

SDN Children's Services and Controlled Entities

Financial Statements

30 June 2017



ABN: 23 000 014 335

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Corporate Directory

Directors

Angela Donohoe	Chair
Darren Mitchell	Director
Cynthia à Beckett	Director
Kirsten Albert	Director
Alexandra (Frier) Bentley	Director
Theresa Collignon	Director
Angela Donohoe	Director
Glenn Hughes	Director
Rosalie Wilkie	Director
Barbara Wise	Director

Company Secretary

Kay Turner

Registered Office and Principal Place of Business

Level 2

86-90 Bay Street

Broadway NSW 2007

Auditor

BDO East Coast Partnership

Level 11,

1 Margaret Street

Sydney NSW 2000

Website address

www.sdn.org.au

Directors' report for the year ended 30 June 2017

The Directors present their report for SDN Children's Services and its Controlled Entities (the 'group') for the year ended 30 June 2017.

Directors

The names of the Directors who have been a director during the year to 30 June 2017 are:

Angela Donohoe (Chair)

Cynthia à Beckett

Kirsten Albert

Alexandra (Frier) Bentley

Natalie Berney (resigned 24 August 2016)

Theresa Collignon

Glenn Hughes

Darren Mitchell

Rosalie Wilkie

Barbara Wise

Company Secretary

Virginia (Ginie) Udy held the position of Company Secretary throughout the financial year. Kay Turner was appointed position of Company Secretary from 22 July 2017.

What do we do?

We're here for children from birth, and for their families and communities. We're here for the wellbeing of children, now and for the future.

Our intended strategic outcomes is that children who face challenges have a place in services we provide, support and advocate for; and that the wellbeing of all children is enhanced.

SDN's principal activities include:

- high quality, inclusive early childhood education and child care
- disability services
- family support services
- children's services practitioner support

These activities have not changed during the year.

Directors' report for the year ended 30 June 2017

Review of our operations in 2016-17

SDN group generated a loss after tax this year of \$1,321,773, which was in line with our budget strategy for 2016-17. We have invested across the organisation to set up SDN for sustainable growth in both centres and disability services in future years. Alongside changes to government funding and rapid population increases, the Early Childhood Education and Care market has grown and this provides SDN with an opportunity to increase its reach, particularly in outer Sydney where need is greatest. However increased competition, particularly with our established centres in Central Sydney, from both large established and newer players has put increased pressure on our utilisation and margins in this area.

Improvements in employment flexibility generally have changed the patterns of demand for child care leading to increased hours of usage but reduced days of usage by families, which has also affected utilisation. We are investing to strengthen our position in the market in both of these sectors. Our healthy balance sheet and past performance has given us the financial strength to make these investments.

We have built a team of professionals, now headed by our new CEO Kay Turner, with the specific skills required to take advantage of these opportunities and we continue to build the physical and technological infrastructure required to service the organisation. The new Child Care Subsidy being introduced by the Commonwealth from July 2018 and the rapidly developing disability services sector following the roll out of the NDIS require us to be innovative in the way we do business.

Overall financial position

SDN group maintained a strong financial position with approximately \$9,797,221 in cash equivalents and \$31,929,116 in equity.

Operating result

SDN group reported a net deficit before tax for the financial year of \$1,321,773, which represents 2.6% of revenue, a decrease of \$2,177,688 from \$855,915 surplus in 2015-16. The consolidated deficit includes SDN Child and Family Services Pty Limited, which reported a deficit of \$788,152 (an increased deficit of \$647,025 from \$141,127 deficit in prior year).

Despite this operating deficit, our total comprehensive income for 2016-17 was \$2,083,297, an increase from \$855,915 in 2015-16. The main contributor to this increase was the revaluation of our land and buildings in line with our accounting policy which revalues assets on a three-yearly cycle. SDN group holds real estate assets in the inner suburbs of Sydney that have increased in value in line with Sydney real estate prices.

SDN group revenue was \$51,781,588, a decrease of 3.5% or \$1,867,827 compared with the previous year's revenue of \$53,649,415. The overall decrease in revenue was mainly due to the loss of our contract with the Australian Government for Inclusion Support Agencies in June 2016 and reduced state government funding for disability services.

SDN group expenditure was \$53,103,361 a \$309,861 (1%) increase from \$52,793,500 in 2015-16 in line with our planned investment in the National Disability Insurance Scheme (NDIS).

Our capital works program continued to ensure our centres, offices and IT infrastructure were upgraded to meet requirements. Expenditure on capital improvements during the year totaled \$1,733,141.

Directors' report for the year ended 30 June 2017

SDN group generated total cash receipts of \$52,835,221, down from \$56,163,993, with cash holdings of \$9,797,221 down by \$3,071,862 from \$12,869,083 as at 30 June 2016. This decrease in cash was due to the ending of the Inclusion Support Agency contract in June 2016 which contributed approximately \$5,000,000 a year; a significant reduction in prior year grant funding liabilities; the current year operating loss; investment in an organisation wide CRM and upgrades of our centres.

Overview of the sectors we work in

Centres

Revenue from child care fees increased to \$33,274,941, an increase of 5% or \$1,531,314 compared with \$31,743,627 in 2015-16. Child care revenue represents 64% of SDN's total revenue in 2016-17.

Utilisation average of our centres as a proportion of licence was 87% (2016: 90%)

Disability services

NDIS-generated disability services revenue increased to \$1,411,085 from \$695,955 in 2015-16. SDN group has continued to develop its disability services in line with the roll out of the NDIS. Grant funding from Ageing Disability and Home Care (ADHC) for the Early Childhood Links (ECL) program is being phased out in line with the roll out.

Government funded programs

Income from government-funded programs and grants made up 32% of group revenue at \$16,624,361, a decrease of 19% or \$4,023,337 compared with \$20,647,698 in 2015-16. Government funds are for the delivery of specific programs and projects, and are the result of successful tenders, grant applications, and direct allocations. The largest contributor to the decreased funding was the ending of the Federal Department of Education and Training's Inclusion Support Agency (ISA) program which ceased in June 2016. ECL funding from ADHC, was also reduced, in line with the roll out of the NDIS across much of Sydney.

Fundraising and Donations

A valued aspect of our education and care centres and programs is philanthropic grants and donations. These philanthropic grants and donations come from a variety of sources throughout the year. Grants and donations received in 2016-17 totaled \$191,596 (2015-16 \$114,870).

Many of our children's education and care centres benefit from the additional equipment purchased for centres from fundraising activities of families. Net fundraising by families was \$16,813.

Financial Statements Simplification

Our 2016-17 Financial Statements have been modified, compared with previous years, in line with the Australian Accounting Standards Board (AASB) recently issued standard AASB 2015-2 *Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101*. These modifications were made to make the financial statements more relevant to users and to give more prominence to significant areas. These changes have been made with the support of our auditors BDO.

Directors' report for the year ended 30 June 2017

Information on Directors

The Directors in office during or at the end of the financial year were:

Director's name	Role	Director since	Qualifications and additional information
Angela Donohoe	President from November 2016 - current Member of Executive; Risk and Compliance; and Governance Committees	June 2014	Bachelor of Commerce (UNSW), Fellow of CPA Australia (FCPA), Graduate of the Australian Institute of Company Directors (GAICD), Fellow of Financial Services Institute of Australasia (F FIN)
Rosalie Wilkie	Vice President and Honorary Treasurer Chair of Finance Committee; Member of Executive Committee Member of SDN Child and Family Services Board	November 2012	Bachelor of Commerce (UoN), Fellow of Institute of Chartered Accountants Australia
Alexandra (Frier) Bentley	Vice President Chair of Risk and Compliance Committee; Member of Executive Committee	February 2014	Bachelor of Arts (Communication) (CSU); Sydney Leadership Program
Kirsten Albert	Member of Governance and Risk and Compliance Committees	February 2010	Bachelor of Arts (Hons) (USYD), Bachelor of Laws (USYD), Graduate of Australian Institute of Company Directors
Cynthia à Beckett	Chair of Research Ethics Committee; Member of Risk and Compliance Committee	August 2013	Diploma Kindergarten Teachers College (Melbourne Kindergarten Teachers College); Bachelor of Arts (Hons - Sociology) – University of QLD; Graduate Diploma Educational Studies (Institute of Early Childhood Studies - Victoria); Doctorate of Philosophy (PhD) – School of Sociology UNSW
Natalie Berney (Resigned 24 August 2016)	Member of Risk and Compliance and Governance Committees	October 2014	Bachelor of Arts (Sociology) (UNSW), Master of Business (HRM) (CSU), Master of Public Health (USYD), Graduate of Australian Institute of Company Directors (GAICD)
Theresa Collignon	Member of Governance Committee Member of SDN Child and Family Services Board	December 2008	Bachelor of Commerce (Marketing) (UNSW), Master of Business Administration (AGSM), Diploma of Financial Markets (SIA), Graduate of Australian Institute of Company Directors

Directors' report for the year ended 30 June 2017

Director's name	Role	Director since	Qualifications and additional information
Glenn Hughes	Chair of Governance Committee; Member of Finance Committee	August 2014	Bachelor of Commerce (Accounting/Finance) (UNSW), Bachelor of Law (UNSW), Masters of Law and Management (Australian Graduate School of Management)
Darren Mitchell	President November 2014 – November 2016 Member of Finance Committee Chair of SDN Child and Family Services Board	November 1996	Bachelor of Economics (USYD), Master of Economics (USYD)
Barbara Wise	Member of Finance Committee Member of SDN Child and Family Services Board	December 2014	Bachelor of Arts (Hons), Master of International Studies (USYD)

Directors' attendance at SDN Board Meetings

Name	A	B
Angela Donohoe (President)	7	7
Rosalie Wilkie (Vice President and Honorary Treasurer)	6	7
Alexandra (Frier) Bentley (Vice President)	5	7
Cynthia à Beckett	6	7
Kirsten Albert	7	7
Natalie Berney*	1	1
Theresa Collignon	6	7
Glenn Hughes	7	7
Darren Mitchell	6	7
Barbara Wise	7	7

A = number of meetings attended.
B = number of meetings held during the time the director held office during the year.

*N Berney resigned 24 August 2016

In addition to Board meetings, directors also attended regular scheduled meetings for the Board's various Committees.

Directors' report for the year ended 30 June 2017

Membership

SDN is a company limited by Guarantee. Contributions payable per member in the event of winding up is limited to ten dollars.

Significant changes in state of affairs

In the opinion of the Directors there were no significant changes in the state of affairs of the group.

Events subsequent to the balance date

Since the end of the financial year no matter has arisen that has, or may have, a significant effect on the operations of the group, or the results of those operations or the state of affairs of the group in the financial years subsequent to the financial year ended 30 June 2017.

SDN appointed Kay Turner as CEO on 22 July 2017 upon the resignation of Ginie Udy.

Environmental issues

The group's operations are not regulated by any significant environmental regulation under law of the Commonwealth or of a State or Territory. The Directors are aware of general environmental considerations and believe the group complies with community standards.

Proceedings on behalf of the group

No person has applied for leave of Court to bring proceedings on behalf of the group or intervene in any proceedings to which the group is a party for the purpose of taking responsibility on behalf of the group for all or any part of those proceedings.

Indemnity and insurance of officers

The group has indemnified the directors and executives of the group for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the group paid a premium in respect of a contract to insure the directors and executives of the group against a liability to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of liability and the amount of the premium.

Indemnity and insurance of auditor

The group has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the group or any related entity against a liability incurred by the auditor.

During the financial year, the group has not paid a premium in respect of a contract to insure the auditor of the group or any related entity.

Auditor's Independence Declaration

The auditor's independence declaration for the year ended 30 June 2017 has been received and is on page 9.

Directors' report for the year ended 30 June 2017

Signed in accordance with a Resolution of the Board of Directors:

A handwritten signature in black ink, appearing to read 'Rosalie Wilkie', is written over a horizontal dotted line.

Rosalie Wilkie

Director

Dated: 16 October 2017

**DECLARATION OF INDEPENDENCE BY PAUL BULL TO THE DIRECTORS OF SDN CHILDREN'S SERVICES
AND CONTROLLED ENTITIES**

As lead auditor of SDN Children's Services for the year ended 30 June 2017, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the Australian professional ethical pronouncements in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of SDN Children's Services and the entities it controlled during the period.



Paul Bull
Partner

BDO East Coast Partnership

Sydney, 16 October 2017

Consolidated Statement of profit or loss and other comprehensive income for the year ended 30 June 2017

	Notes	2017 \$	2016 \$
Revenue	A1	51,781,588	53,649,415
Employee benefits expenses	A2	(41,325,280)	(42,606,793)
Occupancy expenses	A2	(3,304,177)	(3,357,952)
Administration expenses	A2	(3,609,891)	(2,997,932)
Service delivery expenses	A2	(3,636,940)	(3,010,464)
Depreciation expenses	A2	(1,227,073)	(820,359)
(Deficit)/surplus before income tax expense		(1,321,773)	855,915
Income tax expense	E5 (v)	-	-
(Deficit)/surplus for the year		(1,321,773)	855,915
Other comprehensive income, net of tax			
<i>Will not be reclassified to profit or loss</i>			
Revaluation gain on land and buildings	B1	3,405,070	-
Total comprehensive income for the year		2,083,297	855,915

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

Consolidated Statement of financial position as at 30 June 2017

	Notes	2017 \$	2016 \$
Current assets			
Cash and cash equivalents	C1 (i)	9,797,221	12,869,083
Trade and other receivables		456,567	391,741
Assets held to maturity		64,375	63,366
Other current assets		199,132	184,775
Total current assets		10,517,295	13,508,965
Non-current assets			
Property, plant and equipment	B1	35,889,450	31,978,312
Total non-current assets		35,889,450	31,978,312
Total assets		46,406,745	45,487,277
Current liabilities			
Trade and other payables	C1 (ii)	6,724,972	7,607,057
Provisions	C1 (iii)	4,263,851	4,456,474
Total current liabilities		10,988,823	12,063,531
Non-current liabilities			
Trade and other payables	C1 (ii)	1,863,762	1,863,762
Provisions	C1 (iii)	1,625,044	1,698,542
Total non-current liabilities		3,488,806	3,562,304
Total liabilities		14,477,629	15,625,835
Net assets		31,929,116	29,861,442
Equity			
Reserves	D1 (i) (ii)	22,796,089	19,406,642
Retained earnings	D1 (iii)	9,133,027	10,454,800
Total equity		31,929,116	29,861,442

The above statement of financial position should be read in conjunction with the accompanying notes.

Consolidated Statement of changes in equity for the year ended 30 June 2017

	Notes	Retained earnings \$	Asset revaluation reserve \$	Fundraising reserve \$	Total \$
Balance at 1 July 2015		9,598,885	19,305,753	125,902	29,030,540
Surplus for the year		855,915	-	-	855,915
Total comprehensive income for the year		855,915	-	-	855,915
Transfers to and from reserves - fundraising reserve	D1 (i)	-	-	(25,013)	(25,013)
Balance at 30 June 2016		10,454,800	19,305,753	100,889	29,861,442
Deficit for the year		(1,321,773)	-	-	(1,321,773)
Revaluation gain		-	3,405,070	-	3,405,070
Total comprehensive income for the year		(1,321,773)	3,405,070	-	2,083,297
Transfers to and from reserves - fundraising reserve	D1 (i)	-	-	(15,623)	(15,623)
Balance at 30 June 2017	D1	9,133,027	22,710,823	85,266	31,929,116

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated Statement of cash flows for the year ended 30 June 2017

	Notes	2017 \$	2016 \$
Cash flows from operating activities			
Receipts from customers		34,836,520	33,774,147
Receipts from government		17,885,453	22,172,136
Interest received		113,248	217,710
Payments to suppliers and employees		(54,172,933)	(55,627,297)
Net cash (used in)/provided by operating activities	E6 (ii)	(1,337,712)	536,696
Cash flows from investing activities			
Payments for assets held to maturity		(1,009)	(1,489)
Purchase of property, plant and equipment		(1,733,141)	(1,971,093)
Net cash used in investing activities		(1,734,150)	(1,972,582)
Cash flows from financing activities			
Repayment of borrowings		-	-
Net cash used in financing activities		-	-
Net decrease in cash held		(3,071,862)	(1,435,886)
Cash and cash equivalents at beginning of financial year		12,869,083	14,304,969
Cash and cash equivalents at end of financial year	C1 (i)	9,797,221	12,869,083

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

A. WHERE DO OUR FUNDS COME FROM AND HOW ARE THEY SPENT?

A1. WHAT ARE OUR SOURCES OF REVENUE?

Our primary sources of revenue are from child care fees, disability services fees and State and Federal Government grants. We also receive donations for children scholarships and other revenue for student placement.

	2017 \$	2016 \$
Rendering of services – parent fees and child care benefit	33,274,941	31,743,627
Rendering of services – disability services	1,411,085	695,955
Interest received	113,248	217,710
Grants and subsidies – Commonwealth government	944,854	5,058,726
Grants and subsidies – NSW state government	15,679,507	15,588,972
Donations for scholarships and centre operations	191,596	114,870
Other revenue	166,357	229,555
Total revenue	<u>51,781,588</u>	<u>53,649,415</u>

As part of its activities, SDN Children's Services and its controlled entities receive donations from philanthropic foundations, businesses and individuals for our work with our four priority areas:

- Aboriginal and Torres Strait Islander Early Childhood Scholarships
- Working with children with disability, including our Access and Inclusion Scholarships and our work at SDN Beranga
- Working with children and families facing challenges
- SDN Building Fund

Donations received

Donations recognised in Statement of Profit or Loss and Other Comprehensive Income

	2017 \$	2016 \$
SDN Child & Family Services Pty Limited	2,030	590
SDN Children's Services Incorporated Building Fund	670	6,890
Total	<u>2,700</u>	<u>7,480</u>

A. WHERE DO OUR FUNDS COME FROM AND HOW ARE THEY SPENT?

Donations recognised in Statement of Financial Position¹

	Opening balance	Donations received	Transfers	Payments	Closing balance
	\$	\$	\$	\$	\$
2017					
Disability access & inclusion	11,721	21,600	-	(23,125)	10,196
Aboriginal E C Scholarships	97,781	114,809	-	(163,841)	48,749
Aboriginal Training Support	1,930	-	-	(1,930)	-
Total	111,432	136,409	-	(188,896)	58,945

	Opening balance	Donations received	Transfers	Payments	Closing balance
	\$	\$	\$	\$	\$
2016					
Disability access & inclusion	-	720	22,063	(11,062)	11,721
Aboriginal E C Scholarships	82,779	133,393	(22,063)	(96,328)	97,781
Aboriginal Training Support	1,930	-	-	-	1,930
Total	84,709	134,113	-	(107,390)	111,432

¹These donations are disclosed as unearned income – child care fee in advance under trade and other payables.

What is the relevant accounting policy?

Revenue recognition

Revenue from rendering of childcare and disability services is recognised upon delivery of the service. Revenue from child care benefit is recognised in the period to which the benefit relates.

Interest revenue is recognised using the effective interest rate method, which, for floating rate financial assets is the rate inherent in the instrument.

A. WHERE DO OUR FUNDS COME FROM AND HOW ARE THEY SPENT?

Grant revenue is recognised in the statement of profit or loss and other comprehensive income when the group obtains control of the grant and it is probable that the economic benefits gained from the grant will flow to the group and the amount of the grant can be measured reliably. If conditions are attached to the grant which must be satisfied, the recognition of the grant as revenue will be deferred until those conditions are satisfied.

When grant revenue is received whereby the group incurs an obligation to deliver economic value directly back to the contributor, this is considered a reciprocal transaction and the grant revenue is recognised in the statement of financial position as a liability until the service has been delivered to the contributor, otherwise the grant is recognised as income on receipt.

Donations are recognised as revenue when received unless relating to a specific purpose, and interest revenue is recognised using the effective interest rate method, which for floating rate financial assets is the rate inherent in the instrument.

A. WHERE DO OUR FUNDS COME FROM AND HOW ARE THEY SPENT?

A2. WHERE HAS THE FUNDING BEEN SPENT?

We have spent the income we received over the course of this financial year on programs that support the following goals.

	2017 \$	2016 \$
Provide high quality early childhood education & care services	35,686,516	32,329,993
Support children who face challenges	9,304,324	8,875,734
Strengthen families & communities	8,112,521	11,587,773
Total expenditure	53,103,361	52,793,500

The main categories of expenditure were as follows:

	2017 \$	2016 \$
Employee benefits expense	41,325,280	42,606,793
Rent expenses	1,223,600	1,210,832
Repairs and maintenance expenses	2,024,723	2,046,944
Furniture & appliance expenses	55,854	100,176
Occupancy expenses	3,304,177	3,357,952
Operating expenditure	1,613,600	1,447,896
IT and equipment expense	510,327	625,789
Other expenses	218,100	202,702
Marketing expenses	726,948	165,701
Professional fees	540,916	555,844
Administration expenses	3,609,891	2,997,932
Childcare expenses	1,629,818	1,773,414
Consulting expenses	1,115,061	485,235
Training and Program expenses	892,061	751,815
Service delivery expenses	3,636,940	3,010,464
Depreciation expenses	1,227,073	820,359
Total expenditure	53,103,361	52,793,500

B. WHAT ASSETS DO WE HAVE AND HOW DO WE MANAGE THEM?

B1. PROPERTY, PLANT & EQUIPMENT

	2017 \$	2016 \$
Land and buildings		
Freehold land at fair value*	22,419,900	18,178,400
Total land	22,419,900	18,178,400
Freehold buildings at fair value*	7,464,100	8,370,573
Leasehold building at cost	5,161,639	4,504,200
Less accumulated depreciation	(722,635)	(903,426)
Total freehold and leasehold buildings	11,903,104	11,971,347
Total freehold and leasehold land and buildings	34,323,004	30,149,747
Plant and equipment		
Capital works in progress		
- Cost	189,656	276,383
Plant and equipment at:		
- Cost	3,703,574	3,515,307
Less accumulated depreciation	(3,075,171)	(2,782,733)
Software		
- Cost	1,395,594	1,107,208
Less accumulated depreciation	(647,207)	(287,600)
Total property, plant and equipment	35,889,450	31,978,312

*In 2017, SDN Beranga was revalued for the first time, prior year comparative is at cost.

B. WHAT ASSETS DO WE HAVE AND HOW DO WE MANAGE THEM?

Movements in carrying amounts

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year:

	Land \$	Buildings \$	Plant and Equipment \$	Software \$	Total \$
2017					
Balance at the beginning of year	18,178,400	11,971,347	1,008,957	819,608	31,978,312
Additions	-	1,343,215	101,540	288,386	1,733,141
Revaluation increment/(decrease)	4,241,500	(836,430)	-	-	3,405,070
Transfers	-	-	-	-	-
Depreciation expense	-	(575,028)	(292,438)	(359,607)	(1,227,073)
Carrying amount at the end of year	22,419,900	11,903,104	818,059	748,387	35,889,450

	Land \$	Buildings \$	Plant and equipment \$	Software \$	Total \$
2016					
Balance at the beginning of year	18,178,400	11,380,894	904,373	363,911	30,827,578
Additions	-	656,602	661,194	653,297	1,971,093
Transfers	-	269,766	(269,766)	-	-
Depreciation expense	-	(335,915)	(286,844)	(197,600)	(820,359)
Carrying amount at the end of year	18,178,400	11,971,347	1,008,957	819,608	31,978,312

Software

SDN Children's Services for the past 2 years has been developing a customer relationship management ('CRM') system. Of the \$1,395,594 software costs, \$1,086,784 is for CRM development.

Asset revaluations

The freehold land and buildings were last independently valued as at 30 June 2017 by AssetVal Pty Ltd. The valuation was based on fair value and an increment of \$3,405,070 was recorded.

The Commonwealth Bank of Australia has a registered mortgage over commercial property situated at 3 Linthorpe Street, Newtown NSW as security for SDN's corporate credit card and bank guarantees.

B. WHAT ASSETS DO WE HAVE AND HOW DO WE MANAGE THEM?

What is the relevant accounting policy?

Property, plant and equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

Plant and equipment

Plant and equipment are measured on a cost basis less depreciation and impairment losses.

The carrying amount of plant and equipment is reviewed annually to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets' employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Land and buildings

Freehold land and buildings are initially recorded at cost on acquisition and subsequently shown at fair value based on periodic valuations by external independent valuers, less subsequent depreciation for buildings. An independent valuation of all freehold land and associated buildings is generally performed every three years.

The most recent revaluation was completed by AssetVal as at 30 June 2017.

The revaluation was based on the following assumptions:

- The group intends to retain the land and buildings for continuous use in the foreseeable future;
- The operating license for each property is current and transferrable;
- The information provided by the group for the revaluation is accurate and verifiable;
- The building complies with all relevant statutory requirements in respect of matters such as but not limited to health, building and fire safety regulations (including asbestos and legionnaires disease), rules, regulations, orders and codes of all authorities, and that there are no outstanding requisitions;
- That there are no onerous encumbrances or interests reported on title, which adversely affect the values, marketability and continued utility of the property or business;
- That SDN Beranga is affected by a caveat, with the Caveator being 'Minister for Ageing, Minister for Disability Services NSW'.

Increases in the carrying amount arising on revaluation of freehold land and buildings are credited to a revaluation reserve in equity. Any revaluation decrements are initially taken in other comprehensive income through to the revaluation surplus reserve to the extent of any previous revaluation surplus of the same asset. Thereafter the decrements are taken to profit or loss. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

All other impairments are charged to the statement of profit or loss and other comprehensive income.

Leasehold improvements are measured at cost less depreciation and impairment losses.

B. WHAT ASSETS DO WE HAVE AND HOW DO WE MANAGE THEM?

Software

Acquired computer software licences are initially capitalised at cost, which includes the purchase price (net of any discounts and rebates) and other directly attributable cost of preparing the asset for its intended use. Costs associated with maintaining the computer software are recognised as an expense when incurred.

Costs directly attributable to the development of computer software are capitalised as an asset only when technical feasibility of the project is demonstrated, the organisation has an intention and ability to complete and use the software and the costs can be measured reliably.

Computer software is subsequently carried at cost less accumulated amortisation and accumulated impairment losses. These costs are amortised to profit or loss using the straight-line method over three years.

Depreciation

The depreciable amount of all fixed assets including buildings, but excluding freehold land, is depreciated over their useful lives to the group commencing from the time the asset is held ready for use. The depreciation rates used for each class of depreciable assets are:

Class of fixed asset	Depreciation rate
Buildings	4% straight line
Playground	10% straight line
Plant and equipment	10% - 33% straight line
Software	33% straight line

SDN has historically depreciated buildings using a rate of 2% straight line. During the financial year management performed a review of useful economic lives and have determined that a more appropriate life for buildings is 25 years. Accordingly, this change in depreciation rate has been applied prospectively from the start of the financial year. The impact of the increased depreciation charge to the net deficit during the year was \$241,473.

Purchases of plant and equipment using grant funds are not the property of the group and therefore are expensed to profit or loss in line with the terms and conditions of the funding agreement.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains or losses are included in the statement of profit or loss and other comprehensive income. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

B. WHAT ASSETS DO WE HAVE AND HOW DO WE MANAGE THEM?

Critical accounting estimates and judgments

The directors evaluate estimates and judgments incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the group.

Impairment

The majority of non-current assets comprise land and buildings. The freehold land and buildings were independently valued at 30 June 2017 by AssetVal Pty Ltd and the valuation was based on fair value. In determining fair value, various assumptions are made. Where these assumptions are subject to change, the resulting fair value would change. The directors have reviewed the assessment of market conditions in the current financial year and have concluded that the carrying value continues to approximate fair value.

Fair value estimation

Cash and cash equivalents, trade and other receivables, assets held to maturity, trade and other payables and borrowings are short-term instruments in nature whose carrying value is equivalent to fair value.

Freehold land and buildings carried at fair value are valued using the following primary inputs:

- Rate per licenced place;
- Net operating surplus; and
- Surplus capitalisation rate.

A range of rate per licenced place of \$48,000 - \$66,000 for metropolitan centres and \$19,000 - \$42,000 for non-metropolitan centres has been used, in the latest valuation performed as at 30 June 2017.

C. HOW DO WE MANAGE OUR RISK AND WORKING CAPITAL?

C1. CAPITAL MANAGEMENT

Management controls the capital of the group to ensure that adequate cash flows are generated to fund its operations and that returns from investments are maximised. The Finance Committee monitors the financial position in line with this objective. The Finance Committee operates under policies approved by the Board of Directors.

The group's capital consists of accumulated equity.

Management effectively manages the group's capital by assessing the group's financial risks and responding to changes in these risks. These responses may include the consideration of cash investments and debt levels.

There have been no changes to the strategy adopted by management to control the capital of the group since the previous year. The strategy of the group is to maintain a low gearing ratio and the external debt held by the group remains at \$nil.

(i) Cash and cash equivalents

	2017 \$	2016 \$
Cash at bank and on hand	4,235,300	6,382,475
Short-term bank deposits	5,561,921	6,486,608
	<u>9,797,221</u>	<u>12,869,083</u>

What is the relevant accounting policy?

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

(ii) Trade and other payables

	2017 \$	2016 \$
Current		
Trade payables	1,008,962	502,724
Sundry payables and accrued expenses	3,607,414	3,660,911
Funds held on behalf of funding bodies	117,763	383,417
Unearned income – grant revenue	1,537,061	2,462,324
Unearned income – child care fees in advance	171,292	301,979
Unearned income – child care benefit advances	<u>282,480</u>	<u>295,702</u>

C. HOW DO WE MANAGE OUR RISK AND WORKING CAPITAL?

	6,724,972	7,607,057
Non-current		
	2017	2016
	\$	\$
Unearned income – grant revenue	1,863,762	1,863,762
Financial liabilities at amortised cost classified as trade and other payables		
	2017	2016
	\$	\$
Trade and other payables:		
- Total current	6,724,972	7,607,057
- Total non-current	1,863,762	1,863,762
Less: unearned income	(3,854,595)	(4,923,767)
Less: funds held on behalf of funding bodies	(117,763)	(383,417)
Financial liabilities as trade and other payables	4,616,376	4,163,635

Funds held on behalf of funding bodies

As part of its activities, the group received funding from government departments in its capacity as project manager which are then distributed to external child care centres around New South Wales. Projects which SDN managed include:

- Supporting Children with Additional Needs Program (SCAN): This program was funded by the NSW Department of Education to provide advice, support and resources to preschools which enrolled children with additional needs. This program ended on November 2014. As at June 2017 \$618,177 (2016: \$618,177) administration funding and \$117,763 (2016: \$117,763) program funding was held on behalf of the Department of Education which will be refunded to the Department upon request.

The group has also received funds which have been used for capital construction projects. Applicable projects include:

- Milperra: This program has been funded by the federal Department of Education to support the construction of SDN Milperra Children's Education and Care Centre. During 2012-2013, a total of \$1,863,762 was received from the funding body. As at 30 June 2017 the full amount received is recognised as unearned income (2016: \$1,863,762). Revenue will be recognised as the terms of the agreement are fulfilled over a maximum period of 20 years, starting in 2022.

As at June 2017 a further amount of \$918,884 (2016: \$2,109,801) was recorded in unearned income. This represents advances for grant funding received from government and donations for scholarships.

C. HOW DO WE MANAGE OUR RISK AND WORKING CAPITAL?

What is the relevant accounting policy?

Trade Payables and Funds held on behalf of funding bodies

These amounts represent liabilities for goods and services provided to the group prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

Funds for grants undertaken by the group on behalf of funding bodies are recognised on the statement of financial position as unearned income. As the project commences and costs are incurred the unearned income recognised is reduced the costs are recognised in the statement of profit or loss & other comprehensive income. Where the funds received relate to capital projects, funds are only recognised as revenue when the entity obtains control of the contribution and has no obligation to repay the funds. Until control is obtained the amounts are held as unearned revenue.

(iii) Provisions

	2017 \$	2016 \$
Current:		
Annual leave	2,318,243	2,138,070
Long service leave	1,590,737	1,593,264
Rostered days off	167,529	248,813
Contract termination	42,373	184,037
Make-good	144,969	292,290
	<hr/> 4,263,851	<hr/> 4,456,474
Non-current:		
Long service leave	164,394	160,956
Contract termination	1,205,194	1,380,273
Make-good	255,456	157,313
	<hr/> 1,625,044	<hr/> 1,698,542
	<hr/> 5,888,895	<hr/> 6,155,016

C. HOW DO WE MANAGE OUR RISK AND WORKING CAPITAL?

Movement in provisions	2017	2016
	\$	\$
Make-good		
Balance brought forward	449,603	321,929
(Reduction)/additional provision	(49,178)	127,674
Balance carried forward	<u>400,425</u>	<u>449,603</u>

Provision for employee entitlements

A provision has been recognised for employee entitlements relating to rostered days off, annual and long service leave. In calculating the present value of future cash flows in respect of long service leave, the probability of long service leave being taken are based upon historical data.

A provision has also been recognised for employee entitlements relating to contract terminations for employees on fixed term contracts and staff employed in SDN managed centres based on the amount expected to be settled in the event that funding programs and centre leases are not renewed. The liability represents the termination payments to be paid at the anticipated completion of their employment.

The measurement and recognition criteria for employee benefits have been included in critical accounting estimates and judgements below.

Amounts not expected to be settled within the next 12 months

The current provision for employee benefits includes all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount is presented as current, since the group does not have an unconditional right to defer settlement. However, based on past experience, the group does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months. The amount of \$962,406 reflects leave that is not expected to be taken within the next 12 months.

Provision for make-good

A provision has been recognised in relation to the make-good of a number of premises currently leased by the group. This amount represents the expected amount to be paid out upon termination of the lease to make-good the premises.

C. HOW DO WE MANAGE OUR RISK AND WORKING CAPITAL?

What is the relevant accounting policy?

Provisions

Provisions are recognised when the group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

Provisions are measured using the best estimate of the amounts required to settle the obligation at balance date, taking into account the risks and uncertainties surrounding the obligation.

The Directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the company.

Employee benefits

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

The liability for long service leave is recognised in current and non-current liabilities, depending on the unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

The liability is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

The liability for contract termination is recognised as a current or non-current liability. The liability is measured at the amount expected to be paid when the liability is settled and is based on employees' services up to the reporting date.

The group contributes to a number of superannuation funds which exist to provide benefits to employees and their dependants on retirement, disability or death. The group's commitment in respect of the superannuation funds (which are all accumulation funds) is limited to making the specified contributions. The group's contributions to the superannuation funds are expensed in the statement of profit or loss and other comprehensive income as incurred.

C. HOW DO WE MANAGE OUR RISK AND WORKING CAPITAL?

Critical accounting estimates and judgments

Provision for long service leave

The liability for long service leave is recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

Provision for termination liabilities

The group recognises termination benefits for employees employed to work for specific grant funded programs where on-going employment is dependent on renewal of the funding program. The provision is measured at the present value of the amounts expected to be paid on termination of the program and assumes program funding is not renewed in perpetuity.

C2. FINANCIAL RISK MANAGEMENT

The group's financial instruments consist mainly of deposits with banks, local money market instruments, short-term investments, accounts receivable and payable, and leases.

The totals for each category of financial instruments, measured in accordance with *AASB 139* as detailed in the accounting policies to these financial statements are as follows:

	Notes	2017 \$	2016 \$
Financial assets			
Cash and cash equivalents	C1(i)	9,797,221	12,869,083
Loans and receivables		509,996	444,303
Assets held to maturity		64,375	63,366
Total financial assets at amortised cost		<u>10,371,592</u>	<u>13,376,752</u>
Financial liabilities			
Trade and other payables	C1(ii)	<u>4,616,376</u>	<u>4,163,635</u>
Total financial liabilities at amortised cost		<u>4,616,376</u>	<u>4,163,635</u>

C. HOW DO WE MANAGE OUR RISK AND WORKING CAPITAL?

What is the relevant accounting policy?

Financial instruments

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the group becomes a party to the contractual provisions of the instrument. For financial assets, this is equivalent to the date that the group commits itself to either purchase or sell the asset (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified 'at fair value through surplus or deficit' in which case transaction costs are expensed to surplus or deficit immediately.

Classification and subsequent measurement

Financial instruments are subsequently measured at either fair value or amortised cost using the effective interest rate method. Fair value represents the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the statement of financial position.

Impairment

At each reporting date, the group assesses whether there is objective evidence that a financial instrument has been impaired. In determining the fair value, various assumptions are made and where these are subject to change, the fair value would change.

D. APPENDICES

D1. RESERVES AND RETAINED EARNINGS

Reserves and retained earnings

(i) Fundraising reserve	2017	2016
	\$	\$
Opening balance	100,889	125,902
Transfer from reserve	(15,623)	(25,013)
Closing balance	<u>85,266</u>	<u>100,889</u>

The fundraising reserve reflects accumulated fundraising revenue due to be expended on costs of fundraising, entertainment, functions and children's equipment.

(ii) Asset revaluation reserve	2017	2016
	\$	\$
Asset revaluation reserve	<u>22,710,823</u>	<u>19,305,753</u>

The asset revaluation reserve is used to record increments and decrements on the revaluation of non-current assets as described in Note B1.

(iii) Retained earnings

	2017	2016
	\$	\$
Opening balance	10,454,800	9,598,885
(Deficit)/surplus during the year	(1,321,773)	855,915
Closing balance	<u>9,133,027</u>	<u>10,454,800</u>

D. APPENDICES

D2. UNRECOGNISED ITEMS

Capital and leasing commitments

Operating lease commitments

Non-cancellable operating leases contracted for but not capitalised in the financial statements	2017 \$	2016 \$
Payable – minimum lease payments		
- not later than 12 months	898,466	893,266
- between 12 months and 5 years	871,346	1,184,268
- later than 5 years	36,920	45,770
	<u>1,806,731</u>	<u>2,123,304</u>

Operating leases relate to leases over occupied premises and equipment such as copier machines. Lease terms are variable in length with leases of between 1 and 5 years. Leases have different renewal terms. A number of leases are with state and federal departments.

What is the relevant accounting policy?

Operating leases

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred. Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

Contingent liabilities and contingent assets

Contingent Assets

There were no contingent assets as at 30 June 2017.

Contingent Liability

SDN Child & Family Services Pty Limited holds the land title of 128 Hartington Street, Rooty Hill. The land is part of the Beranga project. A caveat exists over the property which dictates that SDN Child & Family Services Pty Limited is not able to dispose of the land without the prior consent of the NSW Department of Family and Community Services. On disposal of the asset, the group is required to remit to the Department, an amount of the proceeds equal to the proportion of total funds that they contributed to the project. Only the SDN portion of the property at the valuation date is taken up.

A potential contingent liability exists for rent on childcare premises where leases have expired. Management is unable to reliably estimate the value of this liability at the date of these financial statements.

Bank guarantees

SDN Children's Services has provided performance and rental guarantees amounting to \$77,832. SDN Child & Family Services Pty Limited has provided performance and rental guarantees amounting to \$70,540.

E. OTHER INFORMATION

E1. KEY MANAGEMENT PERSONNEL COMPENSATION

Key management personnel

Directors

Angela Donohoe
Darren Mitchell
Cynthia à Beckett
Kirsten Albert
Alexandra (Frier) Bentley
Natalie Berney (until 24 August 2016)
Theresa Collignon
Glenn Hughes
Rosalie Wilkie
Barbara Wise

Directors Remuneration

Board members serve on a voluntary basis and do not receive remuneration. They can be reimbursed for a reasonable amount of expenses directly related to Board activities.

Other key management personnel

Virginia (Ginie) Udy, Chief Executive Officer (until 21 July 2017)
Kay Turner, Deputy Chief Executive Officer (appointed Chief Executive Officer 22 July 2017)
Peter Rae, Chief Financial Officer
Dianne Speakman, Head of Communication
Joe Magri, Director of Integrated Services
Glynis Chang, Director, Practice, Learning & Development
Zarin Medhora, Director, Human Resource
Adrienne Jerram, Director of Marketing and Customer Experience
Karen Doyle, Director, Organisational and Business Development (commenced Parental Leave Cover 2 November 2016)
Kate Frost, Director, Organisational and Business Development (Parental Leave from 2 November 2016)

	Short-term benefits \$	Post- employment benefits \$	Other long term benefits \$	Termination Benefits \$	Total \$
2017					
Total compensation	1,593,817	142,497	(5,327)	-	1,730,987
2016					
Total compensation	1,495,026	128,957	5,729	-	1,629,712

E. OTHER INFORMATION

E2. CONTROLLED ENTITIES

Controlled entities

SDN Children's Services is the sole beneficiary of SDN Children's Services Building Fund. This fund is intended to subsidise capital projects for the construction and maintenance of pre-school buildings. The balance of the fund including cash at bank and investments was \$108,086 (2016: \$123,412).

SDN Children's Services also owns 100% of SDN Child & Family Services Pty Limited, a company limited by shares, incorporated and domiciled in Australia. The principal activities of SDN Child & Family Services Pty Limited are the provision of support services for children and families, largely funded through government grants.

E3. RELATED PARTY TRANSACTIONS

Related party transactions

Disclosures relating to key management personnel are set out in Note E1.

Transactions between related parties are on a cost plus basis.

All staff are eligible for a discount on childcare fees in SDN Children's Education and Care Centres for their children.

As at 30 June 2017, trade payables in SDN Children's Services included an amount of \$523,969 (2016: \$289,451) payable to its subsidiary, SDN Child & Family Services Pty Limited. The trade receivables balance included an amount receivable of \$1,344,865 (2016: \$848,558) from SDN Child & Family Services Pty Limited. These balances have been eliminated on consolidation.

The SDN Low Income Access Program is funded by SDN Children's Services to provide financial assistance to families facing hardship who would like their child to attend an SDN Children's Education and Care Centre. Funds amounting to \$250,000 was established for this program in June 2015. As at 30 June 2017 \$103,974 (2016: \$234,730) was held on behalf of SDN Children's Services relating to this program.

In 2016, SDN Children's Services, the parent entity, provided an unsecured at-call loan of \$500,000 to SDN Child & Family Services Pty Limited to assist in the development of the NDIS program. Interest is charged on a monthly basis at a variable interest rate of 5.40% per annum.

E. OTHER INFORMATION

E4. PARENT ENTITY DISCLOSURES

Parent entity disclosures

	2017 \$	2016 \$
Current assets	6,594,893	7,952,579
Total assets	42,741,921	39,927,246
Current liabilities	8,062,800	7,869,817
Total liabilities	10,402,516	10,335,397
Equity	<u>32,339,405</u>	<u>29,591,849</u>
(Deficit)/surplus for the year	<u>(896,349)</u>	<u>1,020,353</u>
<i>Other comprehensive income</i>		
Revaluation gain on land and buildings	3,650,712	-
Total comprehensive income for the year	<u>2,754,363</u>	<u>1,020,353</u>

Parent entity contingencies

The details of all contingencies in respect of SDN Children's Services are disclosed in Note D2.

E5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(i) Basis of preparation

The financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards – Reduced Disclosure Requirements, other authoritative pronouncements of the Australian Accounting Standards Board, the Charitable Fundraising Act 1991 and associated regulations and the *Australian Charities & Not-for-Profit Commission Act 2012*.

Material accounting policies adopted in the preparation of these financial statements are presented below. They have been consistently applied unless otherwise stated.

The financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets. The group is a not-for-profit organisation. As such the term "profit" is not applicable and the term "surplus" is used where required. The financial statements are presented in Australian Dollars.

E. OTHER INFORMATION

Going Concern Basis

As disclosed in the consolidated financial statements, the group generated a loss after tax of \$1,321,773 for the year ended 30 June 2017 in line with 2017 budget projections and now has negative working capital of \$471,528. The Directors remain confident that the group will be able to continue as a going concern and that it is appropriate to adopt the going concern basis in the preparation of the consolidated financial report for the following reasons:

- The group anticipates to grow revenue over the next 12 months and has already begun implementing its plan to achieve this objective;
- The group holds cash reserves of \$9,797,221;
- The group holds unencumbered property assets of \$35,889,450 which can be used as security on an operating overdraft facility if required;
- Of the current liability for employee provisions \$962,406 is not expected to be taken on the next 12 months;
- Whilst the cash flows forecast for 2018 are negative due to planned investment in our centres and in disability services we anticipate that debt repayments will be met.

(ii) New, revised or amending Accounting Standards and Interpretations adopted

The group has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Any significant impact on the accounting policies of the group from the adoption of these Accounting Standards and Interpretations are disclosed below. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity.

AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101

The standard, which is mandatory for the annual reporting period beginning on or after 1 January 2016, sets out amendments that only affects the presentation of, and disclosures contained within, the financial statements.

E. OTHER INFORMATION

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

AASB 15 is applicable to annual reporting periods beginning on or after 1 January 2018. However, per AASB 1058 application has been deferred by one year for not-for-profit entities. This standard will replace the current accounting requirements applicable to revenue with a single, principles-based model. Except for a limited number of exceptions, including leases, the new revenue model in AASB 15 will apply to all contracts with customers as well as non-monetary exchanges between entities in the same line of business to facilitate sales to customers and potential customers. The core principle of the Standard is that an entity will 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 the goods or services.

The main areas of impact for AASB 1058 will be when accounting for the receipt of volunteer services and transactions where the consideration to acquire an asset is significantly less than its fair value.

The combined operation of AASB 1058 and AASB 15 will come in to affect for periods commencing after 1 January 2019 and the group will make more detailed assessments of the impact over the next twelve months.

AASB 9: Financial Instruments and its consequential amendments

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces 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 solely principal and interest.

The standard introduces additional new disclosures. The group will adopt this standard from 1 July 2018 and the impact has yet to be fully assessed by the group.

AASB 16: Leases

Applicable to annual reporting periods beginning on or after 1 January 2019. When effective, this Standard will replace the current accounting requirements applicable to leases in AASB 117: Leases and related Interpretations. AASB 16 introduces a single lessee accounting model that eliminates the requirement for leases to be classified as operating or finance leases.

The transitional provisions of AASB 16 allow a lessee to either retrospectively apply the Standard to comparatives in line with AASB 108 or recognise the cumulative effect of retrospective application as an adjustment to opening equity on the date of initial application. Although the directors anticipate that the adoption of AASB 16 will impact the group's financial statements, the actual impact will depend on the operating lease assets held by the group as at 1 July 2019 and the transitional elections made at that time.

E. OTHER INFORMATION

(iii) Principles of consolidation

The consolidated financial statements incorporate the results of entities controlled by SDN Children's Services during the reporting period and the assets and liabilities of entities controlled at the end of the reporting period. A controlled entity is any entity over which SDN Children's Services has the power to govern the financial and operating policies so as to derive benefits from its activities.

There are two controlled entities, being SDN Children's Services Building Fund and SDN Child & Family Services Pty Limited. Refer to Note E2 for further information on these entities. All inter-group balances and transactions, including any unrealised surpluses or deficits, have been eliminated on consolidation.

(iv) Intercompany loans

Where the loan is between a parent and subsidiary the interest income/discount is initially recognised as an increase in investments in the parent and an equity contribution in the subsidiary. Loans between the parent and the subsidiary are excluded on consolidation.

(v) Income tax

No provision for income tax has been raised as the entity is exempt from income tax under Div 50 of the *Income Tax Assessment Act 1997*.

(vi) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

E. OTHER INFORMATION

E6. OTHER REQUIRED DISCLOSURES

(i) Auditor's remuneration

	2017 \$	2016 \$
Remuneration of the auditor of the consolidated group for:		
- audit services	78,550	76,000
- assistance with the preparation of financial statements	13,000	12,000
- audit of acquittal statements	5,000	18,500
	<u>96,550</u>	<u>106,500</u>

(ii) Cash flow information

	2017 \$	2016 \$
Reconciliation of cash flow from operations with (deficit)/surplus from ordinary activities after income tax:		
(Deficit)/surplus from ordinary activities after income tax	(1,321,773)	855,915
- Depreciation	1,227,073	820,359
- Provision for bad debts	(852)	17,127
Changes in assets and liabilities		
- Increase in trade and other receivables	(63,974)	(25,650)
- (Increase)/decrease in other assets	(14,357)	38,709
- Decrease in trade and other payables	(882,085)	(976,038)
- Decrease in provisions	(266,121)	(168,713)
- Decrease in fundraising reserve	(15,623)	(25,013)
Net cash (used in)/provided by operating activities	<u>(1,337,712)</u>	<u>536,696</u>

(iii) Events occurring after reporting date

On 22 July 2017, Kay Turner was appointed Chief Executive Office of SDN Children's Services and Controlled Entities. Virginia (Ginie) Udy resigned her position as Chief Executive Officer on 21 July 2017.

Apart from the above, there are no other matters or circumstances have arisen since the end of the financial year which significantly affected, or may significantly affect, the operations of the group, the results of those operations, or the state of affairs of the group in future financial years.

E. OTHER INFORMATION

(iv) Information and declaration to be furnished under the *Charitable Fundraising Act 1991*

The fundraising accounts have been prepared on an accruals basis and comply with Applicable Accounting Standards.

	2017 \$	2016 \$
<i>Statement of fundraising income and expenditure:</i>		
Gross proceeds from fundraising	26,046	34,383
Less: total cost of fundraising	(9,233)	(9,846)
Net surplus from fundraising	16,813	24,537
<i>Application of fundraising proceeds:</i>		
Opening balance	100,889	125,902
Net proceeds from fundraising	16,813	24,537
Purchase of children's play materials	(17,052)	(17,972)
Contributions toward childcare fees	(6,690)	-
Contributions towards excursions / entertainment	(2,643)	(2,282)
Contributions towards equipment	-	(4,091)
Contributions towards playground enhancement	-	(1,863)
Contributions towards staffing costs	-	(19,420)
Contribution towards functions	(6,051)	(3,922)
Total fundraising reserve	85,266	100,889

Forms of Fundraising Appeals conducted for the year ended 30 June 2017

For the purpose of reporting under the requirements of the *Charitable Fundraising Act 1991*, the group has detailed the forms of fundraising activities conducted for the year ended 30 June 2017. The fundraising activities and appeals include hosting of functions, raffles, sale of items and donations.

Significant ratios of fundraising activities

Comparison by monetary figures and percentages

Comparisons	2017 \$	2017 %
Total cost of fundraising/gross proceeds from fundraising	9,233 / 26,046	35.45
Net surplus from fundraising/gross proceeds from fundraising	16,813 / 26,046	64.55
Comparisons	2016 \$	2016 %
Total cost of fundraising/gross proceeds from fundraising	9,846 / 34,383	28.64
Net surplus from fundraising/gross proceeds from fundraising	24,537 / 34,383	71.36

E. OTHER INFORMATION

(v) Company details

The registered office and the principal place of business is:
SDN Children's Services
Level 2
86 - 90 Bay Street,
Broadway, NSW, 2007

Directors' Declaration for the year ended 30 June 2017

Declaration by Directors in respect of fundraising appeals.

In the opinion of the Board of Directors of SDN Children's Services and its controlled entities:

- (a) The accompanying statement of profit or loss and other comprehensive income is drawn up so as to give a true and fair view of income and expenditure of the group for the year ended 30 June 2017, and a true and fair view with respect to fundraising appeals;
- (b) The accompanying statement of financial position is drawn up so as to give a true and fair view of the group as at 30 June 2017, and in respect to fundraising appeals;
- (c) There are reasonable grounds to believe the group will be able to pay its debts as and when they become due and payable;
- (d) The provisions of the *Charitable Fundraising Act 1991* and the regulations under that Act and the conditions attached to the authority holder have been complied with; and
- (e) The internal controls exercised by the group are appropriate and effective in accounting for income and expenditure for the year ended 30 June 2017.

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


.....
Rosalie Wilkie
Director

16 October 2017

Directors' Declaration for the year ended 30 June 2017

Directors' Declaration

The directors of SDN Children's Services and Controlled Entities declare that:

1. The financial statements, comprising the statement of profit or loss and other comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity, and accompanying notes, are in accordance with the *Australian Charities and Not-for-profit Commission Act 2012* and:
 - (a) comply with Accounting Standards as described in the notes to the financial statements and the *Australian Charities and Not-for-profit Commission Regulations 2013*; and
 - (b) give a true and fair view of the group's financial position as at 30 June 2017 and of its performance for the year ended on that date in accordance with the accounting policies described in the notes to the financial statements.
2. In the directors' opinion, there are reasonable grounds to believe that the group will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the directors by:


.....
Rosalie Wilkie
Director

16 October 2017

INDEPENDENT AUDITOR'S REPORT

To the members of SDN Children's Services

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of SDN Children's Services (the registered entity) and its subsidiaries (the Group), which comprises the statement of financial position as 30 June 2017, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies, and the responsible entities' declaration.

In our opinion the accompanying financial report of SDN Children's Services, is in accordance with Division 60 of the *Australian Charities and Not-for-profits Commission Act 2012*, including:

- (i) Giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year then ended; and
- (ii) Complying with Australian Accounting Standards - Reduced Disclosure Requirements and Division 60 of the *Australian Charities and Not-for-profits Commission Regulation 2013*.

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 Group in accordance with the auditor independence requirements of the *Australian Charities and Not-for-profits Commission Act 2012* (ACNC Act) and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Other information

Those charged with governance are responsible for the other information. The other information obtained at the date of this auditor's report is information included in the registered entity's annual report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly 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 on the other information obtained prior to the date of this auditor's report, 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 directors for the Financial Report

The directors of the registered entity are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards - Reduced Disclosure Requirements and the ACNC Act, and for such internal control as they 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, directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the registered 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.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (<http://www.auasb.gov.au/Home.aspx>) at:

http://www.auasb.gov.au/auditors_responsibilities/ar3.pdf

This description forms part of our auditor's report.

Report on Other Legal and Regulatory Requirements

In addition, the financial statements and associated records have been properly kept during the year in accordance with the *Charitable Fundraising Act 1991* and regulations, and:

- (a) the financial statements show a true and fair view of the financial results of fundraising appeals for the year ended 30 June 2017;
- (b) money received as a result of the fundraising appeals conducted during the year has been properly accounted for and applied in accordance with the Act and the regulations; and
- (c) as at the date of this statement, there are reasonable grounds to believe that the registered entity will be able to pay its debts as and when they fall due.

BDO East Coast Partnership

A handwritten signature in black ink. The signature starts with 'BDO' in a stylized, cursive-like font, followed by a large, flowing signature that appears to be 'P. Bull'.

Paul Bull
Partner

Sydney, 16 October 2017