

Financial Statements

30 June
2019



SDN Child and Family Services Pty Limited

ABN: 15 134 504 377



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Corporate Directory

Corporate Directory

Darren Mitchell	Chair
Barbara Wise	Director
Kay Turner	Executive Director
Kirsty Albert	Director (appointed 29/03/2019)
Theresa Collignon	Director (resigned 29/02/2019)
Rosalie Wilkie	Director (resigned 29/03/2019)

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

Directors' report for the year ended 30 June 2019

The Directors present their report for SDN Child & Family Services Pty Limited ('CFS') for the year ended 30 June 2019 which is a part of SDN Children's Services and its controlled entities (the 'group').

What do we do?

SDN Child and Family Services Pty Limited is a company limited by shares. The principal activity of the company is the provision of support services for children and families. No significant change in the nature of the company's activity occurred during the financial year.

Review of our operations in 2018-19

Our Children's Therapies continued to face the challenges of transitioning from state government block funding including slower than expected take-up of NDIS support plans by children and families and insufficient NDIS plans to cover operating costs. Demand is increasing however the whole sector is facing shortages of skilled staff that is impacting on our ability to meet this growth. During the year CFS ceased delivering Children's Therapies services in the ACT and the Lithgow region due to staffing issues.

New pricing arrangements for the NDIS were announced in late March 2019 for therapy and attendant care services, which has helped with the sustainability of services.

SDN Beranga's state government funding ceased in June 2018. This funding was used to support increased staffing ratios for children with Autism Spectrum Disorders (ASD). To keep an autism-specific service, CFS changed the model from long day care to become a preschool specialising in children with ASD. Over the year the centre quickly filled and held a healthy waitlist for future enrolment.

The increased complexity in business processes that the NDIS has brought calls for investment that will continue for some years as the organisation continues to adjust to the changing operating environment. The CFS Board supports this investment in systems which will lead to efficiency improvements for staff. These improvements range from better integration of NDIS with health and education systems to more active practices and technology.

SDN continues to deliver the Brighter Futures program on behalf of the NSW Government in metro Sydney and the Eurobodalla region on the south coast. During the year SDN Brighter Futures was chosen to take part in the trial by the government of the SafeCare program, and this program is showing promising early results.

Overall financial position

Total cash equivalents decreased by \$1.4m to \$3 million. This decrease was primarily due to Children's Therapies transitioning from block funding to funding for individual clients.

Operating result

The changing NDIS environment impacted our financial results. Total revenue dropped by \$6 million (30%) to \$14 million. Overall CFS recorded a deficit of \$279,511 compared with a surplus of \$476,251 in 2017-18. Net assets decreased by \$262,828 to \$911,074, reflecting our deficit and the changing NDIS environment. A revaluation gain of \$49,250 on the SDN Beranga building in line with our accounting policy reduced the overall deficit to \$234,411.

Directors' report for the year ended 30 June 2019

Information on Directors

The Directors in office during the financial year were:

Director's name	Role	Director since	Qualifications and additional information
Darren Mitchell	Chair and Non-Executive Director (Chair from April 2016)	July 2009	Bachelor of Economics (Sydney), Master of Economics (Sydney)
Kirsty Albert	Non-Executive Director (joined March 2019)	March 2019	Bachelor of Arts (Hons) (Syd); Bachelor of Laws (Syd); Fellow of Australian Institute of Company Directors
Theresa Collignon	Non-Executive Director (until February 2019)	December 2015	Bachelor of Commerce (Marketing) (UNSW), Master of Business Administration (AGSM), Diploma of Financial Markets (SIA), Graduate of Australian Institute of Company Directors
Rosalie Wilkie	Non-Executive Director (until March 2019)	December 2012	Bachelor of Commerce (UoN), Fellow of Institute of Chartered Accountants Australia
Barbara Wise	Non-Executive Director	February 2015	Bachelor of Arts (Hons), Master of International Studies (USYD)
Kay Turner	Executive Director	July 2017	Master of Social Science (UWS), Bachelor of Education (Early Childhood) (Macq)

Directors' attendance at CFS Board Meetings

Name	number of meetings attended	number of meetings eligible to attend
Darren Mitchell (Chair)	5	5
Kirsty Albert	2	2
Theresa Collignon	2	3
Rosalie Wilkie	2	3
Barbara Wise	5	5
Kay Turner	5	5

Directors' report for the year ended 30 June 2019

Significant changes in state of affairs

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

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 company, or the results of those operations or the state of affairs of the company in the financial years subsequent to the financial year ended 30 June 2019.

Environmental issues

The company'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 company complies with community standards.

Proceedings on behalf of the company

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

Indemnity and insurance of officers

The company has indemnified the directors and executives of the company 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 company paid a premium in respect of a contract to insure the directors and executives of the company 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 company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the company or any related entity against a liability incurred by the auditor.

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

Auditor's independence declaration

The auditor's independence declaration for the year ended 30 June 2019 has been received and is on page 5.

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

.....

Darren Mitchell

Director

Dated: 18 October 2019

Auditor's Independence Declaration for the year ended 30 June 2019

[Auditor's Independence Declaration]

Statement of profit or loss and other comprehensive income for the year ended 30 June 2019

	Notes	2019 \$	2018 \$
Revenue	A1	14,170,611	20,173,854
Employee benefits expenses	A2	(9,320,950)	(13,180,008)
Occupancy expenses	A2	(1,152,771)	(2,384,172)
Administration expenses	A2	(3,002,574)	(3,088,894)
Service delivery expenses	A2	(657,159)	(698,548)
Depreciation expenses	A2	(339,918)	(319,481)
Finance costs	A2	(26,000)	(26,500)
Revaluation gain on buildings		49,250	-
(Deficit)/Surplus before income tax expense		(279,511)	476,251
Income tax expense	E2 (iv)	-	-
(Deficit)/Surplus after income tax expense		(279,511)	476,251
Other comprehensive income, net of tax			
<i>Will not be reclassified to profit or loss</i>			
Revaluation gain on land		45,100	-
Total comprehensive (loss) / income for the year		(234,411)	476,251

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

Statement of financial position as at 30 June 2019

	Notes	2019 \$	2018 \$
Current assets			
Cash and cash equivalents	C1 (ii)	2,937,974	4,307,429
Trade and other receivables		48,247	213,952
Other current assets		37,510	32,955
Financial assets		23,358	22,864
Total current assets		3,047,089	4,577,200
Non-current assets			
Property, plant and equipment	B1	1,204,210	1,095,379
Intangible assets	B1	380,228	525,291
Total non-current assets		1,584,438	1,620,670
Total assets		4,631,527	6,197,871
Current liabilities			
Trade and other payables	C1 (iii)	1,818,614	3,107,179
Provisions	C1 (iv)	850,507	855,995
Borrowings	C1 (v)	500,000	500,000
Total current liabilities		3,169,121	4,463,174
Non-current liabilities			
Provisions	C1 (iv)	551,332	560,794
Total non-current liabilities		551,332	560,794
Total liabilities		3,720,453	5,023,968
Net assets		911,074	1,173,902
Equity			
Issued equity	C1 (vi)	100,000	100,000
Reserves	D1 (i) - (iii)	1,546,532	1,529,849
Retained losses	D1 (iv)	(735,458)	(455,947)
Total equity		911,074	1,173,902

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

Statement of changes in equity for the year ended 30 June 2019

	Notes	Share Capital \$	Asset revaluation reserve \$	Other reserve \$	Retained losses \$	Total \$
Balance at 1 July 2017		100,000	266,500	1,270,781	(939,630)	697,651
Surplus for the year		-	-	-	476,251	476,251
Revaluation Gain	D1 (iii)	-	-	-	-	-
Total comprehensive loss for the year		-	-	-	476,251	476,251
<i>Transactions with owners in their capacity as owners</i>						
Fundraising reserve net movement	D1 (ii)	-	-	(7,432)	7,432	-
Balance at 30 June 2018		100,000	266,500	1,263,349	(455,947)	1,173,902
Deficit for the year		-	-	-	(279,511)	(279,511)
Revaluation gain	D1 (iii)	-	45,100	-	-	45,100
Total comprehensive income for the year		-	45,100	-	(279,511)	(234,411)
<i>Transactions with owners in their capacity as owners</i>						
Fundraising reserve net movement	D1 (ii)	-	-	(28,417)	-	(28,417)
Balance at 30 June 2019		100,000	311,600	1,234,932	(735,458)	911,074

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

Statement of cash flows for the year ended 30 June 2019

	Notes	2019 \$	2018 \$
Cash flows from operating activities			
Receipt of grants		11,853,871	16,637,278
Receipts from customers		3,603,892	4,174,966
Interest received		34,459	59,393
Payments to suppliers and employees		(16,651,848)	(21,159,806)
Net cash used in operating activities	E3 (ii)	(1,159,626)	(288,169)
Cash flows from investing activities			
Receipts/(Payments) for investments held to maturity		(494)	36,511
Payments for property, plant and equipment		(209,335)	(377,730)
Net cash used in investing activities		(209,829)	(341,219)
Cash flows from financing activities			
Proceeds from related party loans		-	-
Net cash provided by financing activities		-	-
Net decrease in cash held		(1,369,455)	(629,388)
Cash and cash equivalents at beginning of financial year		4,307,429	4,936,817
Cash and cash equivalents at end of financial year	C1 (ii)	2,937,974	4,307,429

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 State and Federal Government grants, disability services fees and child care fees. We also generated revenue from staff services provided to the parent entity, SDN Children's Services.

	2019 \$	2018 \$
Childcare revenue	302,051	494,412
Disability services revenue	1,789,892	1,881,829
Interest received	34,459	59,393
Grants - Commonwealth government	361,824	1,542,942
Grants - NSW state government	8,915,157	12,688,643
Donations and bequests	45,779	125,990
Staffing recoveries and other intercompany charges*	2,706,208	2,932,425
Other revenue	15,241	448,220
Total revenue	14,170,611	20,173,854

*Recoveries from parent entity for staff costs

Donations recognised in Statement of Financial Position¹

	Opening balance \$	Donations received \$	Payments \$	Closing balance \$
2019				
Disability access & inclusion	16,307	4,250	(11,983)	8,574
Aboriginal E C Scholarships	255	52,123	(33,686)	18,692
Total	16,562	56,373	(45,669)	27,266

	Opening balance \$	Donations received \$	Payments \$	Closing balance \$
2018				
Disability access & inclusion	10,196	15,780	(9,669)	16,307
Aboriginal E C Scholarships	48,749	67,597	(116,091)	255
Total	58,945	83,377	(125,760)	16,562

¹ These donations directed for use in paying child care fees are disclosed as unearned income - child care fee in advance under trade and other payables. Once the donation is spent, it is recognised as donations revenue - childcare fees in the statement of profit and loss.

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

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

	2019	2018
	\$	\$
SDN Child & Family Services Pty Limited - general donations ²	110	230
SDN Child & Family Services Pty Limited - child care fees ³	45,669	125,760
Total	<u>45,779</u>	<u>125,990</u>

² Donations disclosed as donations and bequests under revenue which are general donations not directed towards a specific purpose.

³ Revenue from donations that are directed for use in payment of childcare fees.

As part of its activities, SDN Child & Family Services Pty Limited receives donations from philanthropic foundations, businesses and individuals for our work with our three 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

What is the relevant accounting policy?

Revenue recognition

Revenue from the rendering of childcare and disability services is recognised upon delivery of the service. Revenue from childcare 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.

Grant revenue is recognised in the statement of profit or loss and other comprehensive income when the company obtains control of the grant and it is probable that the economic benefits gained from the grant will flow to the company 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 company 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 revenue on receipt.

Donations are recognised as revenue when received. Donations of child care fees are recognised as revenue when the care is delivered.

Staffing recoveries are received when the company's staff provide services for the parent entity, SDN Children's Services. Revenue is recognised upon delivery of the service.

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.

	2019 \$	2018 \$
Support children who face challenges	5,054,387	9,282,047
Strengthen families & communities	9,444,985	10,415,556
Total expenditure*	14,499,372	19,697,603

*Expenditure includes impairment loss, depreciation & administration staff costs

The main categories of expenditure were as follows:

	2019 \$	2018 \$
Employee benefits expense	9,320,950	13,180,008
Rent expense	958,209	1,899,820
Furniture & appliance expenses	4,770	139,312
Repairs and maintenance expense	189,792	345,040
Occupancy expenses	1,152,771	2,384,172
Operating expenditure	481,640	477,050
IT and equipment expense	48,157	88,347
Other expenses	163,287	54,825
Marketing expenses	10,554	541,642
Corporate recoveries	2,162,415	1,844,546
Professional fees	136,521	82,484
Administration expenses	3,002,574	3,088,894
Childcare expenses	202,552	251,580
Consulting expenses	274,376	208,235
Training and Program expenses	180,231	238,733
Service delivery expenses	657,159	698,548
Depreciation expenses	339,918	319,481
Finance costs	26,000	26,500
Total expenditure	14,499,372	19,697,603

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

B1. NON-CURRENT ASSETS

	2019	2018
	\$	\$
Property, Plant and Equipment		
Freehold land - at valuation	615,000	569,900
	<u>615,000</u>	<u>569,900</u>
Freehold buildings - at valuation	451,000	414,100
Less: accumulated depreciation	-	(16,564)
	<u>451,000</u>	<u>397,536</u>
Centre & program equipment - at cost	231,866	174,035
Less: accumulated depreciation	(93,656)	(46,092)
	<u>138,210</u>	<u>127,943</u>
Total property, plant and equipment	<u><u>1,204,210</u></u>	<u><u>1,095,379</u></u>
	2019	2018
	\$	\$
Intangible assets		
Software - at cost	1,278,715	1,148,410
Less: accumulated amortisation	(898,487)	(623,119)
Total intangible assets	<u><u>380,228</u></u>	<u><u>525,291</u></u>
Total non-current assets	<u><u>1,584,438</u></u>	<u><u>1,620,670</u></u>

What is the relevant accounting policy?

Non-current assets

Each class of non-current assets is carried at cost or fair value less, where applicable, any accumulated depreciation / amortisation 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 an accredited independent valuer as at 30 June 2019.

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

The revaluation was based on the following assumptions:

- The company 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 company 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 the subject property is affected by a caveat, with the Caveator being 'Minister for Ageing, Minister for Disability Services NSW'.

The primary method utilised by the independent valuer was the Direct Comparison method based on a rate per licensed place. They analysed sales evidence of similar transacted childcare centres in the vicinity of the properties and determined an appropriate rate per licensed place.

The secondary method used by the independent valuer was the Capitalisation of Income approach, which estimates the net market rental income of each property analysed on an income basis per licensed place, then capitalised this figure at an appropriate capitalisation rate (net yield) to arrive at market value.

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.

Depreciation

The depreciable amount of all tangible fixed assets including buildings, but excluding freehold land, is depreciated over their useful lives to the company 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	20% - 33% straight line

Purchases of plant and equipment using grant funds are not the property of the company 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.

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

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.

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.

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

C1. CAPITAL MANAGEMENT

Management controls the capital of SDN Child and Family Services Pty Limited to ensure that adequate cash flows are generated to fund its operations and that returns from investments are maximised. The entity's Risk and Audit Committee monitors the financial position in line with this objective. The entity's Risk and Audit Committee operates under policies approved by the Board of Directors and provides regular reports.

The company has generated negative operating cash flows for the past two years but remains in a strong cash position.

The company's capital consists of issued capital and accumulated equity.

Management effectively manages the company's capital by assessing the company's financial risks and responding to changes in these risks and in the market. 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 company since the previous year. The strategy of the company is to maintain a low gearing ratio. Any funding required is sourced from the parent entity, see Note C1 (v). The external debt held by the company is \$nil.

(i) Working Capital

	2019	2018
	\$	\$
Current Assets	3,047,089	4,577,200
Current Liabilities	3,169,121	4,463,174
Net Current (Liabilities)/Assets	<u>(122,032)</u>	<u>114,026</u>

(ii) Current Assets

Cash and cash equivalents

	2019	2018
	\$	\$
Cash at bank and in hand	1,573,715	682,979
Short-term bank deposits	1,364,259	3,624,450
	<u>2,937,974</u>	<u>4,307,429</u>

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

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.

(iii) Current Liabilities

Trade and other payables

	2019 \$	2018 \$
Trade payables	478,662	1,855,568
Sundry payables and accrued expenses	393,059	449,985
Unearned income - grant revenue	918,478	784,451
Unearned income - childcare fees in advance	1,150	613
Unearned income - donated child care fees in advance	27,265	16,562
	1,818,614	3,107,179

As part of its activities, SDN Child & Family Services Pty Limited receives 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 Child & Family Services Pty Limited 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 child care services for children with additional needs. This program ended on November 2014. As at June 2019 \$735,940 program and administration funding (2018: \$735,940 program and administration funding) was held on behalf of the Department of Education which will be refunded to the Department upon request.

As at 30 June 2019 \$182,535 (2018: \$48,511) was recorded in unearned income representing advances for grant funding received from government.

What is the relevant accounting policy?

Trade Payables

These amounts represent liabilities for goods and services provided to the company prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Funds held on behalf of funding bodies

Funds for operational projects undertaken by the company 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 and 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 company obtains control of the contribution and has no obligation to repay the funds. Until control is obtained the amounts are held as unearned revenue.

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

(iv) Provisions

	2019	2018
	\$	\$
Current		
Annual leave	416,398	508,637
Long service leave	272,401	226,840
Rostered days off	5,113	6,873
Make-good	156,595	113,645
	<u>850,507</u>	<u>855,995</u>
Non-current		
Long service leave	45,687	58,154
Contract termination	479,905	444,411
Make-good	25,740	58,229
	<u>551,332</u>	<u>560,794</u>
Movement in provisions	2019	2018
	\$	\$
Make-good		
Opening balance	171,874	238,513
Increase/(reduction) in provisions	10,461	(66,639)
Balance at 30 June	<u>182,335</u>	<u>171,874</u>

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

A provision has also been recognised for employee entitlements relating to contract terminations for employees on fixed term contracts based on the amount expected to be settled in the event that funding programs 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 company does not have an unconditional right to defer settlement. However, based on past experience, the company does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months. The amounts of \$17,155 reflect 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 SDN Child & Family Services Pty Limited. This amount represents the accrued value 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 company 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 company contributes to a number of superannuation funds which exist to provide benefits to employees and their dependants on retirement, disability or death. The company's commitment in respect of the superannuation funds (which are all accumulation funds) is limited to making the specified contributions. The company's contributions to the superannuation funds are expensed in the statement of profit or loss and other comprehensive income as incurred.

Critical accounting estimates and judgements

Provision for employee benefits

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

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

Provision for make good

The provision for make good represents the present value of the estimated costs to make good the premises leased by the company at the end of the respective lease terms. The calculation includes various assumptions around expected reparation works, timing of works and final costs. Where actual costs are different to the estimate the make good expense will be impacted.

Provision for termination liabilities

The company recognises termination benefits for employees employed to work for specific grant funded programs where ongoing 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.

(v) Borrowings

	2019 \$	2018 \$
Loans payable to SDN Children's Services	500,000	500,000

In 2016, the company's parent entity, SDN Children's Services provided an unsecured at-call loan to the company to assist in the development of the NDIS program. Interest is charged on a monthly basis at a variable interest rate of 5.2% per annum (ATO Division 7A-benchmark interest rate) (2018: 5.3%).

What is the relevant accounting policy?

Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received net of transaction costs. They are subsequently measured at amortised cost using the effective interest rate method.

Where there is an unconditional right to defer settlement of the liability for at least 12 months after the reporting date, the loans or borrowings are classified as non-current.

(vi) Issued Capital

	2019 \$	2018 \$
2 fully paid ordinary shares (2018: 2 fully paid ordinary shares)	100,000	100,000

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

C2. FINANCIAL RISK MANAGEMENT

The company'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 9 (implemented 1 July 2018) as detailed in the accounting policies to these financial statements are as follows:

	2019	2018
	\$	\$
Financial assets		
Cash and cash equivalents	2,937,974	4,307,429
Trade and other receivables	48,247	213,952
Other current assets and financial assets	60,868	55,819
Total financial assets at amortised cost	3,047,089	4,577,200
Financial Liabilities		
Trade and other payables	1,818,614	3,107,179
Borrowings	500,000	500,000
Total financial liabilities at amortised cost	2,318,614	3,607,179

What is the relevant accounting policy?

Financial instruments

Financial assets and financial liabilities are recognised when the entity 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.

Financial assets that meet the following conditions are measured subsequently at amortised cost:

- Held within a business model whose objective is to hold financial assets in order to collect contractual cash flows;
- 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.

Financial assets that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets;
- 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).

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

As at 30 June 2019, the entity's financial assets consist of cash and cash equivalents, loans and receivables and other current assets which are measured at amortised cost in accordance with the above accounting policy.

Non-derivative financial liabilities are initially measured at fair value and are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial liability is derecognised.

As at 30 June 2019, the entity's financial liabilities consist of trade and other payables which are measured at amortised cost in accordance with the above accounting policy.

Impairment of financial assets

The entity recognises a loss allowance for expected credit losses on financial assets which are either measured at amortised cost or fair value through other comprehensive income. The measurement of the loss allowance depends upon the company's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain.

Where there has not been a significant increase in exposure to credit risk since initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses. The amount of expected credit loss recognised is measured on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate.

For financial assets measured at fair value through other comprehensive income, the loss allowance is recognised within other comprehensive income. In all other cases, the loss allowance is recognised in profit or loss.

D. APPENDICES

D1. RESERVES AND ACCUMULATED PROFITS

(i) Equity contribution	2019	2018
	\$	\$
Opening balance	1,220,000	1,220,000
Balance at 30 June	1,220,000	1,220,000

In 2012, the company's parent entity, SDN Children's Services, advanced the company \$1,220,000 to assist in the development of the Beranga childcare centre. The advance is not subject to any formal agreement covering terms such as repayment or interest charges to be levied. On initiation of the advance, repayment was neither planned nor likely. As a result, the advance has been treated as an equity contribution in accordance with the provisions of *AASB 139 Financial Instruments: Recognition & Measurement*.

(ii) Fundraising reserve	2019	2018
	\$	\$
Opening balance	43,349	50,781
Transfers from fundraising reserve	(28,417)	(7,432)
Closing balance	14,932	43,349

(iii) Asset revaluation reserve	2019	2018
	\$	\$
Asset revaluation reserve	311,600	266,500

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

(iv) Retained losses	2019	2018
	\$	\$
Opening balance	(455,947)	(939,630)
(Deficit)/Surplus during the year	(279,511)	476,251
Transfers from fundraising reserve	-	7,432
Closing balance	(735,458)	(455,947)

D. APPENDICES

D2. UNRECOGNISED ITEMS

Operating Lease Commitments

	2019	2018
Non-cancellable operating leases contracted for but not capitalised in the financial statements	\$	\$
Payable - minimum lease payments		
- not later than 12 months	471,070	440,986
- between 12 months and five years	16,166	280,447
	<u>487,236</u>	<u>721,433</u>

The property leases are non-cancellable leases with varying terms, from 1 to 3 years. The equipment leases are non-cancellable leases with varying terms, from 1 to 5 years.

Contingent rental provisions within the lease agreements require that minimum lease payments be increased by the CPI % per annum. An option exists to renew the leases at the end of the respective terms.

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.

Bank Guarantees

SDN Child & Family Services Pty Limited has provided rental guarantees amounting to \$39,875 (2018: \$44,917).

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 company 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.

E. OTHER INFORMATION

E1. RELATED PARTIES

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.

Related Party Transactions

Transactions between related parties are on a cost basis.

All staff are eligible for a discount on childcare fees in SDN services for their children.

As at 30 June 2019, trade payables in SDN Child and Family Services Pty Limited included an amount of \$395,634 (2018: \$1,743,943) payable to its parent entity, SDN Children's Services. This balance is net of the trade receivable owed to SDN Child and Family Services Pty Limited of \$554,009 (2018: \$404,053) from SDN Children's Services.

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 5.2% per annum (ATO Division 7A-benchmark interest rate). No repayments of the principal balance have occurred.

E2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements are special purpose financial statements prepared in order to satisfy the financial reporting requirements of the *Australian Charities and Not-for-profit Commission Act 2012*. The directors have determined that the company is not a reporting entity because there are no users dependent on the preparation of general purpose financial statements.

The report has been prepared in accordance with the requirements of the *Australian Charities and Not-for-profit Commission Act 2012*, the *Charitable Fundraising Act 1991* and the recognition and measurement requirements specified by the Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the disclosure requirements of the following Australian Accounting Standards:

- AASB 101 *Presentation of Financial Statements*
- AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*
- AASB 107 *Statement of Cash Flows*
- AASB 110 *Events After the End of the Reporting Period*
- AASB 1031 *Materiality*
- AASB 1048 *Interpretation of Standards*

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

The entity 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.

E. OTHER INFORMATION

Any significant impact on the accounting policies of the entity 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 9 Financial Instruments

The entity has adopted AASB 9 from 1 July 2018. The entity has receivables at year end and under the standard there are new impairment requirements which use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment is measured using a 12-month ECL method unless the credit risk on a financial asset has increased significantly since initial recognition in which case the lifetime ECL method is adopted. For receivables, a simplified approach to measuring expected credit losses using a lifetime expected loss allowance is available and has been used.

Impact of adoption

The adoption of new Accounting Standards and Interpretations did not have an impact on the financial performance or position of the entity as at 30 June 2019 or on opening retained earnings as at 1 July 2018.

(ii) New, revised or amending Accounting Standards and Interpretations not yet adopted

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 entity will make more detailed assessments of the impact over the next twelve months.

E. OTHER INFORMATION

AASB 16 Leases

The standard is effective for periods beginning on or after 1 January 2019.

Leases will be adopted by the entity for the financial year starting on 1 July 2019. For leases currently classified as operating leases, under current accounting requirements the entity does not recognise assets or liabilities, and instead spreads the lease payments on a straight-line basis over the lease term, disclosing in its annual financial statements the total commitment. The impact of the new standard will result in operating lease arrangements capitalised onto the statement of financial position, with a right of use asset and corresponding financial liability recognised on transition.

The entity has material operating lease commitment as set out in Note D2 and therefore the adoption of the standard is expected to have a material impact on the Financial Statements of the entity. The Board will decide on the transition method it will adopt. It is noted that the application of AASB16 will not impact the statement of cash flows. The portfolio of leases consists of property leases. For leases with lease terms that end within 12 months from the date of transition the entity will apply the practical expedient to account for these leases as a short-term lease. This will ensure that there is no immediate impact to net assets on that date.

(iii) Reporting basis and conventions

The financial report has been prepared on an accruals basis and is based on historical cost. The company 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.

The following is a summary of the material accounting policies adopted by the company in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

(iv) Income tax

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

(v) Goods and services tax (GST)

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

(vi) Comparative figures

Where required by Accounting Standards and/or for improved presentation purposes comparative figures have been adjusted to conform with changes in presentation for the current year.

E. OTHER INFORMATION

E3. OTHER REQUIRED DISCLOSURES

(i) Auditor's remuneration

	2019 \$	2018 \$
Remuneration of the auditor for:		
- audit services	23,250	23,250
- assistance with the preparation of financial statements	7,250	7,250
	<u>30,500</u>	<u>30,500</u>

(ii) Cash Flow Information

	2019 \$	2018 \$
Reconciliation of cash flow from operations with deficit from ordinary activities after income tax.		
Surplus / (Deficit) from ordinary activities after income tax	(279,511)	476,251
- Depreciation	339,918	319,481
- Revaluation gain on buildings	(49,250)	-
Changes in assets and liabilities		
- (Increase) / Decrease in trade and other receivables	160,351	(88,652)
- Decrease in other assets	(4,556)	10,122
- Decrease in payables	(1,283,211)	(232,606)
- Decrease in provisions	(14,950)	(772,765)
- Decrease in fundraising reserve	(28,417)	-
Net cash used in operating activities	<u>(1,159,626)</u>	<u>(288,169)</u>

(iii) Events occurring after reporting date

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 company, the results of those operations, or the state of affairs of the company 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.

	2019	2018
	\$	\$
<i>Statement of fundraising income and expenditure:</i>		
Gross proceeds from fundraising	-	-
Net surplus from fundraising	-	-
 <i>Application of fundraising proceeds:</i>		
Opening balance	43,349	50,781
Net proceeds from fundraising	-	-
Purchase of children's play materials	(19,108)	-
Contributions toward childcare fees	(9,309)	(1,795)
Contributions toward functions	-	(5,637)
Total fundraising reserve	14,932	43,349

Forms of Fundraising Appeals conducted for the year ended 30 June 2019

For the purpose of reporting under the requirements of the Charitable Fundraising Act 1991, SDN Child & Family Services has detailed the forms of fundraising activities conducted for the year ended 30 June 2019. The fundraising activities and appeals include hosting of functions, raffles, sale of items and donations.

Directors' Declaration for the year ended 30 June 2019

Declaration by Directors in respect of fundraising appeals.

In the opinion of the Board of Directors of SDN Child and Family Services Pty Limited:

- (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 company for the year ended 30 June 2019, 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 company as at 30 June 2019, and in respect to fundraising appeals;
- (c) There are reasonable grounds to believe the company 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 company are appropriate and effective in accounting for income and expenditure for the year ended 30 June 2019.

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

.....
Darren Mitchell
Director

18 October 2019

Directors' Declaration for the year ended 30 June 2019

Directors' Declaration

The directors have determined that the company is not a reporting entity and that these special purpose financial statements should be prepared in accordance with the accounting policies described in the notes to the financial statements.

The directors of the company 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 company's financial position as at 30 June 2019 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 company 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:

.....
Darren Mitchell
Director

18 October 2019

Independent Auditor's Report For the year ended 30 June 2019

Independent Auditor's Report

Independent Auditor's Report For the year ended 30 June 2019

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