KU Children's Services

ABN 89 000 006 137

Financial Report for the
Financial Year Ended 31 December 2019

Annual Financial Report
for the Financial Year Ended 31 December 2019

Contents

Directors' Report

The Directors present their report on KU Children's Services (the company) for the financial year ended 31 December 2019. 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 2019, KU had a net surplus of $931,615 (2018: $2,858,879), total assets of $92,946,770 (2018: $77,034,959) and net assets of $37,624,763 (2018: $36,825,480). The 2019 net surplus includes significant expenditure of $3.390m on strategic and social initiatives. In addition there was a $304k adjustment for the adoption of AASB 16 *Leases*.

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 and care, inclusion and social responsibility.

In the latter part of 2016, KU launched the Strategic Plan 2017-2019; 'Creating, Thinking and Doing for today and tomorrow'. This Strategic Plan outlined five goals that together ensure KU is a consistently strong, agile and innovative leader in the early childhood sector.

This report is based on the Strategic Plan 2017-2019 and highlights of the year ended 31 December 2019 are detailed in the latest Annual Report. The KU Strategic Plan 2020-2022 was completed later in 2019 for commencement in 2020.

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 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 5,172 members (2018: 5,349 members).

Directors' Report (continued)

Subsequent events

On 30 January 2020, the World Health Organization Director-General declared the outbreak of novel coronavirus (2019-nCoV) a Public Health Emergency of International Concern. On 11 March 2020, the World Health Organisation declared COVID-19 to be a Pandemic. The outbreak of COVID-19 and the subsequent quarantine measures imposed by the Australian Government have caused unprecedented disruption to businesses and economic activity. The entity considers this to be a non-adjusting post balance sheet event and accordingly the financial effects of COVID-19 have not been reflected in the entity's financial statements at 31 December 2019.

This situation has had a negative impact on the operations of the entity and is likely to continue to do so as quarantine measures continue. While the entity has not closed any of its Centres, it is experiencing a significant decline in attendance.

The outbreak of COVID-19 is also expected to negatively affect some parents' ability or willingness to pay childcare fees which may in turn result in parents withdrawing their children from care.

The NSW Government have committed to continuing to pay the Start Strong funding (a Government program for early childhood education) during this crisis and throughout 2021, based on the August 2019 census enrolment levels. The Federal Government has also provided a 'JobKeeper' support package which will help to support employment cost for 6 months in the event that revenues of the entity decline by 30% or more. Further government funding packages may be released.

While childcare services are currently considered essential services, the situation remains fluid at the date of signing the financial statements and closures of Centres may be required should government policy change. Management and Directors have undertaken scenario cash flow forecasting and believe that, in the event of Centre closures, the entity has sufficient cash reserves and access to government funding to be able to continue to pay its debts as and when they fall due for at least 12 months from the date of signing the financial report and as such have prepared the financial statements on a going concern basis.

As the situation remains fluid (due to continuing changes in government policy and evolving business and customer reactions thereto) as at the date these financial statements are authorised for issue, the Directors of the Company considered that the financial effects of COVID-19 on the entity's financial statements cannot be reasonably estimated. Nevertheless, the economic effects arising from the COVID-19 outbreak are expected to materially affect the results of the entity for the full year of 2020.

No other matter or circumstance has occurred subsequent to year end that has significantly affected, or may significantly affect, the operations of the Company, the results of those operations or the state of affairs of the entity in subsequent financial years.

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 & Risk Management Committee, Member of People & Remuneration Committee
Sema Musson B.Bus, M.Mngt, GAICD	Deputy Chair of the Board, Board Member, Chair of People & Remuneration Committee, Chair of KU Marcia Burgess Foundation Committee (until 21 May 2019)
Professor Linda Joan Harrison (appointed 21 May 2019) BSc (Hons), MSc, DipT (EC), MEd, PhD (Developmental Psychology)	Board Member, Member of Education Committee, Member of KU Marcia Burgess Foundation Committee
Elizabeth Hristoforidis B.Com (Marketing), LLB, Grad Dip Leg Prac, MLM, GAICD	Board Member, Chair of KU Marcia Burgess Foundation Committee, Member of People & Remuneration Committee, Member of Audit & Risk Management Committee
Richard Richards (an extended leave of absence was approved from 1 June 2019) BCom/LLB(Hons), LLM, MAPPFIN, FTIA, CA, Admitted Solicitor NSW	Board Member, Member of Audit & Risk Management Committee, Member of KU Marcia Burgess Foundation Committee (until 21 May 2019)
Peter Roberts B.Fin.Admin, Fellow of Institute of Chartered Accountants (FCA), GAICD, Graduate Diploma - Securities Institute	Board Member, Chair of Audit & Risk Management Committee
Tamara Robinson BCom (Marketing and Management)	Board Member, Member of KU Marcia Burgess Foundation Committee
Dr Jennifer Skattebol Dip Ed (EC), B.Ed. PhD	Board Member, Chair of Education Committee
Janet Verden BCom (Marketing), GAICD	Board Member, Member of Education Committee, Member of KU Marcia Burgess Foundation Committee
Dr Christine Woodrow (retired 21 May 2019) PhD, M.Ed, B.Ed, DipTch (ECE)	Board Member, Chair of Education Committee (until 21 May 2019)

Directors' Report (continued)

Directors' Attendance at Board Meetings (1 January to 31 December 2019)

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

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:

* Extended leave of absence approved by the Board

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

*** 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, 1 April 2020

Peter Roberts
Chair, Audit & Risk Management Committee
Sydney, 1 April 2020

Deloitte Touche Tohmatsu
ABN 74 490 121 060
Grosvenor Place
225 George Street
Sydney, NSW, 2000
Australia

Phone: +61 2 9322 7000
www.deloitte.com.au

2 April 2020

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

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 2019, 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

Deloitte Touche Tohmatsu
ABN 74 490 121 060
Grosvenor Place
225 George Street
Sydney, NSW, 2000
Australia

Phone: +61 2 9322 7000
www.deloitte.com.au

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 2019, 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 2019 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 2019 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, 2nd April 2020

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, 1 April 2020

Peter Roberts

Peter Roberts
Chair, Audit & Risk Management Committee
Sydney, 1 April 2020

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, 1 April 2020

Peter Roberts
Chair, Audit & Risk Management Committee
Sydney, 1 April 2020

Statement of Profit or Loss and Other Comprehensive Income for the Financial Year Ended 31 December 2019

	Note	2019 $	2018 $
Continuing operations			
Revenue from fees	5 (i)	73,110,255	70,265,450
Revenue from non-capital government funding	5 (ii)	61,726,995	59,516,018
Other revenue	5 (iii)	7,951,503	6,106,500
		142,788,753	135,887,968
Employee costs		109,064,327	104,823,962
Operational expenses		13,466,670	11,580,401
Occupancy expenses		5,860,354	6,529,944
Depreciation & amortisation	5 (v)	4,260,824	1,812,926
Administrative expenses		5,311,033	5,210,013
Repairs & maintenance		1,772,001	2,059,261
Marketing expenses		633,485	615,700
Finance costs	5 (v)	480,477	23,110
Other expenses		1,443,643	1,319,680
		142,292,814	133,974,997
Surplus from ordinary operations		**495,939**	**1,912,971**
Other Income			
Government capital grant funding	5 (iv)	435,676	945,908
Surplus for the year	21	**931,615**	**2,858,879**
Total comprehensive income for the year		**931,615**	**2,858,879**

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 2019

	Note	2019 $	2018 $
Assets			
Current assets			
Cash and cash equivalents	21 (b)	51,218,845	54,665,881
Trade and other receivables	6	729,866	619,449
Other assets	7	1,932,051	993,258
Total current assets		53,880,762	56,278,588
Non-current assets			
Right-of-use assets	16	8,545,100	-
Property, plant and equipment	8	29,155,278	19,792,523
Intangible assets	9	1,365,630	963,848
Total non-current assets		39,066,008	20,756,371
Total assets		92,946,770	77,034,959
Liabilities			
Current liabilities			
Trade and other payables	10	16,627,684	10,550,606
Finance lease liabilities	11 (a)	-	481,928
Lease liabilities	11 (b)	2,704,628	-
Unearned income	12	8,908,875	10,061,880
Provisions	13	16,701,688	16,724,942
Total current liabilities		44,942,875	37,819,356
Total non-current liabilities			
Non-current provisions	13	3,490,164	2,390,123
Lease liabilities	11 (c)	6,888,968	-
Total non-current liabilities		10,379,132	2,390,123
Total liabilities		55,322,007	40,209,479
Net Assets		**37,624,763**	**36,825,480**
Equity			
Retained Earnings			
General funds	14	36,527,597	35,697,199
Fundraising reserve	15	1,097,166	1,128,281
Total Retained Earnings		**37,624,763**	**36,825,480**

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 2019

	General Funds	Fundraising Reserve	Program Reserve	Total
	$	$	$	$
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) general funds	20,849	(20,849)	-	-
Balance at 31 December 2018	**35,697,199**	**1,128,281**	-	**36,825,480**
Balance at 1 January 2019	35,697,199	1,128,281	-	36,825,480
Effect of change on accounting policy for leases	(132,332)	-	-	(132,332)
Balance at 1 January - As restated	35,564,867	1,128,281	-	36,693,148
Surplus for the year	931,615	-	-	931,615
Transfer from/(to) general funds	31,115	(31,115)	-	-
Balance at 31 December 2019	**36,527,597**	**1,097,166**	-	**37,624,763**

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 2019

	Note	2019 $	2018 $
Cash flows from operating activities			
Receipts from customers, government bodies and centres		122,325,318	112,962,567
Receipts from government brokered programs		24,672,382	27,031,567
Payments to suppliers and employees		(111,286,408)	(113,077,917)
Allocations to recipients of brokered programs		(26,331,940)	(25,622,183)
Net cash generated by operating activities	21(a)	9,379,352	1,294,034
Cash flows from investing activities			
Payment for property, plant and equipment		(11,490,059)	(5,436,733)
Receipts from government capital grants		472,549	962,215
Interest received		736,788	856,886
Finance cost		-	(23,110)
Receipts for investments (term deposits)		-	22,000,000
Net cash (utilised in)/generated by investing activities		(10,280,722)	18,359,258
Cash flows from financing activities			
Repayment of lease liabilities		(2,545,666)	(243,486)
Net cash utilised by financing activities		(2,545,666)	(243,486)
Net (decrease)/increase in cash and cash equivalents		(3,447,036)	19,409,806
Cash and cash equivalents at the beginning of the financial year		54,665,881	35,256,075
Cash and cash equivalents at the end of the financial year	21(b)	**51,218,845**	**54,665,881**

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 2019

1. Corporate Information

The financial statements of KU Children's Services (the Company) for the year ended 31 December 2019 were authorised for issue in accordance with a resolution of the Directors on 31 March 2020.

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. Application of new and revised Australian Accounting Standards

2.1 Amendments to Accounting Standards that are mandatorily effective for the current reporting period

The Company has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant to its operations and effective for an accounting period that begins on or after 1 January 2019.

New and revised Standards and amendments thereof and Interpretations effective for the current year that are relevant to the Company include:

- AASB 16 *Leases*
- AASB 15 *Revenue from Contracts with Customers* (AASB 15)
- AASB 1058 *Income of Not-for-Profit Entities* (AASB 1058)
- AASB 2016-8 *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities* (AASB 2016-8)
- *AASB 2018-8 Amendments to Australian Accounting Standards – Right-of-Use Assets of Not-for-Profit Entities* (AASB 2018-8)

Impact of initial application of AASB 16 *Leases*

In the current year, the Company has applied AASB 16 that is effective for annual periods that begin on or after 1 January 2019.

AASB 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new requirements are described in Note 3.

The date of initial application of AASB 16 for the Company is 1 January 2019.

The Company has applied AASB 16 using the cumulative catch up approach, with no restatement of the comparative information the difference between Right-of-Use Assets and Lease Liability at date of initial adoption on 1 January 2019 was to opening retained earnings.

(a) Impact of the new definition of a lease

The Company has made use of the practical expedient available on transition to AASB 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with AASB 17 will continue to be applied to those contracts entered or modified before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. AASB 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in AASB 17.

The Company applies the definition of a lease and related guidance set out in AASB 16 to all contracts entered into or changed on or after 1 January 2019. Management has assessed that the new definition in AASB 16 will not significantly change the scope of contracts that meet the definition of a lease for the Company.

Notes to the Financial Statements
for the Financial Year Ended 31 December 2019

2.1 Amendments to Accounting Standards that are mandatorily effective for the current reporting period (Continued)

(a) Impact on Lessee Accounting

i. Former operating leases: AASB 16 changes how the Company accounts for leases previously classified as operating leases under AASB 17, which were off balance sheet.

Applying AASB 16, for all leases (except as noted below), the Company:

- Recognises right-of-use assets and lease liabilities in the Statement of Financial Position, initially measured at the present value of the future lease payments;
- Recognises depreciation of right-of-use assets and interest on lease liabilities in the Statement of Profit or Loss;
- Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within financing activities) in the Consolidated Statement of Cash Flows.

Lease incentives (e.g. rent-free period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under AASB 17 they resulted in the recognition of a lease incentive, amortised as a reduction of rental expenses generally on a straight-line basis.

Under AASB 16, right-of-use assets are tested for impairment in accordance with AASB 36.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as tablet and personal computers, small items of office furniture and telephones), the Company has opted to recognise a lease expense on a straight-line basis as permitted by AASB 16. This expense is presented within 'other expenses' in profit or loss.

ii. Former finance leases

The main differences between AASB 16 and AASB 17, with respect to contracts formerly classified as finance leases, is the measurement of the residual value guarantees provided by the lessee to the lessor. AASB 16 requires that the Company recognises as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by AASB 17. This change did not have a material effect on the Company's financial statements.

In accordance with the transitional provisions, comparative figures have not been restated. The adjustments are recognised in the opening balance sheet on 1 January 2019 as follows:

	Retained earnings
	$
Closing balance as reported in the 31 December 2018 Financial Report	35,697,199
Decrease due to initial adoption of AASB 16	(132,332)
Opening balance at 1 January 2019	**35,564,867**

Impact of initial adoption of AASB 1058 *Income of Not-for-Profit Entities* and AASB 15 *Revenue from Contracts with Customers*

In the current year, the Company has applied AASB 1058 *Income of Not-for-Profit Entities* and AASB 15 *Revenue from Contracts with Customers* which is effective for an annual period that begins on or after 1 January 2019.

The Company has applied AASB 1058 and AASB 15 in accordance with the modified retrospective (cumulative catch-up) method where the comparative years are not restated. Instead, the Company has recognised the cumulative effect of initially applying AASB 1058 and AASB 15 for the first time for the year ending 31 December 2019 against retained earnings as at 1 January 2019. The Company has also elected to apply AASB 1058 and AASB 15 retrospectively only to contracts and transactions that are not 'completed contracts' as at 1 January 2019.

2.1 Amendments to Accounting Standards that are mandatorily effective for the current reporting period (Continued)

Overview of AASB 1058 and AASB 15 requirements

AASB 1058 clarifies and simplifies the income recognition requirements that apply to Not-for-Profit entities, in conjunction with AASB 15. The new income recognition requirements shift the focus from a reciprocal/non-reciprocal basis to a basis of assessment that considers the enforceability of a contract and the specificity of performance obligations.

The core principle of the new income recognition requirements in AASB 1058 is that when a Not-for-Profit Company enters into transactions where the consideration to acquire an asset is significantly less than the fair value of the asset principally to enable the Company to further its objectives, the excess of the asset recognised (at fair value) over any 'related amounts' is recognised as income immediately.

An example of a 'related amount' is AASB 15 and in cases where there is an 'enforceable' contract with a customer with 'sufficiently specific' performance obligations, income is recognised when (or as) the performance obligations are satisfied under AASB 15, as opposed to any excess above the related amounts that would be immediate income recognition under AASB 1058.

Under AASB 15, a Company 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. AASB 15 introduces a 5-step approach to revenue recognition, which is more prescriptive than AASB 118.

General impact of application

The Company has applied the new income requirements to its main revenue/income streams, as listed below:

- Government grants
- Donations
- Capital grants
- Parent fees

Government grants

AASB 1058 requires that in cases where there is an 'enforceable' contract with a customer with 'sufficiently specific' performance obligations, the transaction should be accounted for under AASB 15 where income is recognised when (or as) the performance obligations are satisfied, as opposed to immediate income recognition under AASB 1058.

The Company has conducted an analysis of the government grant contracts and analysed the terms of each contract to determine whether the arrangement meets the enforceability and the 'sufficiently specific' criteria under AASB 15. For those grant contracts that are not enforceable, the performance obligations are not sufficiently specific, this will result in immediate income recognition under AASB 1058. Income will be deferred under AASB 15 otherwise and recognised when (or as) the performance obligations are satisfied.

The Company has determined that there is no material impact of transitioning to AASB 1058 and AASB 15. Contracts have been determined to be enforceable and sufficiently specific and as such income has been deferred under AASB 15 and recognised over time as performance obligations are satisfied. Performance obligations are satisfied on a straight-line basis, in line with enrolments or in line with costs incurred (Input Method) depending on the pattern of transfer of benefit in each contract.

Notes to the Financial Statements
for the Financial Year Ended 31 December 2019

2.1 Amendments to Accounting Standards that are mandatorily effective for the current reporting period (Continued)

Donations

Based on an analysis of the Company's underlying arrangements for donations as at 1 January 2019, the Company has assessed that the adoption of the new income requirements do not have a significant impact on the amounts recognised in it's financial statements as the majority of the donations do not meet the enforceability and the 'sufficiently specific' criteria under AASB 15 and would therefore be recognised as income once the Company controlled the relevant asset (assuming no other related amounts are applicable) under AASB 1058, which is in line with the current income recognition under AASB 1004.

Capital grants

In cases where the transaction includes a transfer to enable a Company to acquire or construct a recognisable non-financial asset to be controlled by the Company, AASB 1058 requires the Company to recognise a liability for the excess of the fair value of the transfer over any related amounts recognised and recognises income as it satisfies its obligations under the transfer.

Based on an analysis of the capital grant contracts as at 1 January 2019, the Company has concluded that the capital grants had been recognised as income in the comparative year as the Company had already satisfied its obligations under the transfer. As such the Company has determined that there is no material impact on timing of recognition of capital grants of transitioning to AASB 1058 and AASB 15.

Parent fees

Based on an analysis of the Company's contracts relating to the receipt of parent fees at 1 January 2019, the Company has concluded that parent fees should be recognised as income in line with enrolment attendance at centres throughout the year.

Financial statement impacts

The Company's accounting policies for its revenue streams are disclosed in detail in Note 3 below. Apart from providing more extensive disclosures for the Company's revenue transactions, the application of AASB 15 and AASB 1058 has not had an impact on the financial position and/or financial performance of the Company.

Notes to the Financial Statements
for the Financial Year Ended 31 December 2019

2.1 Amendments to Accounting Standards that are mandatorily effective for the current reporting period (Continued)

AASB 2018-8 *Amendments to Australian Accounting Standards – Right-of-Use Assets of Not-for-Profit Entities*

In the current year, the Company has applied AASB 2018-8 which is effective for an annual period that begins on or after 1 January 2019.

Leases at significantly below-market terms and conditions (concessionary leases)

For Not-for-Profit entities with leases that have significantly below-market terms and conditions principally to enable the Company to further its objectives (commonly known as concessionary leases or peppercorn leases), AASB 1058 and AASB 16 requires Not-for-Profit entities to measure right-of-use assets at initial recognition at fair value (based on AASB 13), the lease liability per AASB 16 and the difference to be accounted as income upfront.

AASB 2018-8 *Amendments to Australian Accounting Standards – Right-of-Use Assets of Not-for-Profit Entities* provides a temporary option for Not-for-Profit lessees to elect to measure a class (or classes) of right-of-use assets arising under 'concessionary leases' at initial recognition, at either fair value or cost.

The Company has conducted an analysis of the lease arrangements and notes that some of its leases are at-market and some are at significantly below-market terms and conditions (concessionary leases).

For the at-market leases, these will be accounted for under AASB 16.

For the concessionary leases, the Company has decided to make use of the temporary option under AASB 2018-8 to measure the right-of-use assets at cost on initial recognition. As the amount of the concessionary lease payments are immaterial, the Company does not expect a significant impact on its financial statements arising from the adoption of the cost option for concessionary leases.

2.2 New and revised Australian Accounting Standards in 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:

Standard/amendment	Effective for annual reporting periods on or after
AASB 2019-4 Amerndments to Australian Accounting Standards - Disclosure in Special Purpose Financial Statements of Not-for-Profit Private Sector Entities on Compliance with Recognition and Measurement Requirements	1 January 2020

The following Standards and Interpretations should be added to the list above if they are deemed to be relevant for the entity:

Standard/amendment	Effective for annual reporting periods on or after
AASB 1059 Service Concession Arrangements: Grantors *AASB 2019-2 Amendments to Australian Accounting Standards - Implementation of AASB 1059*	1 January 2020

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 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).

3. Summary of Accounting Policies (continued)

e) Financial Instruments (continued)

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:

1) 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

2) 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.

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.

<u>De-recognition of financial assets</u>

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.

3. Summary of Accounting Policies (continued)

f) Impairment

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

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

g) Leases

The Company assesses whether a contract is or contains a lease, at inception of the contract. The Company recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable.
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date.

The lease liability is presented as a separate line in the Consolidated Statement of Financial Position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the Consolidated Statement of Financial Position.

The Company applies AASB 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy.

3. Summary of Accounting Policies (continued)

h) Revenue recognition

The Company recognises income from its main revenue/income streams, as listed below:

- Government grants
- Donations
- Capital grants
- Parent fees

Government grants and donations

When the Company receives government grants, donations and bequests that are in the scope of AASB 1058 (being a transaction where the consideration paid to acquire an asset is significantly less than fair value principally to enable the Company to further its objectives), it performs an assessment to determine if the contract is 'enforceable' and contains 'sufficiently specific' performance obligations.

In cases where there is an 'enforceable' contract with a customer with 'sufficiently specific' performance obligations, the transaction is accounted for under AASB 15 where income is recognised when (or as) the performance obligations are satisfied.

In all other cases (where the contract is not 'enforceable' or the performance obligations are not 'sufficiently specific'), the transaction is accounted for under AASB 1058 where the Company:

- Recognises the asset in accordance with the requirements of other relevant applicable Australian Accounting Standards (e.g. AASB 9, AASB 16, AASB 116 and AASB 138)
- Considers whether any other financial statement elements should be recognised ('related amounts') in accordance with the relevant applicable Australian Accounting Standard including:
  - contributions by owners (AASB 1004)
  - a lease liability (AASB 16)
  - a financial instrument (AASB 9)
  - a provision (AASB 137)
- Recognises income immediately in profit or loss for the excess of the initial carrying amount of the asset over any related amounts recognised.

Capital grants

For capital grants received under an enforceable agreement where it includes a transfer to enable the Company to acquire or construct a recognisable non-financial asset to identified specifications which will be controlled by the Company when completed, the Company recognises a liability for the excess of the fair value of the transfer over any related amounts recognised and recognises income as it satisfies its obligations under the transfer.

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.

3. Summary of Accounting Policies (continued)

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.

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:

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 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.

4.5 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.

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

4.6 Revenue recognition

To determine if a grant contract should be accounted for under AASB 1058 or AASB 15, the Company has to determine if the contract is 'enforceable' and contains 'sufficiently specific' performance obligations. When assessing if the performance obligations are 'sufficiently specific', the Company has applied significant judgement in this regard by performing a detailed analysis of the terms and conditions contained in the grant contracts, review of accompanying documentation (e.g. activity work plans) and holding discussions with relevant parties.

Income recognition from grants received by the Company have been appropriately accounted for under AASB 1058 or AASB 15 based on the assessment performed.

Determining the timing of satisfaction of performance obligations (and therefore whether to use an output or input method to recognise revenue over time) required particular judgement in the case of grant contracts not directly linked to enrolment numbers. In most cases the best measure of performance obligations being satisfied was determined to be the input method. As such revenue is recognised on these types of contracts as costs are incurred as this was determined to be the most accurate measure of satisfaction of performance obligations.

4.7 Leases (Company as a lessee)

Concessionary leases

The Company leases various buildings from local councils with significantly below-market terms and conditions principally to enable it to further its objectives.

The Company is dependent on these leases to further its objectives as it utilises the buildings to run its operations to deliver its services. The lease terms range from 1 year and the lease payments range from $100 payable annually.

As outlined in the Company's accounting policy in Note 3, the Company has elected to measure these leases at cost.

Notes to the Financial Statements
for the Financial Year Ended 31 December 2019

5 (Deficit)/Surplus for the year

	2019	2018
	$	$
(i) Revenue from fees		
Parent's fees	73,110,255	70,265,450
(ii) Revenue from non-capital government funding		
Government funding	61,726,995	59,516,018
(iii) Other revenue		
Other revenue from ordinary operations consisted of the following items:		
Management fees	1,945,938	1,378,705
Gross fundraising income	330,504	318,287
Interest income	736,787	856,886
Consultancy fees	667,780	83,775
Sales of publications and courses	261,913	247,531
Sponsor support	2,773,670	2,569,400
Other sundry revenue	1,234,911	651,916
	7,951,503	6,106,500
(iv) Other income		
Government capital grant funding	435,676	945,908
(v) Surplus		
Surplus has been arrived at after charging the following items:		
Depreciation		
Property, plant and equipment	(2,061,401)	(1,812,926)
Right-of-Use Assets	(2,199,423)	-
Total depreciation	(4,260,824)	(1,812,926)
Amortisation		
Intagible Assets	(199,940)	(225,043)
Total amortisation	(199,940)	(225,043)
Total depreciation and amortisation	(4,460,764)	(2,037,969)
Net expected credit losses	(22,995)	(7,873)
Finance costs		
Interest and finance charges paid/payable	(480,477)	(23,110)

Notes to the Financial Statements
for the Financial Year Ended 31 December 2019

	2019	2018
	$	$
6. Trade and Other Receivables		
Trade receivables		
Trade receivables	429,807	598,725
Allowance for expected credit losses	(84,349)	(87,957)
Accrued income	298,655	3,876
	644,113	514,644
Other receivables		
Other receivables	85,753	104,805
	729,866	619,449

Reconciliation of allowance for expected credit losses

	2019	2018
Balance 1 January 2019	87,957	91,456
Increase to allowance for expected credit losses	103,334	19,707
Impairment recovery	(106,942)	(23,206)
Balance 31 December 2019	84,349	87,957

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

	2019	2018
Prepayments	1,932,051	957,381
Finance lease asset	-	35,877
	1,932,051	993,258

Notes to the Financial Statements
for the Financial Year Ended 30 June 2019

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 2018	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
Additions	6,471,948	2,918,837	838,543	-	-	-	10,229,328
Assets under construction (WIP)	1,401,837	231,211	64,742	-	-	-	1,697,790
Reverse Assets under construction (WIP) 2018	(102,260)	(322,751)	(40,686)	-	-	-	(465,697)
Transferred to Right-of-Use Assets	-	-	-	-	-	(551,464)	(551,464)
Disposals	-	(4,029)	(102,148)	-	-	-	(106,177)
Balance at 31 December 2019	**18,782,283**	**22,330,857**	**4,097,245**	**179,247**	**1,740,658**	-	**47,130,290**
Accumulated Depreciation							
Balance at 1 January 2018	(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)
Disposals	-	1,007	91,634	-	-	-	92,641
Transferred to Right-of-Use Assets	-	-	-	-	-	327,795	327,795
Depreciation expense	(229,772)	(1,117,626)	(487,262)	(8,219)	(18,582)	-	(1,861,461)
Balance at 31 December 2019	**(2,630,697)**	**(11,637,602)**	**(2,094,739)**	**(132,775)**	**(1,479,199)**	-	**(17,975,012)**
Net Book Value							
As at 31 December 2018	8,609,833	8,986,606	1,637,683	54,691	280,041	223,669	19,792,523
As at 31 December 2019	**16,151,586**	**10,693,255**	**2,002,506**	**46,472**	**261,459**	-	**29,155,278**

8. Property, Plant and Equipment (continued)

	2019 $	2018 $
Depreciation:		
Land and buildings	229,772	198,736
Leasehold improvements	1,117,626	898,411
Furniture and office equipment	487,262	379,770
Motor vehicles	8,219	8,219
Make Good Asset	18,582	43,145
	1,861,461	1,528,281

9. Intangible Assets

	Software $	Total $
Gross Carrying Amount		
Balance at 1 January 2018	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
Additions	601,722	601,722
Balance at 31 December 2019	**3,134,459**	**3,134,459**
Accumulated Depreciation		
Balance at 1 January 2018	(1,343,846)	(1,343,846)
Amortisation expense	(225,043)	(225,043)
Balance at 31 December 2018	(1,568,889)	(1,568,889)
Amortisation expense	(199,940)	(199,940)
Balance at 31 December 2019	**(1,768,829)**	**(1,768,829)**
Net Book Value		
As at 31 December 2018	963,848	963,848
As at 31 December 2019	**1,365,630**	**1,365,630**

10. Trade and Other Payables

	2019 $	2018 $
Salary and superannuation accruals	1,985,039	1,748,500
Prepaid centre fees and holding deposits	3,779,759	3,544,748
GST payable	863,219	208,501
Other payables and accruals	2,275,303	539,513
Trade payables	1,828,436	1,227,474
WBS & Brokered program surpluses	5,895,928	3,281,870
	16,627,684	10,550,606

Notes to the Financial Statements
for the Financial Year Ended 31 December 2019

	2019 $	2018 $
11. Lease liabilities		
(a) Finance lease liability	-	481,928
Minimum lease payments		
Less than 1 year	-	162,034
Between 1 and 5 years	-	319,894
	-	481,928

In the current year, the Company has initially applied AASB 16 using the cumulative catch up approach, with no restatement of the comparative information. Accordingly, brought-forward balance of finance lease from the prior year was re-assessed under the new Standard and disclosed as lease liabilities in the current year.

(b) Current liabilities - lease liabilities - right-of use-assets

	2019 $	2018 $
Lease liability	2,704,628	-

(c) Non-current liabilities - lease liabilities - right-of use-assets

	2019 $	2018 $
Lease liability	6,888,968	-

Total lease liabilities (current and non-current) are set out below:

	2019 $	2018 $
Current	2,704,628	-
Non-current	6,888,968	-
	9,593,596	-

Reconciliations
Reconciliations of lease liabilities (current and non-current) at the beginning and end of the financial year are set out below:

	2019 $
Adoption of AASB 16 on 1 January 2019	3,934,307
Additions	7,692,638
Repayment of lease liabilities	(2,513,826)
Interest	480,477
Balance at 31 December 2019	9,593,596

12. Unearned income

	2019 $	2018 $
Prepaid government funding	6,954,221	9,441,314
Prepaid special education income	1,954,654	620,566
	8,908,875	10,061,880

13. Provisions

	2019 $	2018 $
Current		
Employee Benefits:		
Provision for annual leave and rostered days off	9,363,974	8,956,685
Provision for long service leave	6,732,619	6,305,743
	16,096,593	15,262,428
Provision for Make Good Liability:		
Make good liability	605,095	1,462,514
	16,701,688	16,724,942
Non-current		
Employee Benefits:		
Provision for long service leave	2,354,601	2,111,979
Provision for Make Good Liability:		
Make good liability	1,135,563	278,144
	3,490,164	2,390,123

14. General Funds

	2019 $	2018 $
Balance at beginning of financial year	35,697,199	32,817,471
Effect of change on accounting policy for leases	(132,332)	-
Net surplus	931,615	2,858,879
Transfers from General Funds (Note 15)	31,115	20,849
Balance at end of financial year	36,527,597	35,697,199

Notes to the Financial Statements for the Financial Year Ended 31 December 2019

15. Fundraising reserve

	2019	2018
	$	$
Balance at beginning of financial year	1,128,281	1,149,130
Transfer (to) general funds	(31,115)	(20,849)
Balance at end of financial year	1,097,166	1,128,281

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. Non-current assets - right-of-use assets

	2019	2018
	$	$
Right-of-use assets	11,072,319	-
Less: Accumulated depreciation	(2,527,219)	-
Balance at end of financial year	8,545,100	-

Reconciliations
Reconciliations of the written down values at the beginning and end of the current and previous financial period are set out below.

	Right-of-use assets
	$
Adoption of AASB 16 on 1 January 2019	3,801,975
Additions	6,942,548
Depreciation Expense	(2,199,423)
Balance at 31 December 2019	8,545,100

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	2019	2018
	$	$
Not longer than 1 year	-	668,830
Longer than 1 year and not longer than 5 years	-	585,598
Longer than 5 years	-	141,940
	-	1,396,368

In the current year, the Company has initially applied AASB 16 using the cumulative catch up approach, with no restatement of the comparative information. Accordingly, operating lease commitments from the prior year were re-assessed under the new Standard and disclosed as lease liabilities in the current year.

18. Contingent liabilities	2019	2018
	$	$
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
Bank Guarantee 8 September 2016 to R N & K M REIMIERS	-	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
Bank Guarantee 15 May 2018 to Centennial Park and Moore Park Trust	42,062	42,063
Bank Guarantee 15 May 2018 to Hornsby Shire Council	20,196	20,196
Bank Guarantee 28 May 2018 to Hornsby Shire Council	12,733	12,733
Bank Guarantee 28 May 2018 to Hornsby Shire Council	21,791	21,791
	134,278	159,253

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 (2018: 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	1,551,147	1,813,163

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.

	2019	2018
	$	$

21. Notes to the Statement of Cash Flows

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

	2019 $	2018 $
Surplus for the period	931,615	2,858,879
Depreciation and amortisation of non-current assets	4,260,824	1,812,926
Interest received	(736,787)	(856,886)
Finance costs	480,477	23,110
Government capital funding	(472,548)	(962,215)
Finance lease adjustments	(35,877)	14,352
Make good adjustments	-	(200,279)
Movements in working capital:		
Decrease/(Increase) in trade receivables and other assets	(1,049,210)	1,245,682
(Decrease) in trade payables and other liabilities	4,924,071	(4,487,284)
Increase in provisions	1,076,787	1,845,749
Net cash generated from operating activities	9,379,352	1,294,034

(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:

	2019 $	2018 $
Cash and cash equivalents	51,218,845	54,665,881
	51,218,845	54,665,881

The cash balances include maturing term deposits with a term of 3 months or less.

22. Term deposits

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 2019 are shown as NIL due to them all having a maturity period of less than 3 months from date of purchase until 31 December 2019.

Notes to the Financial Statements
for the Financial Year Ended 31 December 2019

23. Information and 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 2019

	2019 $	2018 $
Raffles	18,799	19,636
Functions	176,998	155,533
Sale of Items	101,496	95,831
Interest	2,951	188
Donations	30,259	47,099
Gross Proceeds from Fundraising	330,503	318,287
Raffles	(188)	(122)
Functions	(115,600)	(115,138)
Sale of Items	(54,013)	(42,848)
Total Cost of Fundraising	(169,801)	(158,108)
Net Proceeds from Fundraising	160,702	160,179

(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 2019

Opening balance	1,128,281	1,149,130
Net proceeds from fundraising	160,702	160,179
Centre improvement and equipment	(183,886)	(180,118)
Bank charges	(36)	(910)
Total Reserve	1,105,061	1,128,281

23. Information and 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.

	2019	**2018**
	$	**$**
Gross income received from sale of items	101,496	95,831
Total expenditure incurred	54,013	42,848

(e) Forms of Fundraising Appeals Conducted in 2019

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 $169,801 (2018: $158,108) divided by Gross Income from Fundraising $330,503 (2018: $318,287) equals 51% (2018: 50%).

Net Surplus from Fundraising $160,702 (2018: $160,179) divided by Gross Income from Fundraising $330,503 (2018: $318,287) equals 49% (2018: 50%).

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 2019

Subsequent events

On 30 January 2020, the World Health Organization Director-General declared the outbreak of novel coronavirus (2019-nCoV) a Public Health Emergency of International Concern. On 11 March 2020, the World Health Organisation declared COVID-19 to be a Pandemic. The outbreak of COVID-19 and the subsequent quarantine measures imposed by the Australian Government have caused unprecedented disruption to businesses and economic activity. The entity considers this to be a non-adjusting post balance sheet event and accordingly the financial effects of COVID-19 have not been reflected in the entity's financial statements at 31 December 2019.

This situation has had a negative impact on the operations of the entity and is likely to continue to do so as quarantine measures continue. While the entity has not closed any of its Centres, it is experiencing a significant decline in attendance.

The outbreak of COVID-19 is also expected to negatively affect some parents' ability or willingness to pay childcare fees which may in turn result in parents withdrawing their children from care.

The NSW Government have committed to continuing to pay the Start Strong funding (a Government program for early childhood education) during this crisis and throughout 2021, based on the August 2019 census enrolment levels. The Federal Government has also provided a 'JobKeeper' support package which will help to support employment cost for 6 months in the event that revenues of the entity decline by 30% or more. Further government funding packages may be released.

While childcare services are currently considered essential services, the situation remains fluid at the date of signing the financial statements and closures of Centres may be required should government policy change. Management and Directors have undertaken scenario cash flow forecasting and believe that, in the event of Centre closures, the entity has sufficient cash reserves and access to government funding to be able to continue to pay its debts as and when they fall due for at least 12 months from the date of signing the financial report and as such have prepared the financial statements on a going concern basis.

As the situation remains fluid (due to continuing changes in government policy and evolving business and customer reactions thereto) as at the date these financial statements are authorised for issue, the Directors of the Company considered that the financial effects of COVID-19 on the entity's financial statements cannot be reasonably estimated. Nevertheless, the economic effects arising from the COVID-19 outbreak are expected to materially affect the results of the entity for the full year of 2020.

No other matter or circumstance has occurred subsequent to year end that has significantly affected, or may significantly affect, the operations of the Company, the results of those operations or the state of affairs of the entity in subsequent financial years.

Notes to the Financial Statements
for the Financial Year Ended 31 December 2019

26. 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-19**	**Funding $ 31-Dec-18**
Macarthur Starting Points – NSW Department of Education	-	92,643
Penrith Starting Points – NSW Department of Education	-	7,871
Early Learning Inclusion Program – NSW Department of Education	-	38,135
Marcia Burgess Autism Specific Early Learning and Care Centre – NSW Department of Education	-	41,022
Specialised Equipment and Resources for Kindergartens – Queensland Government Department of Education	500,000	-

	30-Jun-19	**30-Jun-18**
KU Children's Speech Therapy – NSW Department of Ageing, Disability and Home Care	-	42,403
Inner West Play & Chat – NSW Department of Family & Community Services	384,183	355,540
Newcastle Supported Playgroups – NSW Department of Family & Community Services	144,747	140,284
Macarthur Stepping Stones – NSW Department of Ageing, Disability and Home Care	-	405,398
Marcia Burgess Autism Specific Early Learning and Care Centre – Australian Government Department of Social Services	845,500	845,500
Inclusion Development Fund Manager – Australian Government Department of Education and Training	2,665,043	3,193,637
Inclusion Agency – Australian Government Department of Education and Training	23,764,666	24,562,666
SWS Skills Development – NSW Department of Ageing, Disability and Home Care	-	(165,824)
Supplementary Assistance – Department of the Prime Minister and Cabinet	132,765	132,765
Research Project – Australian Government Department of Social Services	102,157	98,802
Steps to Starting School – The Smith Family	106,450	118,550