Children's Services
Since 1895

KU Children's Services

ABN 89 000 006 137

Financial Report for the Financial Year Ended 31 December 2018

Annual Financial Report
for the Financial Year Ended 31 December 2018

Contents

Directors' Report

The Directors present their report on KU Children's Services (the company) for the financial year ended 31 December 2018. 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 2018, KU had a net surplus of $2,858,879 (2017: $5,738,080), assets of $77,034,959 (2017: $76,715,138) and net assets of $36,825,480 (2017: $33,966,601).

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.

In the latter part of 2016, KU launched the Strategic Plan 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 2018 are detailed in the 123rd 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 5,349 members (2017: 5,070 members).

Directors' Report (continued)

Directors

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

Director's Name & Qualifications	Special Responsibilities
Laura Hartley BA (Hons), LLB	Chair of the Board, Board Member, Member of Audit and Risk Management Committee, Member of People, Nomination and Remuneration Committee
Sema Musson B.Bus, M.Mngt, GAICD	Deputy Chair of the Board, Board Member, Member of People, Nomination and Remuneration Committee, Chair of KU Marcia Burgess Foundation Committee
Richard Richards BCom/LLB(Hons), LLM, MAPPFIN, FTIA, CA, Admitted Solicitor NSW	Chair of Audit and Risk Management Committee, Board Member, Member of KU Marcia Burgess Foundation Committee (until 22 May 2018)
Dr Christine Woodrow PhD, M.Ed, B.Ed, DipTch (ECE)	Board Member, Chair of Education Committee
Dr Jennifer Skattebol Dip Ed (EC), B.Ed. PhD	Board Member, Member of Education Committee
Gareth Bennett (resigned 22 May 2018) BA (Hons) 1st, GAICD, FCIPD	Board Member, Chair of People, Nomination and Remuneration Committee, Member of Education Committee
Elizabeth Hristoforidis B.Com (Marketing), LLB, Grad Dip Leg Prac, MLM, GAICD	Board Member, Member of People, Nomination and Remuneration Committee, Member of KU Marcia Burgess Foundation Committee
Janet Verden BCom (Marketing), GAICD	Board Member, Member of Education Committee, Member of KU Marcia Burgess Foundation Committee
Peter Roberts B.Fin.Admin, Fellow of Institute of Chartered Accountants (FCA), GAICD, Graduate Diploma - Securities Institute	Board Member, Member of Audit and Risk Management Committee
Tamara Robinson (appointed 22 May 2018) BCom (Marketing and Management)	Board Member

Directors' Report (continued)

Directors' Attendance at Board Meetings (1 January to 31 December 2018)

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		People, Nomination & Remuneration Committee		KU Marcia Burgess Foundation Committee	
Directors	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**
Laura Hartley	12	9	4	4			5	4		
Sema Musson	12	12					5	5	4	4
Richard Richards	12	8	4	4					2	2**
Dr Christine Woodrow	12	11			4	4				
Elizabeth Hristoforidis	12	10					5	5	4	4
Peter Roberts	12	11	4	4						
Tamara Robinson	9	6								
Dr Jennifer Skattebol	12	5			4	4				
Janet Verden	12	11			4	4			4	4
Gareth Bennett**	3	3			2	1	1	1		
David McCracken									4	3*

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.

Please note:

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

** Director resigned from Board and Committees or Committee at AGM

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

Laura Hartley
Chair, Board of Directors
Sydney, 26 March 2019

RJRichards

Richard Richards
Chair, Audit & Risk Management Committee
Sydney, 26 March 2019

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Australia

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

27 March 2019

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 2018, 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 Timperley

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 2018, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and director's declaration.

In our opinion, the accompanying financial report presents fairly, in all material respects, the Entity's financial position as at 31 December 2018 and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards – Reduced Disclosure Requirements and Division 60 of the Australian Charities and Not-for-profits Commissions Act 2012 and the 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 Director's Report and the Director's Declaration for the year ended 31 December 2018, 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 of the Entity are responsible for the preparation 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 such internal control as management determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

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

The Board of Directors are responsible for overseeing the Entity's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Report

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with 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 2019

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

Laura Hartley
Chair, Board of Directors
Sydney, 26 March 2019

R Richards

Richard Richards
Chair, Audit & Risk Management Committee
Sydney, 26 March 2019

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

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Laura Hartley
Chair, Board of Directors
Sydney, 26 March 2019

R Richards

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Richard Richards
Chair, Audit & Risk Management Committee
Sydney, 26 March 2019

Statement of Profit or Loss and Other Comprehensive Income for the Financial Year Ended 31 December 2018

	Note	2018 $	2017 $
Continuing operations			
Revenue from fees	5 (i)	70,265,450	71,416,085
Revenue from non-capital government funding	5 (ii)	59,516,018	59,918,613
Other revenue	5 (iii)	6,106,500	6,461,617
		135,887,968	137,796,315
Employee costs		104,823,962	101,038,160
Operational expenses		11,580,401	14,229,106
Occupancy expenses		6,529,944	5,653,740
Depreciation & amortisation	5 (v)	1,812,926	1,778,827
Administrative expenses		5,210,013	5,372,331
Repairs & maintenance		2,059,261	1,879,398
Marketing expenses		615,700	528,338
Finance costs	5 (v)	23,110	24,540
Other expenses		1,319,680	1,561,773
		133,974,997	132,066,213
Surplus from ordinary operations		**1,912,971**	**5,730,102**
Other Income			
Government capital grant funding	5 (iv)	945,908	7,978
Surplus for the year	21	**2,858,879**	**5,738,080**
Total comprehensive income for the year		**2,858,879**	**5,738,080**

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 2018

	Note	2018 $	2017 $
Assets			
Current assets			
Cash and cash equivalents	21 (b)	54,665,881	35,256,075
Term deposits	22	-	22,000,000
Trade and other receivables	6	619,449	1,584,043
Other assets	7	993,258	1,274,346
Total current assets		56,278,588	60,114,464
Non-current assets			
Property, plant and equipment	8	19,792,523	15,578,270
Intangible assets	9	963,848	1,022,404
Total non-current assets		20,756,371	16,600,674
Total assets		77,034,959	76,715,138
Liabilities			
Current liabilities			
Trade and other payables	10	10,550,606	12,969,292
Finance leases	11	481,928	379,452
Unearned income	12	10,061,880	12,130,477
Provisions	13	16,724,942	14,881,044
Total current liabilities		37,819,356	40,360,265
Total non-current liabilities			
Non-current provisions	13	2,390,123	2,388,272
Total non-current liabilities		2,390,123	2,388,272
Total liabilities		40,209,479	42,748,537
Net Assets		**36,825,480**	**33,966,601**
Equity			
Retained Earnings			
General funds	14	35,697,199	32,817,471
Fundraising reserve	15	1,128,281	1,149,130
Program reserve	16	-	-
Total Retained Earnings		**36,825,480**	**33,966,601**

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 2018

	General Funds	Fundraising Reserve	Program Reserve	Total
	$	**$**	**$**	**$**
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**	**0**	**33,966,601**
Balance at 1 January 2018	32,817,471	1,149,130	-	33,966,601
Surplus for the year	2,858,879	-	-	2,858,879
Transfer (from)/to retained earnings	20,849	(20,849)	-	-
Balance at 31 December 2018	**35,697,199**	**1,128,281**	**-**	**36,825,480**

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 2018

	Note	2018 $	2017 $
Cash flows from operating activities			
Receipts from customers, government bodies and centres		112,962,567	116,156,239
Receipts from government brokered programs		27,031,567	22,723,604
Payments to suppliers and employees		(113,077,917)	(110,916,367)
Allocations to recipients of brokered programs		(25,622,183)	(20,886,206)
Net cash generated by operating activities	21(a)	1,294,034	7,077,270
Cash flows from investing activities			
Payment for property, plant and equipment		(5,436,733)	(4,289,836)
Receipts from government capital grants		962,215	62,957
Interest received		856,886	961,081
Finance cost		(23,110)	(24,540)
Receipts/(payments) for investments (term deposits)		22,000,000	(7,000,000)
Net cash generated/(utilised in) by investing activities		18,359,258	(10,290,338)
Cash flows from financing activities			
Payment for finance leases		(243,486)	(301,633)
Net cash utilised by financing activities		(243,486)	(301,633)
Net increase/(decrease) increase in cash and cash equivalents		19,409,806	(3,514,701)
Cash and cash equivalents at the beginning of the financial year		35,256,075	38,770,776
Cash and cash equivalents at the end of the financial year	21(b)	**54,665,881**	**35,256,075**

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 2018

1. Corporate Information

The financial statements of KU Children's Services (the Company) for the year ended 31 December 2018 were authorised for issue in accordance with a resolution of the Directors on 26 March 2019.

The Company is incorporated as a company limited by guarantee. The financial statements are presented in Australian dollars, which is KU Children's Services' functional and presentation currency.

2.1 New or Amended Accounting Standards and Interpretations adopted

The Company has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted. The following Accounting Standards and Interpretations are most relevant to the Company:

The Company has adopted AASB 9 from 1 January 2018. The Standard introduced new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows which arise on specified dates and that are solely principal and interest. A debt investment shall be measured at fair value through other comprehensive income if it is held within a business model whose objective is to both hold assets in order to collect contractual cash flows which arise on specified dates that are solely principal and interest as well as selling the asset on the basis of its fair value. All other financial assets are classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading or contingent consideration recognised in a business combination) in other comprehensive income ('OCI'). Despite these requirements, a financial asset may be irrevocably designated as measured at fair value through profit or loss to reduce the effect of, or eliminate, an accounting mismatch. For financial liabilities designated at fair value through profit or loss, the Standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements use an 'expected credit loss' ('ECL') model to recognise an allowance.

Impairment is measured using a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted.

For trade receivables, a simplified approach to measuring expected credit losses using a lifetime expected loss allowance is available. The expected credit losses is calculated based on a provision matrix which takes into consideration historical data and any forelooking events. The adoption of AASB 9 has not had a material impact on the Company's results. The adoption of AASB 9 did not result in any change to the opening net assets or the opening retained profits as at 1 January 2018.

2.2 New and Revised Australian Accounting Standards and Interpretations on issue but not yet effective

At the date of authorisation of the financial statements, the Company has not applied the following new and revised Australian Accounting Standards, Interpretations and amendments that have been issued but are not yet effective:

a) AASB 16 Leases is effective for reporting periods beginning 1 January 2019. This Standard is expected to be initially adopted for the financial period ending 31 December 2019.

b) AASB 1058 Income for Not-For-Profit Entities is effective for annual periods beginning on or after 1 January 2019. This Standard is 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 they become effective.

2.2 New and revised Australian Accounting Standards and Interpretations on issue but not yet effective (continued)

The timing of income recognition depends on whether such a transaction gives rise to a liability or other performance obligations (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:

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

2.2 New and revised Australian Accounting Standards and Interpretations on issue but not yet effective (continued)

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.

c) AASB 15 Revenue from Contracts with Customers is effective for annual periods beginning on or after 1 January 2019. This Standard is 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.

Notes to the Financial Statements
for the Financial Year Ended 31 December 2018

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 useful life of an asset is determined by Management in line with guidelines as specified in AASB 16 Property, Plant and Equipment. The below estimates of useful life per class of asset are provided as a guide only. The actual estimation and application of the useful life and salvage value of the asset is a reasonable judgement made by Management based on the experience of the entity with similar assets.

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

- Buildings owned: 33-50 years
- Buildings fixtures and fittings: 5-14 years
- Leasehold improvements: lease term or 10 years
- Furniture and fittings: 5-10 years
- Computers and hardware: 3-5 years
- Motor vehicles: 8-10 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. 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 3-8 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 Instruments**

Financial assets and financial liabilities are recognised in the Company's Statement of Financial Position when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

<u>Financial assets - Initial recognition and measurement</u>

At initial recognition, financial assets are classified and measured at fair value. Financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

The classification of the financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics.

Financial assets subsequently measured at amortised cost

Debt instruments are measured subsequently at amortised cost when the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and the contractual terms give rise to on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI)

Financial assets designated at fair value through other comprehensive income (FVTOCI)

Debt instruments are subsequently measured at fair value through profit or loss if the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL)

Despite the foregoing, the Company may make the following irrevocable election / designation at initial recognition of a financial asset:

- The Company may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met; and
- The Company may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch

Notes to the Financial Statements
for the Financial Year Ended 31 December 2018

3. Summary of Accounting Policies (continued)

e) **Financial Instruments (continued)**

Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. Interest income is recognised in profit or loss and is included in the "finance income - interest income" line item.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Trade and other receivables

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days.

Derecognition of Financial Assets

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

Impairment of trade and other receivables

The Company has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

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.

3. Summary of Accounting Policies (continued)

g) Leased assets (continued)

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 control is transferred in accordance with AASB 1004 Contributions. Other service revenues from government agencies are recognised upon delivery of services in accordance with AASB 118 Revenue.

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 transferred.

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.

Interest Revenue

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.

3. Summary of Accounting Policies (continued)

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) **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.

l) **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.

m) **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.

n) **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.

o) **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.

3. Summary of Accounting Policies (continued)

p) 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.

q) Comparatives

Comparatives have been realigned where necessary, to agree with current year presentation. There was no change in the profit or net assets.

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:

<u>4.1 Employee entitlements</u>

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.

<u>4.2 Leasehold improvements</u>

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.

<u>4.3 Impairment</u>

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.

<u>4.4 Impairment of trade and other receivables</u>

The Company has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

<u>4.5 Make good provision</u>

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.

Notes to the Financial Statements
for the Financial Year Ended 31 December 2018

5 (Deficit)/Surplus for the year

	2018 $	2017 $
(i) Revenue from fees		
Parent's fees	70,265,450	71,416,085
(ii) Revenue from non-capital government funding		
Government funding	59,516,018	59,918,613
(iii) Other revenue		
Other revenue from ordinary operations consisted of the following items:		
Management fees	1,378,705	1,439,050
Gross fundraising income	318,287	391,097
Interest income	856,886	961,081
Consultancy fees	83,775	305,412
Sales of publications and courses	247,531	645,136
Sponsor support	2,569,400	2,126,631
Other sundry revenue	651,916	593,210
	6,106,500	6,461,617
(iv) Other income		
Government capital grant funding	945,908	7,978
(v) Surplus		
Surplus has been arrived at after (charging)/crediting the following items:		
Depreciation and amortisation of property, plant and equipment and intangibles	(1,812,926)	(1,778,827)
Operating lease rental expenses:		
Minimum lease payments	(3,354,268)	(2,608,235)
Net bad and doubtful debts	(7,873)	10,968
Finance costs	(23,110)	(24,540)

	2018	2017
	$	$
6. Trade and Other Receivables		
Trade receivables		
Trade receivables	598,725	803,748
Allowance for expected credit losses	(87,957)	(91,456)
Accrued income	3,876	649,577
	514,644	1,361,869
Other receivables		
Other receivables	104,805	222,174
	619,449	1,584,043

Reconciliation of allowance for expected credit losses

Balance 1 January 2018	91,456	171,554
Increase to allowance for expected credit losses	19,707	47,724
Impairment recovery	(23,206)	(127,822)
Balance 31 December 2018	87,957	91,456

No interest is charged on the trade receivables. The expected credit losses for other receivables is NIL as it relates mainly to interest receivable from banking institutions with low default rates.

7. Other Assets

Prepayments	957,381	1,252,821
Finance lease asset	35,877	21,525
	993,258	1,274,346

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 2017	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	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
Additions	1,985,065	2,237,339	799,648	-	213,014	114,108	5,349,174
Assets under construction (WIP)	102,260	322,751	40,686	-	-	-	465,697
Reclassification	(261,945)	261,945	-	-	-	-	-
Disposals	-	-	-	-	(12,735)	-	(12,735)
Balance at 31 December 2018	**11,010,758**	**19,507,589**	**3,336,794**	**179,247**	**1,740,658**	**551,464**	**36,326,510**
Accumulated Depreciation							
Balance at 1 January 2017	(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	(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)
Disposals	-	-	-	-	-	-	-
Reclassification	1,088	(1,088)	-	-	-	-	-
Depreciation expense	(198,736)	(898,411)	(379,770)	(8,219)	(43,145)	(59,602)	(1,587,883)
Balance at 31 December 2018	**(2,400,925)**	**(10,520,983)**	**(1,699,111)**	**(124,556)**	**(1,460,617)**	**(327,795)**	**(16,533,987)**
Net Book Value							
As at 31 December 2017	6,982,101	7,064,070	1,177,119	62,910	122,907	169,163	15,578,270
As at 31 December 2018	**8,609,833**	**8,986,606**	**1,637,683**	**54,691**	**280,041**	**223,669**	**19,792,523**

Notes to the Financial Statements
for the Financial Year Ended 31 December 2018

8. Property, Plant and Equipment (continued)

	2018 $	2017 $
Depreciation:		
Land and buildings	198,736	201,094
Leasehold Improvements	898,411	922,055
Furniture and office equipment	379,770	34,045
Motor vehicles	8,219	10,490
Make Good Asset	43,145	72,722
Finance Lease Asset	59,602	294,216
	1,587,883	1,534,622

9. Intangible Assets

	Software $	Total $
Gross Carrying Amount		
Balance at 1 January 2017	1,992,439	1,992,439
Additions	300,591	300,591
Assets under construction (WIP)	73,220	73,220
Balance at 31 December 2017	2,366,250	2,366,250
Additions	87,063	87,063
Assets under construction (WIP)	79,424	79,424
Balance at 31 December 2018	**2,532,737**	**2,532,737**
Accumulated Depreciation		
Balance at 1 January 2017	(1,099,641)	(1,099,641)
Amortisation expense	(244,205)	(244,205)
Balance at 31 December 2017	(1,343,846)	(1,343,846)
Amortisation expense	(225,043)	(225,043)
Balance at 31 December 2018	**(1,568,889)**	**(1,568,889)**
Net Book Value		
As at 31 December 2017	1,022,404	1,022,404
As at 31 December 2018	**963,848**	**963,848**

10. Trade and Other Payables

	2018 $	2017 $
Salary and superannuation accruals	1,748,500	1,429,651
Prepaid centre fees and holding deposits	3,544,748	3,775,585
GST Payable	208,501	95,850
Other payables and accruals	539,513	1,198,781
Trade payables	1,227,474	2,682,174
WBS & Brokered program surpluses	3,281,870	3,787,251
	10,550,606	12,969,292

Notes to the Financial Statements
for the Financial Year Ended 31 December 2018

	2018	2017
	$	$
11. Finance Leases		
Finance Lease Liability	481,928	379,452
Minimum Lease Payments		
Less than 1 year	162,034	196,255
Between 1 and 5 years	319,894	183,197
	481,928	379,452

In 2018 total lease payments of $243,486 (2017: $301,633) were made.

	2018	2017
12. Unearned Income		
Prepaid government funding	9,441,314	11,134,398
Prepaid special education income	620,566	996,079
	10,061,880	12,130,477

13. Provisions

	2018	2017
Current		
Employee Benefits:		
Provision for annual leave and rostered days off	8,956,685	8,060,950
Provision for long service leave	6,305,743	5,679,790
	15,262,428	13,740,739
Provision for Make Good Liability:		
Make good liability	1,462,514	1,140,304
	16,724,942	14,881,044
Non-current		
Employee Benefits:		
Provision for long service leave	2,111,979	1,988,197
Provision for Make Good Liability:		
Make good liability	278,144	400,075
	2,390,123	2,388,272

14. General Funds

	2018	2017
Balance at beginning of financial year	32,817,471	25,898,504
Net (deficit)/surplus	2,858,879	5,738,080
Net transfers from General Funds (Note 15 & 16)	20,849	1,180,887
Balance at end of financial year	35,697,199	32,817,471

Notes to the Financial Statements
for the Financial Year Ended 31 December 2018

15. Fundraising Reserve	**2018**	**2017**
	$	**$**
Balance at beginning of financial year	1,149,130	1,213,017
Transfer (from)/to general funds	(20,849)	(63,887)
Balance at end of financial year	1,128,281	1,149,130

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
Transfer from general funds	-	(1,117,000)
Balance at end of financial year	-	-

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	**2018**	**2017**
	$	**$**
Not longer than 1 year	668,830	1,135,814
Longer than 1 year and not longer than 5 years	585,598	321,119
Longer than 5 years	141,940	56,009
	1,396,368	1,512,942

Notes to the Financial Statements
for the Financial Year Ended 31 December 2018

18. Contingent Liabilities	2018 $	2017 $
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	2,929	2,929
Bank Guarantee 8 September 2016 to R N & K M REIMIERS	9,349	9,349
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
Bank Guarantee 16 May 2018 to Centennial Park and Moore Park Trust	42,063	-
Bank Guarantee 16 May 2018 to Hornsby Shire Council	20,196	-
Bank Guarantee 28 May 2018 to Hornsby Shire Council	12,733	-
Bank Guarantee 28 May 2018 to Hornsby Shire Council	21,791	-
	159,253	62,470

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 (2017: 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	1,813,163	1,765,169

KU Executive salaries are independently benchmarked on an annual basis by a specialist remuneration consultancy firm, against open market and not for profit sector trends.

Notes to the Financial Statements
for the Financial Year Ended 31 December 2018

	2018	2017
	$	$

21. Notes to the Statement of Cash Flows

(a) Reconciliation of (Deficit)/Surplus for the period to Net Cash Flows From Operating Activities

	2018 $	2017 $
Surplus for the period	2,858,879	5,738,080
Depreciation and Amortisation of non-current assets	1,812,926	1,778,827
Interest received	(856,886)	(961,081)
Finance costs	23,110	24,540
Government capital funding	(962,215)	(62,957)
Finance Lease adjustments	14,352	(6,588)
Make good adjustments	(200,279)	(17,320)
Movements in working capital:		
Decrease/(Increase) in trade receivables and other assets	1,245,682	(644,448)
(Decrease) in trade payables and other liabilities	(4,487,284)	(226,876)
Increase in provisions	1,845,749	1,455,093
Net cash generated from operating activities	1,294,034	7,077,270

(b) Reconciliation of Cash and Cash Equivalents

For the purposes of the Statement of Cash Flows, 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:

	2018 $	2017 $
Cash and cash equivalents	54,665,881	35,256,075
	54,665,881	35,256,075

The cash balance includes maturing term deposits with a term of 3 months or less. In the prior year term deposits with a term of more than 3 months were disclosed in Note 22.

22. Term deposits

	2018 $	2017 $
Term deposits	-	22,000,000
	-	22,000,000

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. Term Deposits for 2018 are shown as NIL due to them all having a maturity period of less than 3 months from date of purchase until the 31st December 2018.

Notes to the Financial Statements
for the Financial Year Ended 31 December 2018

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 2018

	2018 $	2017 $
Raffles	19,636	23,942
Functions	155,533	192,029
Sale of Items	95,831	134,940
Interest	188	541
Donations	47,099	39,645
Gross Proceeds from Fundraising	318,287	391,097
Raffles	(122)	(370)
Functions	(115,138)	(129,776)
Sale of Items	(42,848)	(60,642)
Total Cost of Fundraising	(158,108)	(190,788)
Net Proceeds from Fundraising	160,179	200,309

(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 2018

Opening balance	1,149,130	1,213,017
Net proceeds from fundraising	160,179	200,309
Centre Improvement and Equipment	(180,118)	(264,074)
Bank charges	(910)	(122)
Total Reserve	1,128,281	1,149,130

Notes to the Financial Statements
for the Financial Year Ended 31 December 2018

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

(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.

	2018 $	2017 $
Gross income received from sale of items	95,831	134,940
Total expenditure incurred	42,848	60,642

(e) Forms of Fundraising Appeals Conducted in 2018

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 $158,108 (2017: $190,788) divided by Gross Income from Fundraising $318,287 (2017: $391,097) equals 50% (2017: 49%).

Net Surplus from Fundraising $160,179 (2017: $200,309) divided by Gross Income from Fundraising $318,287 (2017: $391,097) equals 50% (2017: 51%).

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

Notes to the Financial Statements for the Financial Year Ended 31 December 2018

25. Government Grant Funding

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

Program	Funding $ 31-Dec-18	Funding $ 31-Dec-17
Macarthur Starting Points – NSW Department of Education	92,643	185,711
Penrith Starting Points – NSW Department of Education	7,871	15,742
Early Learning Inclusion Program – NSW Department of Education	38,135	76,269
Marcia Burgess Autism and Specific Early Learning & Care Centre – NSW Department of Education	41,022	82,043
	30-Jun-18	**30-Jun-17**
KU Children's Speech Therapy – NSW Department of Ageing, Disability and Home Care	42,403	41,413
Inner West Play & Chat – NSW Department of Family & Community Services	355,540	341,459
Newcastle Supported Playgroups – NSW Department of Family & Community Services	140,284	136,869
Macarthur Stepping Stones – NSW Department of Ageing, Disability and Home Care	405,398	395,936
KU Starting Points Penrith – NSW Department of Ageing, Disability and Home Care	-	(188)
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	845,500
Inclusion Development Fund Manager – Australian Government Department of Education and Training	3,193,637	2,900,826
Inclusion Agency- Australian Government Department of Education and Training	24,562,666	26,657,237
SWS Skills Development – NSW Department of Ageing, Disability and Home Care	(165,824)	617,528
Supplementary Assistance – Department of the Prime Minister and Cabinet	132,765	141,929
Research Project – Australian Government Department of Social Services	98,802	130,434
Steps to Starting School – The Smith Family	118,550	100,980