member of Nomination & Remuneration Committee from 16 May 2017
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 KU Marcia Burgess Foundation Committee
Sema Musson B.Bus, M.Mngt, GAICD	Deputy Chair of the Board from 16 May 2017, Board Member, Member of Audit & Risk Management Committee until 16 May 2017, Member of Nomination & Remuneration Committee from 16 May 2017, Chair of KU Marcia Burgess Foundation Committee from 16 May 2017
Janet Verden (reappointed 16 May 2017) BCom (Marketing), GAICD	Board Member, Member of Education Committee, Member of KU Marcia Burgess Foundation Committee
Peter Roberts (appointed 16 May 2017) B.Fin.Admin, Fellow of Institute of Chartered Accountants (FCA), GAICD, Graduate Diploma - Securities Institute	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	
	A	B	A	B	A	B	A	B	A	B
Directors										
David McCracken	3	3	1	1			1	1	1	1*
Richard Richards	9	6	4	3			1	1	1	1
Dr Christine Woodrow	9	5			6	6				
Laura Hartley	9	9	4	4			3	3		
Dr Jennifer Skattebol	9	6			6	6				
Gareth Bennett	9	8			6	5	4	4		
Sema Musson	9	9	1	1			3	3	1	1
Elizabeth Hristoforidis	9	7					4	4	1	1
Peter Roberts	6	6	3	3						
Janet Verden	6	6			3	2			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.

* Mr David McCracken attended the KU Marcia Burgess Foundation Committee meeting as an External Committee Member.

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



Laura Hartley
Chair, Board of Directors
Sydney, 27 March 2018



Richard Richards
Chair, Audit & Risk Management Committee
Sydney, 27 March 2018

Deloitte.

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

27 March 2018

Dear Board Members

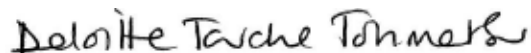
KU Children's Services

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 2017, 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



Gaile Timperley
Partner
Chartered Accountants



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

Report on the Audit of the Financial Report

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 2017, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration or assertion statement by Those Charged With Governance.

In our opinion the accompanying financial report presents fairly, in all material respects, the Entity's financial position as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards and Charitable Fundraising Act 1991.

Basis for Opinion

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

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

Other Information

The Board of Directors are responsible for the other information. The other information comprises the information included in the financial report, 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.

The Board of Directors' Responsibilities for the Financial Report

The Board of Directors are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards – Reduced Disclosure Requirements and 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 and fair presentation of the financial report and is free from material misstatement, whether due to fraud or error.

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Touche Tohmatsu Limited

Deloitte.

In preparing the financial report, the Board of Directors are responsible for assessing the Entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless 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 Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 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 the 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 Timperley

Gaile Timperley
Partner
Chartered Accountants
Sydney, 27 March 2018

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



Laura Hartley
Chair, Board of Directors
Sydney, 27 March 2018



Richard Richards
Chair, Audit & Risk Management Committee
Sydney, 27 March 2018

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.

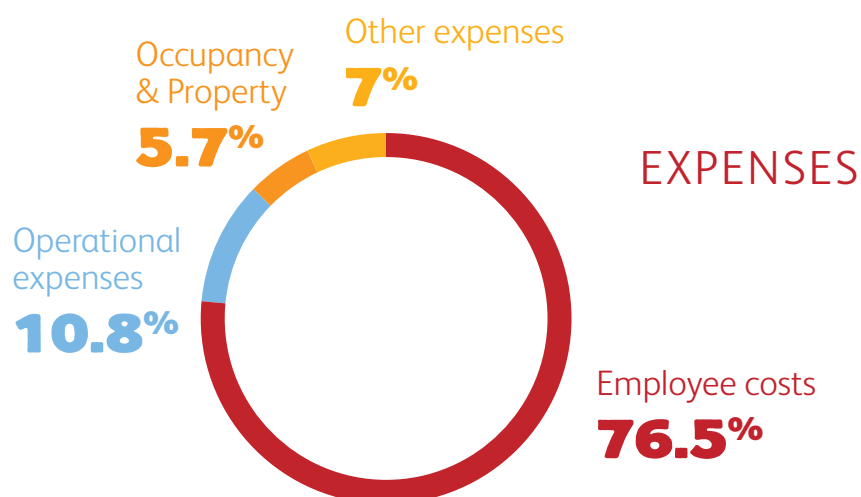
Signed in accordance with a resolution of the Board of Directors.



Laura Hartley
Chair, Board of Directors
Sydney, 27 March 2018



Richard Richards
Chair, Audit & Risk Management Committee
Sydney, 27 March 2018



Statement of Profit or Loss and Other Comprehensive Income for the Financial Year Ended 31 December 2017

KU
20
17

	Note	2017 \$	2016 \$
Continuing operations			
Revenue from fees	5 (i)	71,416,085	78,218,348
Revenue from non-capital government funding	5 (ii)	59,769,013	44,976,663
Other revenue	5 (iii)	6,611,217	5,927,112
		<u>137,796,315</u>	<u>129,122,123</u>
Employee costs		101,038,160	93,832,304
Operational expenses		14,229,106	13,459,750
Occupancy expenses		5,653,740	5,543,723
Depreciation & amortisation	5 (v)	1,778,827	1,933,337
Administrative expenses		5,372,332	5,428,189
Repairs & maintenance		1,879,398	1,887,880
Marketing expenses		528,338	447,286
Finance costs	5 (v)	24,540	30,770
Other expenses		1,561,772	1,270,062
		<u>132,066,213</u>	<u>123,833,301</u>
Surplus from ordinary operations		5,730,102	5,288,822
Other Income			
Government capital grant funding	5 (iv)	7,978	274,410
Surplus for the year	5	<u>5,738,080</u>	<u>5,563,232</u>
Total comprehensive income for the year		<u>5,738,080</u>	<u>5,563,232</u>

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 2017

	Note	2017 \$	2016 \$
Assets			
Current assets			
Cash and cash equivalents	21 (b)	35,256,075	38,770,776
Term deposits	22	22,000,000	15,000,000
Trade and other receivables	6	1,584,043	1,306,485
Other assets	7	1,274,346	907,457
Total current assets		60,114,464	55,984,718
Non-current assets			
Property, plant and equipment	8	15,578,270	13,027,124
Intangible assets	9	1,022,404	892,798
Total non-current assets		16,600,674	13,919,922
Total assets		76,715,138	69,904,640
Liabilities			
Current liabilities			
Trade and other payables	10	12,969,292	12,791,896
Finance leases	11	379,452	535,252
Unearned income	12	12,130,477	12,534,747
Provisions	13	14,881,044	12,705,383
Total current liabilities		40,360,265	38,567,278
Total non-current liabilities			
Non current provisions	13	2,388,272	3,108,841
Total non-current liabilities		2,388,272	3,108,841
Total liabilities		42,748,537	41,676,119
Net Assets		33,966,601	28,228,521
Equity			
Retained Earnings			
General funds	14	32,817,471	25,898,504
Fundraising reserve	15	1,149,130	1,213,017
Program reserve	16	-	1,117,000
Total Retained Earnings		33,966,601	28,228,521

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17

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



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Statement of Changes in Equity for the Financial Year Ended 31 December 2017

	General Funds \$	Fundraising Reserve \$	Program Reserve \$	Total \$
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
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
Balance at 1 January 2017	25,898,504	1,213,017	1,117,000	28,228,521
Surplus for the year	5,738,080	-	-	5,738,080
Transfer (from)/to retained earnings	1,180,887	(63,887)	(1,117,000)	-
Balance at 31 December 2017	32,817,471	1,149,130	-	33,966,601

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 2017

	Note	2017 \$	2016 \$
Cash flows from operating activities			
Receipts from customers, government bodies and centres		116,156,239	117,498,175
Receipts from government brokered programs		22,723,604	16,535,879
Payments to suppliers and employees		(110,916,367)	(110,064,862)
Allocations to recipients of brokered programs		(20,886,206)	(16,946,074)
Net cash generated by operating activities	21(a)	<u>7,077,270</u>	<u>7,023,118</u>
Cash flows from investing activities			
Payment for property, plant and equipment		(4,289,836)	(1,068,176)
Receipts from government capital grants		62,957	63,374
Interest received		961,081	894,997
Finance cost		(24,540)	(30,770)
Payment for/receipt from investments (term deposits)		(7,000,000)	1,000,000
Net cash (utilised in)/generated by investing activities		<u>(10,290,338)</u>	<u>859,425</u>
Cash flows from financing activities			
Payment for finance leases		(301,633)	(281,641)
Net cash utilised by financing activities		<u>(301,633)</u>	<u>(281,641)</u>
Net (decrease)/increase in cash and cash equivalents		<u>(3,514,701)</u>	<u>7,600,902</u>
Cash and cash equivalents at the beginning of the financial year		38,770,776	31,169,874
Cash and cash equivalents at the end of the financial year	21(b)	<u>35,256,075</u>	<u>38,770,776</u>

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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 2017

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17

1. Corporate Information

The financial statements of KU Children's Services (the Company) for the year ended 31 December 2017 were authorised for issue in accordance with a resolution of the Directors on 27 March 2018.

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 16 'Leases' effective for reporting periods beginning 1 January 2019. Expected to be initially adopted for the financial period ending 31 December 2019.
- c) AASB 1058 'Income for Not-For-Profit Entities' effective for annual periods beginning on or after 1 January 2019. Expected to be initially adopted for the financial period ending 31 December 2019.

AASB 1058 clarifies and simplifies the income recognition requirements that apply to not-for-profit (NFP) entities, in conjunction with AASB 15. These Standards supersede the NFP income recognition requirements previously in AASB 1004 Contributions (with the exception of certain matters relating to public sector NFP entities) as well as current revenue recognition guidance including AASB 118 Revenue, AASB 111 Construction Contracts and the related Interpretations when it becomes effective.

The timing of income recognition depends on whether such a transaction gives rise to a liability or other performance obligation (a promise to transfer a good or service), or a contribution by owners, related to an asset (such as cash or another asset) received by an entity.



Key requirements of AASB 1058:

This Standard applies when a NFP entity receives volunteer services or enters into other transactions where the consideration to acquire an asset is significantly less than the fair value of the asset principally to enable the entity to further its objectives. In the latter case, the entity recognises and measures the asset at fair value in accordance with the applicable Australian Accounting Standard (e.g. AASB 116 Property, Plant and Equipment).

Upon initial recognition of the asset, this Standard requires the entity to consider whether any other financial statement elements (called 'related amounts') should be recognised, such as:

- (a) contributions by owners;
- (b) revenue, or a contract liability arising from a contract with a customer;
- (c) a lease liability;
- (d) a financial instrument; or
- (e) a provision.

These related amounts are accounted for in accordance with the applicable Australian Accounting Standard.

The Standard also prescribes specific accounting requirements for a transaction which is a transfer of a financial asset to enable an entity to acquire or construct a recognisable non-financial asset to be controlled by the entity (i.e. an in-substance acquisition of a non-financial asset) and volunteer services.

Entities can choose to apply this Standard retrospectively (which requires restatement of comparatives with certain practical expedients allowed) or to use a modified approach (where comparatives are not restated but the cumulative effect of initial application will be adjusted through opening retained earnings on the date of initial application).

Consequential amendments to other Standards and Interpretations:

2. Application of new and revised Accounting Standards (continued)

The issuance of AASB 1058 also results in consequential amendments to other Standards and Interpretations, as set out below:

- AASB 15 Revenue from Contracts with Customers
- AASB 16 Leases
- AASB 101 Presentation of Financial Statements
- AASB 116 Property, Plant and Equipment
- AASB 117 Leases
- AASB 138 Intangible Assets
- AASB 1004 Contributions
- AASB 1057 Application of Australian Accounting Standards

Among the amendments listed above, the key amendments to note are the:

- new lessee accounting requirements for leases at significantly below-market terms and conditions (commonly known as 'peppercorn leases') principally to enable the lessee to further its objectives (as amended in AASB 16 and AASB 117). This requires the lessee to recognise the leased asset / right-of-use asset at fair value per AASB 13, the lease liability per AASB 117 / AASB 16 and the residual as income at the inception of the lease;
 - requirement to measure inventories (e.g. donated inventories) at current replacement cost where the consideration for those inventories is significantly less than fair value principally to enable the entity to further its objectives (as amended in AASB 102);
 - requirement to measure the cost of the asset (e.g. property, plant and equipment, intangible asset or investment property) at fair value per AASB 13 where the consideration for the asset is significantly less than fair value principally to enable the entity to further its objectives (as amended in AASB 116, AASB 138 and AASB 140); and
 - removal of all income recognition requirements for private sector NFP entities and majority of income recognition requirements for public sector NFP entities in AASB 1004.
- d) AASB 15 'Renumeration Contracts with Customers' effective for annual periods beginning on or after 1 January 2019. Expected to be initially adopted for the financial period ending 31 December 2019.

The core principle of AASB 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under AASB 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer.

In May 2016, the AASB issued AASB 2016-3 Amendments to Australian Accounting Standards – Clarifications to AASB 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

In December 2016, the AASB issued the following amending Standards that applies to not-for-profit entities:

- AASB 2016-7 Amendments to Australian Accounting Standards – Deferral of AASB 15 for Not-for-Profit Entities which deferred the application date for not-for-profit entities to 1 January 2019
- AASB 2016-8 Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities which introduced not-for-profit-specific implementation guidance on 'enforceability' of a contract (Step 1), 'sufficiently specific' performance obligations (Step 2) and separate recognition of 'donation' element (Step 4).

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 complies 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.

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 year

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.

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.

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.

4.2 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

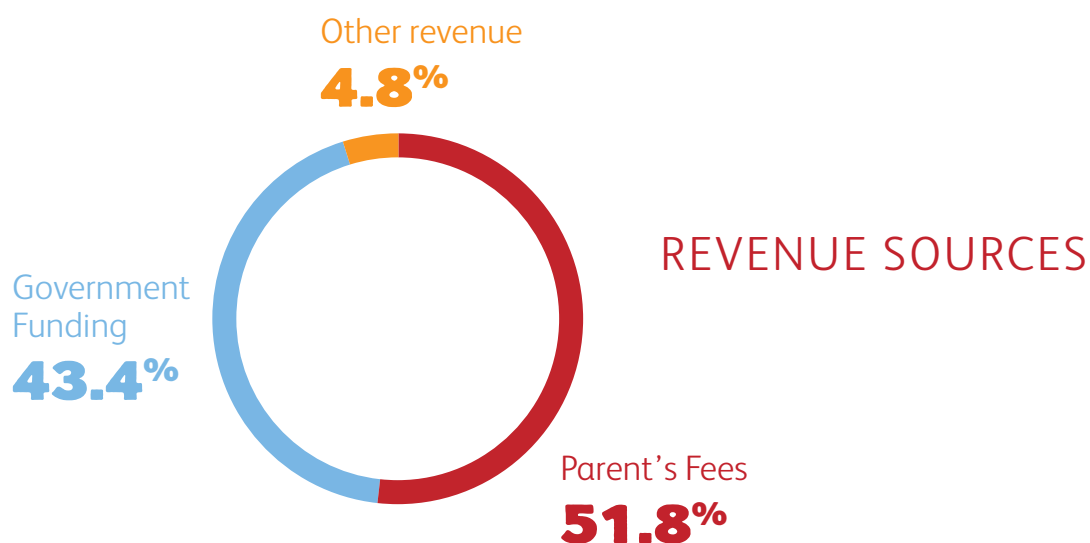
In assessing impairment, the Company estimates the recoverable amount of each asset based on the depreciable replacement cost in accordance with AASB 136 "Impairment of assets".

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

	2017	2016
	\$	\$
(i) Revenue from fees		
Parent's fees	71,416,085	78,218,348
(ii) Revenue from non-capital government funding		
Government funding	59,769,013	44,976,663
(iii) Other revenue		
Other revenue from ordinary operations consisted of the following items:		
Management fees	1,588,650	1,329,793
Gross fundraising income	391,097	456,947
Interest income	961,081	894,997
Consultancy fees	305,412	33,918
Sales of publications and courses	645,136	445,615
Sponsor support	2,126,631	2,412,987
Loss on disposal of PPE	-	(24,289)
Other sundry revenue	593,210	377,144
	<u>6,611,217</u>	<u>5,927,112</u>
(iv) Other income		
Government capital grant funding	7,978	274,410
(v) Surplus		
Surplus has been arrived at after (charging)/ crediting the following items:		
Depreciation and amortisation of property, plant and equipment and intangibles	(1,778,827)	(1,933,337)
Operating lease rental expenses:		
Minimum lease payments	(2,608,235)	(2,561,976)
Net bad and doubtful debts	10,968	(90,857)
Finance costs	(24,540)	(30,770)



6. Trade and Other Receivables

	2017 \$	2016 \$	
Trade receivables			KU 20 17
Trade receivables	803,748	1,021,242	
Allowance for doubtful debts	(91,456)	(171,554)	
Accrued income	649,577	176,370	
	1,361,869	1,026,058	
Other receivables			
Other receivables	222,174	280,428	
	1,584,043	1,306,485	
Reconciliation of allowance for doubtful debts			
Balance 1 January	171,554	85,868	
Increase to provision	47,724	85,686	
Impairment recovery	(127,822)	-	
Balance 31 December	91,456	171,554	

Parent fees are paid either in advance or weekly. 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 are generally not recoverable.

7. Other Assets

Prepayments	1,252,822	879,343
Finance lease asset	21,525	28,114
	1,274,346	907,457



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17

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 2016	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	-	-	-	-	-	-	-
Disposals	-	(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
Additions	2,919,640	477,282	84,107	-	17,320	629,404	3,959,539
Assets under construction (WIP)	58,054	68,174	-	-	-	-	126,228
Reclassification and prior year adjustment	151,897	(76,622)	510,694	-	-	(585,969)	-
Disposals	(511,808)	(1,199,727)	(657,643)	1	-	(952,404)	(3,321,581)
Balance at							
31 December 2017	9,185,378	16,685,554	2,496,460	179,247	1,540,379	437,356	30,524,374
Accumulated Depreciation							
Balance at							
1 January 2016	(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	-	-	-	-	-	(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)
Disposals	511,808	1,199,727	657,643	-	-	952,404	3,321,582
Reclassification and prior year adjustment	(131,691)	85,455	(280,000)	-	-	326,236	-
Depreciation expense	(201,094)	(922,055)	(34,045)	(10,490)	(72,722)	(294,216)	(1,534,622)
Balance at							
31 December 2017	(2,203,277)	(9,621,484)	(1,319,341)	(116,337)	(1,417,472)	(268,193)	(14,946,104)
Net Book Value							
As at 31 December 2016	4,185,295	7,431,836	1,064,577	73,399	178,309	93,708	13,027,124
As at 31 December 2017	6,982,101	7,064,070	1,177,119	62,910	122,907	169,163	15,578,270

8. Property, Plant and Equipment (continued)

	2017	2016
	\$	\$
Depreciation:		
Land and buildings	201,094	193,072
Leasehold Improvements	922,055	979,085
Furniture and office equipment	34,045	368,575
Motor vehicles	10,490	18,003
Make Good Asset	72,722	88,850
Finance Lease Asset	294,216	75,888
	<u>1,534,622</u>	<u>1,723,473</u>

9. Intangible Assets

	Software	Total
	\$	\$
Gross Carrying Amount		
Balance at 1 January 2016	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	<u>1,992,439</u>	<u>1,992,439</u>
Additions	300,591	300,591
Assets under construction (WIP)	73,220	73,220
Balance at 31 December 2017	<u>2,366,250</u>	<u>2,366,250</u>
Accumulated Depreciation		
Balance at 1 January 2016	(889,777)	(889,777)
Amortisation expense	(209,864)	(209,864)
Balance at 31 December 2016	<u>(1,099,641)</u>	<u>(1,099,641)</u>
Amortisation expense	(244,205)	(244,205)
Balance at 31 December 2017	<u>(1,343,846)</u>	<u>(1,343,846)</u>
Net Book Value		
As at 31 December 2016	<u>892,798</u>	<u>892,798</u>
As at 31 December 2017	<u>1,022,404</u>	<u>1,022,404</u>

10. Trade and Other Payables

	2017	2016
	\$	\$
Salary and superannuation accruals	1,429,651	1,193,748
Prepaid centre fees and holding deposits	3,775,585	4,390,527
GST Payable	95,850	424,466
Other payables and accruals	1,198,780	335,890
Trade payables	2,682,174	2,234,570
WBS & Brokered program surpluses	3,787,251	4,212,695
	<u>12,969,292</u>	<u>12,791,896</u>

11. Finance Leases

	2017	2016
	\$	\$
Finance Lease Liability	379,452	535,252
Minimum Lease Payments		
Less than 1 year	196,255	284,619
Between 1 and 5 years	183,197	250,633
	<u>379,452</u>	<u>535,252</u>

In 2017 total lease payments of \$301,633 (2016: \$281,642) were made.

12. Unearned Income

Prepaid government funding	11,134,398	11,260,423
Prepaid special education income	996,079	1,274,322
	<u>12,130,477</u>	<u>12,534,746</u>

13. Provisions

Current

Employee Benefits:		
Provision for annual leave and rostered days off	8,060,950	7,117,729
Provision for long service leave	5,679,790	5,107,030
	<u>13,740,740</u>	<u>12,224,759</u>
Provision for Make Good Liability:		
Make good liability	1,140,304	480,624
	<u>14,881,044</u>	<u>12,705,383</u>

Non-current

Employee Benefits:		
Provision for long service leave	1,988,197	2,066,406
Provision for Make Good Liability:		
Make good liability	400,075	1,042,435
	<u>2,388,272</u>	<u>3,108,841</u>

14. General Funds

Balance at beginning of financial year	25,898,504	20,396,125
Net (deficit)/surplus	5,738,080	5,563,232
Net transfers from General Funds (note 15 & 16)	1,180,887	(60,853)
Balance at end of financial year	<u>32,817,471</u>	<u>25,898,504</u>

15. Fundraising Reserve

	2017	2016
	\$	\$
Balance at beginning of financial year	1,213,017	1,204,164
Transfer (from)/to general funds	(63,887)	8,853
Balance at end of financial year	<u>1,149,130</u>	<u>1,213,017</u>

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	1,117,000	1,065,000
Transfer (from)/to general funds	(1,117,000)	52,000
Balance at end of financial year	<u>-</u>	<u>1,117,000</u>

The Program reserve relates to reserves set aside by the Company related to the programs. 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	1,135,814	1,069,771
Longer than 1 year and not longer than 5 years	321,119	916,470
Longer than 5 years	56,009	62,816
	<u>1,512,942</u>	<u>2,049,057</u>

18. Contingent Liabilities

	2017	2016
	\$	\$
Bank Guarantee 22 October 1998 to Commonwealth	-	191,291
Bank Guarantee 31 January 1995 to Sydney City Council	-	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	2,930
Bank Guarantee 8 September 2016 to R N & K M REIMIERS	9,350	9,350
Bank Guarantee 12 September 2016 to Abalon Properties Pty Ltd	7,400	7,400
Bank Guarantee 12 September 2016 to Kearley Investments Pty Ltd	9,900	9,900
Bank Guarantee 12 September 2016 to Clearview Holdings Pty Ltd	12,696	12,696
	<u>62,472</u>	<u>258,763</u>

KU
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17

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 (2016: 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	<u>1,765,169</u>	<u>1,775,442</u>
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21. Notes to the Cash Flow Statement

	2017	2016
	\$	\$
(a) Reconciliation of (Deficit)/Surplus for the period to Net Cash Flows From Operating Activities		
Surplus for the period	5,738,080	5,563,232
Depreciation and Amortisation of non-current assets	1,778,827	1,933,337
Gain on sale of non current assets	-	24,289
Interest received	(961,081)	(894,997)
Finance costs	24,540	30,770
Government capital funding	(62,956)	(63,374)
Finance Lease adjustments	(6,589)	(13,734)
Make good adjustments	(17,320)	66,135
Movements in working capital:		
Decrease in trade receivables and other assets	(644,448)	(179,078)
Increase/(Decrease) in trade payables and other liabilities	(226,876)	(292,946)
Increase in provisions	1,455,093	849,483
Net cash generated from/(utilised in) operating activities	<u>7,077,270</u>	<u>7,023,118</u>

(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	35,256,075	38,770,776
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22. Term deposits

Term deposits	<u>22,000,000</u>	<u>15,000,000</u>
	22,000,000	15,000,000

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 5 months.



KU
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17

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

Under this Act, KU Children's Services 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 2017

KU
20
17

	2017	2016
	\$	\$
Raffles	23,942	22,223
Functions	192,029	184,225
Sale of Items	134,940	173,377
Interest	541	420
Donations	39,645	76,702
Gross Proceeds from Fundraising	<u>391,097</u>	<u>456,947</u>
Raffles	(370)	(1,618)
Functions	(129,776)	(122,973)
Sale of Items	(60,642)	(87,798)
Total Cost of Fundraising	<u>(190,788)</u>	<u>(212,389)</u>
Net Proceeds from Fundraising	<u>200,309</u>	<u>244,558</u>

(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 2017

Opening balance	1,213,017	1,204,164
Net proceeds from fundraising	200,309	244,558
Centre Improvement and Equipment	(264,074)	(235,326)
Bank charges	(122)	(379)
Total Reserve	<u>1,149,130</u>	<u>1,213,017</u>

	2017	2016
	\$	\$
(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	134,940	173,377
Total expenditure incurred	60,642	87,798

KU
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17

(e) Forms of Fundraising Appeals Conducted in 2017

For the purposes of reporting under the requirements of the Charitable Fundraising Act 1991, KU Children's Services 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 \$190,788 (2016: \$212,389) divided by Gross Income from Fundraising \$391,097 (2016: \$456,947) equals 49 % (2016: 46 %).

Net Surplus from Fundraising \$200,309 (2016: \$244,558) divided by Gross Income from Fundraising \$391,097 (2016: \$456,947) equals 51 % (2016: 54 %).

24. Additional Company Information

KU Children's Services 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:

	Funding \$ 31-Dec-17	Funding \$ 31-Dec-16
Program		
Macarthur Starting Points – NSW Department of Education	185,711	131,932
Penrith Starting Points – NSW Department of Education	15,742	11,216
Early Learning Inclusion Program – NSW Department of Education	76,269	135,400
Marcia Burgess Autism and Specific Early Learning & Care Centre – NSW Department of Education	82,043	82,642
	30-Jun-17	30-Jun-16
KU Children’s Speech Therapy – NSW Department of Ageing, Disability and Home Care	41,413	40,431
Inner West Play & Chat – NSW Department of Family & Community Services	341,459	357,974
Newcastle Supported Playgroups – NSW Department of Family & Community Services	136,869	135,058
Macarthur Stepping Stones– NSW Department of Ageing, Disability and Home Care	395,936	386,009
KU Starting Points Penrith– NSW Department of Ageing, Disability and Home Care	(188)	174,481
LDC Professional Development Program - NSW Department of Education	1,501,333	-
Marcia Burgess Autism and Specific Early Learning & Care Centre – Australian Government Department of Social Services	845,500	422,750
National Inclusion Support Subsidy- Australian Government Department of Education and Training	2,900,826	2,249,234
Inclusion Support Agency- Australian Government Department of Education and Training	26,657,237	5,331,114
SWS Skills Development - NSW Department of Ageing, Disability and Home Care	617,528	644,787
Supplementary Assistance – Department of the Prime Minister and Cabinet	141,929	132,765
Research Project - Australian Government Department of Social Services	130,434	83,125
Steps to Starting School - The Smith Family	100,980	88,000

KU Children's Services

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