sdn
children's services

Your child, supported by ***our village.***

SDN Children's Services

Annual Report 2022

*Welcome to our **SDN village**, where everyone belongs.*

contents

SDN Children's Services

Annual Report 2022

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Level 3, 19–37 Greek Street
Glebe NSW 2037

View our full Annual Report at
www.sdn.org.au/corporate-publications

Directors & Officers

Directors

The Directors as at publication at 18 October 2022 were:

Tamara Johnston
President

Cynthia à Beckett
Director

Kirsty Albert
Director

Linda Cassidy
Director

Angela Donohoe
Director

Helen Hamilton-James
Director

Julie Hourigan Ruse
Director

Glenn Hughes
Director

Rani Kumar
Director

Darren Mitchell
Director

Tom Taylor
Director

Barbara Wise
Director

For more information on our Directors, see www.sdn.org.au/about-sdn/governance

CEO
Kay Turner

Company Secretary
Dianne Speakman

Registered Office & Principal Place of Business
Level 3
19-37 Greek Street
Glebe NSW 2037

Auditor
BDO Audit Pty Ltd
Level 11
1 Margaret Street
Sydney NSW 2000

Senior Leadership Team

The Senior Leadership Team as at publication at 18 October 2022 was:

Kay Turner
Chief Executive Officer

Peter Rae
Chief Financial Officer

Dianne Speakman
Head of Communications and Corporate Affairs, Company Secretary

Zarin Medhora
Head of People and Organisational Development

Glynis Chang
Director of Organisational Development

Adrienne Jerram
Director of Marketing and Customer Experience

Bryan Mattes
Strategic Project Manager

For more information on our Senior Leadership Team, see www.sdn.org.au/about-sdn/our-team


SLEEPY BEARS
YOU

Our Purpose

is to promote and enhance children's **wellbeing, learning and development**, in inclusive environments.

Our Values

In carrying out our purpose we commit ourselves to being:

Trustworthy + Reliable

Inclusive +

Respectful Creative + Innovative

President's & CEO's *report*

Tam Johnston and Kay Turner

Last year in our report to you, we anticipated more COVID-related challenges in 2022, and the ongoing impact of COVID-19 on SDN's revenue for the 2021-22 financial year. This is one of those times when ***we wish we weren't proven right.***

We started the 2021-22 financial year in lockdown, with restrictions on the movement of many residents. This impacted the ability of our early learning centre staff to get to work, and of our Children's Therapies and Family Preservation and Family Support Programs staff to see children in their homes. Many families enrolled in our centres, and whose children were having therapy provided at school, kept their children at home.

As we moved towards Christmas, and restrictions eased with COVID vaccination rates increasing, we were hopeful of a better 2022, but the new Omicron strain started the 2022 calendar year with a bang. We experienced rolling closures across our centres as staff and children had to isolate when deemed a close contact, and we had ongoing disruption to home and community-based delivery of therapies and family support.

Given these closures, and with many families choosing to not have their children attend a centre, we did not feel we could keep charging those families fees. When the Australian Government eased the rules to allow us to, we made the decision to waive the out-of-pocket fee (known as the gap fee) for children not attending, and we introduced a special COVID relief rate for children not attending who were not eligible for the Child Care Subsidy.

We knew this would dramatically affect our revenue, but also knew it would help keep children enrolled while not attending and that it was the right thing to do. We received a small amount of support from the Australian Government for those centres where attendance dropped below 50%, but unlike 2020 there was no additional government support package. We remained committed to keeping our staff employed during this time as we know that they are the backbone of our services to children and families. COVID infections rolled into winter and staff illness rates were exacerbated by flu and colds, peaking in May 2022.

As well as being stretched by illness-related absences, our services have been, and continue to be, impacted by the chronic workforce shortage affecting all three sectors we work in. This has impacted our Children's Therapies revenue as well as our centre capacity.

So you will see that we're reporting a significant financial loss for the 2021-22 financial year. Thankfully the underlying financial strength of our organisation, supplemented by the surplus we reported last year, meant we had a strong cash balance to draw on during the challenges of 2021-22.

Through all of this our staff have been amazing, carrying on and doing what has needed to be done to keep services open and to support children and families. There has been a strong collaborative leadership response to ensure a wide range of information and inputs from across the organisation are heard, resulting in robust decision making that has held us in good stead.

Despite the challenges our teams have faced, our annual staff survey results remained strong, with an 80% engagement score (up 4% on the previous year) and an

81% score on progress (up 6% on the previous year). Wellbeing was 74%, an increase of 3% on the previous year. We thank all of our staff for supporting each other, and for their commitment to the children and families in our services.

It hasn't been all COVID related over the past year, with achievements including:

- Undertaking a successful audit to add Behaviour Supports to our registration as an NDIS provider, adding another offering to our Children's Therapies.
- Transitioning from the NSW Government Department of Communities and Justice's Brighter Futures Program to the new Family Preservation Program, and the launch of our Thriving Families Practice Framework for our family support programs.
- SDN Riverwood achieved an Excellent rating under the National Quality Standard in October 2021 – this is the highest rating available for centres and has to be specifically applied for and granted.
- The launch of our first autism-specific preschool program within a mainstream centre, modelled on our SDN Beranga program.
- Shared Services staff moved into the new Broadway hub in June, after months of planning and COVID-related delays, and we now have a bright, clean and modern central location with spaces for training, meetings and visiting staff.
- Ongoing planning and design for enhancements that will optimise our property portfolio for the future.
- Introduced rewards and recognitions programs that acknowledge and develop our staff.

While utilisation in our centres was lower than expected (an issue affecting many providers across the sector), the loyalty and trust of families in our services remained high. Across our centres, our net promoter score (families who would actively recommend SDN to other families) increased from 68.4 to 73.6. This is a very strong result, with 97% of families agreeing or strongly agreeing that SDN provides a high-quality service.

With the easing of isolation restrictions our services have settled into a 'living with COVID' routine. The workforce issues across all of the sectors we work in are not going to be solved quickly and will be one of the major issues facing us over the coming few years.

Despite our disappointing financial results this year, SDN is in a strong position and is resilient. Our outlook remains positive by staying focused on the difference we can make together for children and families.

Tamara Johnston, President; and
Kay Turner, Chief Executive Officer

Message from ***the President***

When I took on the role of President of the SDN Board in November 2019, I knew it would be challenging and a learning experience, but I couldn't have imagined the challenges that would be thrown at our sector and community throughout this time!

As I now come to the end of my term in this role, I want to thank my fellow directors for their support, engagement, energy and focus over the past three years. SDN is served by a strong, committed board working not only in the best interests of the organisation, but with a clear focus on the needs of children and families.

We welcomed two new directors in mid-2022, Julie Hourigan Ruse and Rani Kumar, who bring wide experience in the child and family sector. It's been fantastic getting to know them both and I look forward to the contribution I know they will make as directors.

I'd also like to acknowledge the incredible contribution of Dr Cynthia à Beckett, who is retiring from the Board at the AGM after nine years. Cynthia has chaired our Research Ethics Committee for most of that time and has brought her early education expertise to our decision making. On behalf of the Board, I would like to thank her for her contribution, and her thoughtful and careful stewardship of our research responsibilities.

Last, but certainly not least, I'd like to thank our incredible staff team. Day after day through these crazy COVID times, they have demonstrated resilience, good humour, pragmatic decision making and most of all care for children and families. I take my hat off to them for a job well done.

Thank you especially to Kay, and her Executive team. It's been a pleasure to work more closely with you during my time as President. I look forward to continuing to be a member of the SDN Board and working with our new President as we face the next set of challenges and opportunities to come.

Tamara Johnston, President

Directors' Report

SDN Children's Services is a not for profit company limited by guarantee and is a charity registered with the Australian Charities and Not-for-profits Commission (ACNC).

Our strategic outcome is to grow our current reach and deliver coordinated children's services, including for children experiencing disadvantage. We will do this by having consistent, quality services that are desirable for families, are sustainable, and have impact.

SDN has a wholly owned subsidiary, SDN Child and Family Services Pty Ltd, which is endorsed as a Public Benevolent Institution and is responsible for managing government program contracts and services, and programs funded by donations.

This report is our consolidated report for the 2021-22 financial year and contains the information required as part of our regulatory reporting requirements. Our reporting on our progress against our strategy is contained in our Annual Review.

Our activities are:

1

Early Learning

2

Children's Therapies

3

Family Preservation & Support

4,803

children and families positively impacted.

Our Impact in 2022

4,803
children and families positively impacted.

This year we positively impacted **4,803 children and families**, compared with **4,579 children last year**. This is an increase on last year as the impact of the COVID-19 pandemic lessened and we were able to return to delivery of face to face services.

We provided **3,121 children with high quality early childhood education and child care** through our 27 centres.

Last year: 3,049

3,121
children supported through our 27 centres.

123
additional children facing challenges supported.

We supported an **additional 123 children facing challenges** to be enrolled in mainstream settings.

Last year: 123

As at 30 June 2022, we were providing early intervention services for **566 children with disabilities or developmental delays.**

Last year (as at 30 June 2021): 534

566
children with disabilities or developmental delays.

750

families facing challenges supported.

Last year: 588

23

children in supported playgroups and activities.

Last year: 27

We know that children thrive in safe and supportive environments, and in 2021-22 we worked with 750 families facing challenges.

SDN actively supports the children's services sector to be **more inclusive of children.**

In 2021-22, we **supported 239 other service providers** through the following programs (compared with 264 last year).

Family Preservation
(previously Brighter Futures)

112 services

Last year: 129

Child & Parenting Program

15 agencies

Last year: 23

Start Strong Pathways

9 agencies

Last year: 33

The focus shifted to working with families in 2021-22.

Inner & Eastern Sydney Child & Family Interagency

82 agencies

Last year: 80

Playlinks

21 services

(Not counted last year)

Financial Position 2021-22

The SDN group maintained a **strong financial position** over a challenging year.

Net Assets
2021-22
$42,547,598
2020-21 - **$47,413,323**

Cash Equivalents
2021-22
$13,229,751
2020-21 - **$15,514,708**

Operating Result for 2021-22

The SDN group delivered an after-tax deficit, driven by the impact on revenue of COVID lockdowns in NSW and the ACT. When the Australian Government eased the rules to allow us to do so, we made the decision **to waive the out-of-pocket fee** (known as the gap fee) for children not attending centres, and we introduced **a special COVID relief rate** for children not attending who were not eligible for the Child Care Subsidy. This loss of revenue, which was out of our control, was only able to be partially mitigated through the **strong management of staffing** and other costs to maintain our service delivery requirements.

2021-22
($4,865,725)
2020-21 - **$1,725,519**

The consolidated deficit includes **SDN Child and Family Services Pty Limited**, which reported a deficit of ($421,175) compared with a surplus of $335,750 in 2020-21.

Revenue

2021-22

$54,806,502

2020-21 - $55,819,426

Revenue remained flat when compared with prior year performance, despite a full year with the University of NSW centres in the SDN portfolio and ongoing child and family engagement strategies. **The impact of COVID and the federal and state response to the pandemic** stifled anticipated revenue growth in our centres. **Our decision to waive the Child Care Subsidy gap fee once the Government eased the rules** had a significant revenue impact over a number of months. Revenue from our Children's Therapies services was similarly negatively impacted, whilst our government funded programs remained steady.

Expenditure

2021-22

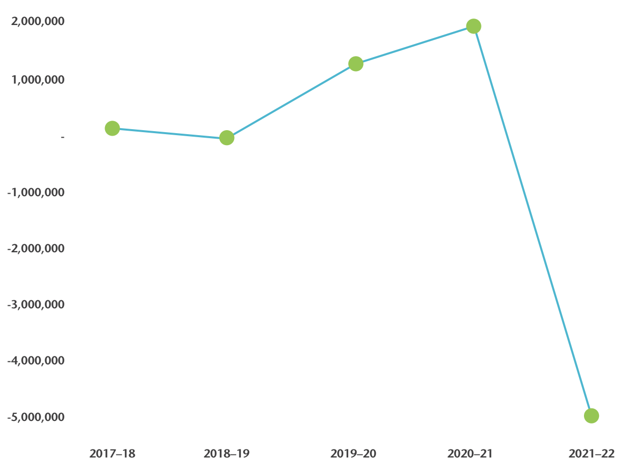
$59,672,227

2020-21 - $54,093,907

Expenditure was tightly controlled throughout the year especially during the period of the gap fee waiver which saw a significant reduction in revenue, however unlike the previous year, **we were not able to manage costs by temporarily reducing staff hours**. With attendance levels maintained, the waiver provided reduced revenue without the scope for a corresponding reduction in expenditure at an organisational level. **Staffing challenges continue to be experienced sector-wide** as services compete in a tightening job market, and along with increased personal leave requirements this put additional upwards pressure on expenses.

5-year Consolidated Revenue & Expenditure ($m)

Consolidated Surplus / (Deficit) over 5 years

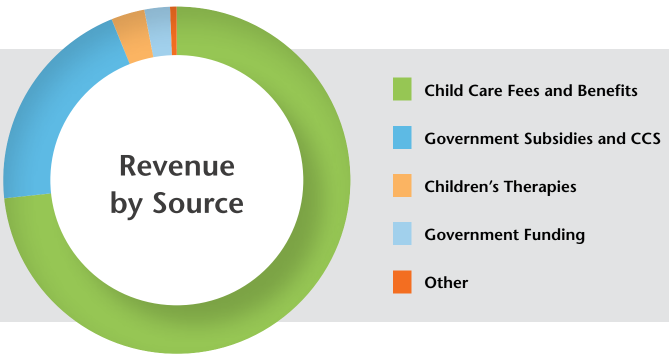


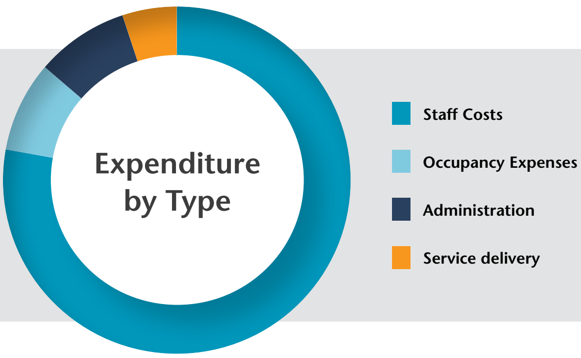
Revenue & expenditure

Fees from our Children's Education and Care Centres continue to be **our largest source of revenue.** Unlike the prior year where our revenue was supplemented by the Federal Government-funded JobKeeper and Early Childhood Education and Care Relief programs, our revenue this year **was negatively impacted by the waiving of the CCS gap fee** which was only partially offset by Federal Government pandemic-specific support. We were restricted in our ability to reduce costs accordingly.

During 2021–22, revenue from our fee-for-service therapies for children with a disability or developmental delay **declined with the lack of availability of an experienced workforce** in this sector continuing to be a major factor **inhibiting growth**.

Federal and state government funding is for the delivery of specific programs and projects that are the result of successful tenders and grant applications. In 2021–22 this included **funding for our delivery of the Family Preservation program for families.**





Children's Education and Care Centres

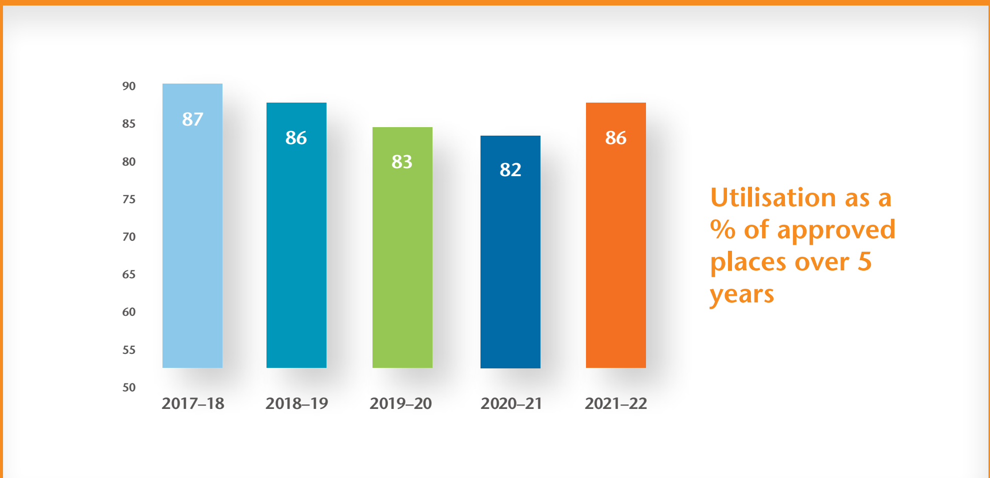
Revenue has **increased over the previous year** as we have moved past the initial phase of the pandemic.

We maintained utilisation in our centres despite the ongoing impact of the pandemic and in the face of increased supply and competition. Pandemic response initiatives have, however, meant that improvements in utilisation have not translated directly to increased revenue levels.

Revenue
2021-22

$40,071,969

2020-21 - $37,163,932



Revenue
2021-22

$1,712,655

2020-21 - $2,335,512

Children's Therapies

Fee-for-service revenue for our children's therapies including revenue through the National Disability Insurance Scheme has **decreased**. This reflects the **challenges of recruiting and retaining experienced staff** and the reduced ability to deliver services through the COVID lockdowns, rather than a reduction in demand for services.

Revenue
2021-22

$8,752,563

2020-21 - **$8,607,018**

Family Support Programs

We have sustained our level of support for families and continue to be a trusted adviser. Our largest government-funded contract is for the NSW Family Preservation program. This was recommissioned for another three years from 1 July 2021 to provide the replacement to the previous NSW Brighter Futures program. Funding for our other programs was maintained during the year.

Philanthropy

We received much appreciated philanthropic grants and donations from a variety of sources throughout the year.

2021-22

$95,640

2020-21 - **$78,122**

2021-22

$9,537

2020-21 - **$5,753**

Fundraising

Many of our children's education and care centres benefit from the additional equipment purchased for centres from fundraising activities of families.

Scholarships for Children

During **2021-22** we supported:

12 children with Aboriginal and Torres Strait Islander Scholarships totalling **$72,000.**

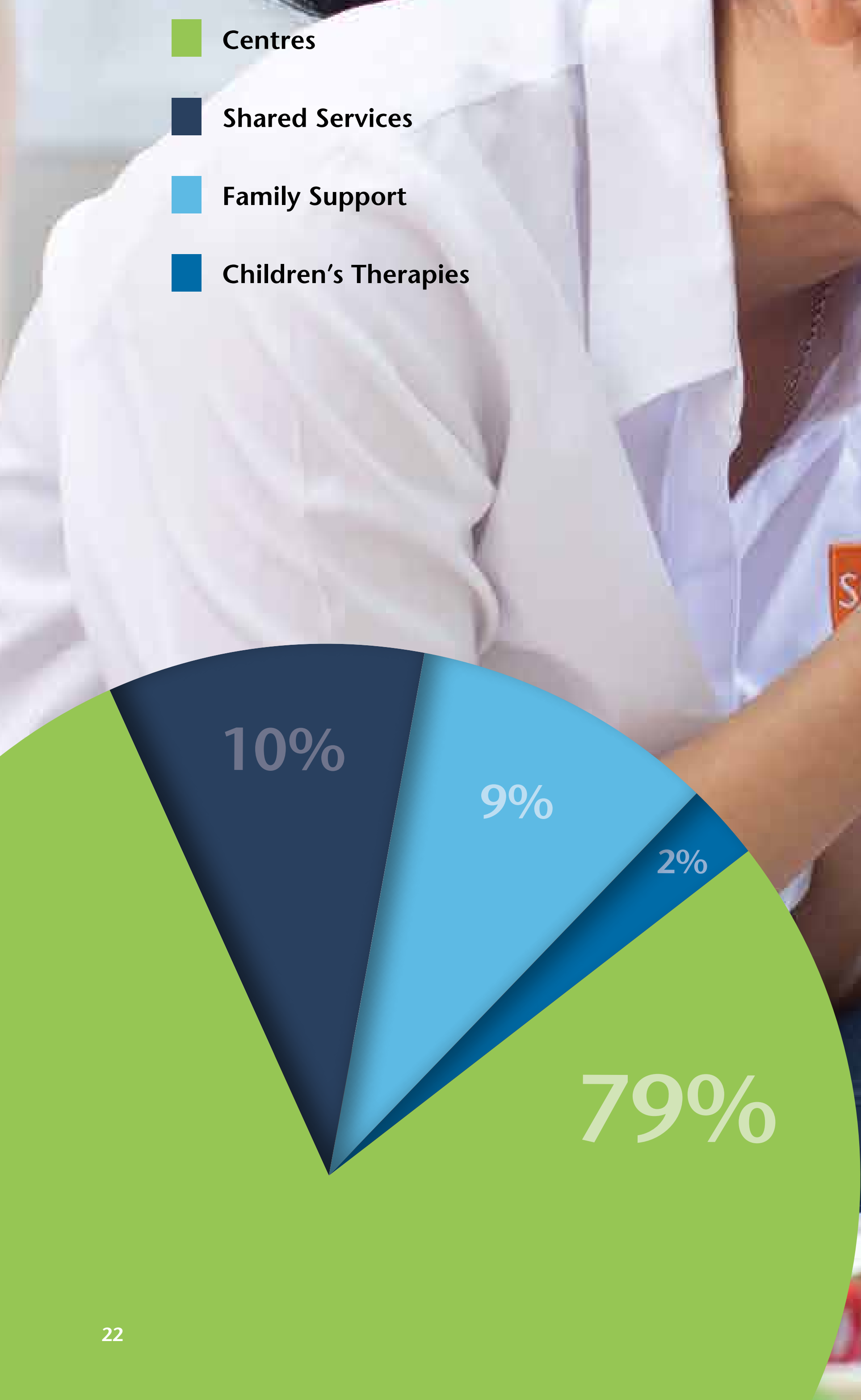
+

4 children with Access and Inclusion Scholarships children totalling **$12,000.**

While this was the same number of children receiving Access and Inclusion Scholarships as 2020-21, five fewer children received an Aboriginal and Torres Strait Islander Scholarship than last year. Usually a number of the children who receive this scholarship are attending SDN Beranga, our autism-specific pre-school, however the NSW Government declared stand-alone preschools to be free for most of 2020, and all of 2021 and 2022.

Our Staff

As at June 2022, we employed **690 staff.**
Of these, 75% are permanent, 10% are on maximum term contracts (in line with our funded programs), and 15% are casual. This profile is line with 2020-21.



Students and Trainees

We supervised

57 students on placements

in our services, compared with 41 in 2020-21. While this is a strong increase on last year, the number of external student placements continued to be impacted by the COVID-19 pandemic.

Information on **Directors**

as at 30 September 2022

Tamara Johnston

President from November 2019 to current

Member of Governance and Remuneration Committee
Member of Property Committee
Director since November 2017

Bachelor of Communication (Canberra); Graduate Certificate in Business (Curtin); Master of Business Administration (Canberra); Graduate of Australian Institute of Company Directors

Cynthia à Beckett

Chair of Research Ethics Committee
Director since August 2013

Diploma Kindergarten Teachers College (Melbourne Kindergarten Teachers College); Bachelor of Arts (Hons - Sociology) (Qld); Graduate Diploma Educational Studies (Institute of Early Childhood Studies - Victoria); Doctorate of Philosophy (PhD) (School of Sociology UNSW)

Kirsty Albert

Chair of Governance and Remuneration Committee
Director since February 2010

Bachelor of Arts (Hons) (Syd); Bachelor of Laws (Syd); Graduate of the Australian Institute of Company Directors; Fellow of the Governance Institute of Australia

Linda Cassidy

Director of SDN Child and Family Services Board
Member of Risk and Audit Committee
Director since February 2018

Bachelor of Arts (Social Science) (Curtin); GradCertMktg (UTS); Member of the Australian Institute of Company Directors

Angela Donohoe

Member of Risk and Audit Committee
Member of Property Committee
Director since June 2014

Bachelor of Commerce (Accounting, Finance and Systems) (UNSW); Certified Practicing Accountant (CPA); Graduate of the Australian Institute of Company Directors; Fellow of Financial Services Institute of Australasia (FINSIA)

Helen Hamilton-James

Chair of Property Committee
Member of Risk and Audit Committee
Director since July 2019

Bachelor of Law (Hons) (Aberd); Member of Chartered Accountants Australia and New Zealand; Member of Institute of Chartered Accountants in England and Wales; Member of the Australian Institute of Company Directors

Julie Hourigan Ruse

Director since June 2022

Master of Law (Human Rights and Social Justice) (UNSW); Graduate Diploma in Legal Practice (CL); Diploma in Law (LPAB); Associate Diploma in Business (SIT)

Glenn Hughes

Member of Governance and Remuneration Committee
Director since August 2014

Bachelor of Commerce (Accounting/Finance) (UNSW); Bachelor of Law (UNSW); Masters of Law and Management (AGSM)

Raagni (Rani) Kumar

Director since August 2022

Masters in Cultural Studies (Syd); Graduate Certificate in International Development (Syd); Bachelor of Social Science (Economics and Social Policy) (UNSW)

Darren Mitchell

Director of SDN Child and Family Services Board
Director since November 1996

Bachelor of Economics; Master of Economics (Syd); PhD (Syd)

Tom Taylor

Chair of Risk and Audit Committee
Director since July 2019

Bachelor of Business (CSU); Certified Practising Accountant (CPA); Graduate of Australian Institute of Company Directors

Barbara Wise

Chair of SDN Child and Family Services Board
Director since December 2014

Bachelor of Arts (Hons); Master of International Studies (Syd)

Directors' attendance at SDN Board Meetings

for the 2021-22 financial year

Name	N° of Meetings Attended	N° of Meetings Eligible to Attend
Tamara Johnston	13	14
Cynthia à Beckett	10	14
Kirsty Albert	13	14
Linda Cassidy	12	14
Angela Donohoe	12	14
Helen Hamilton-James	13	14
Julie Hourigan Ruse*	1	1
Glenn Hughes	13	14
Darren Mitchell	13	14
Tom Taylor	13	14
Barbara Wise	12	14

* joined June 2022

Work of *Board Committees*

The SDN Board appoints committees to assist it in carrying out its work and currently has **three standing committees and one ad hoc committee in place.**

Risk and Audit Committee

This Committee assists the Board in the effective discharge of its responsibilities in the areas of statutory reporting, internal control systems, risk management systems, insurance and legal proceedings, and the external audit functions.

The work of the Committee during the year included reviewing SDN's risk appetite statement, continuing to enhance and refine risk reporting as well as oversight of an audit of SDN's cyber security risk exposure and implementation of improved data security initiatives.

Research Ethics Committee

This Committee makes decisions regarding the approval or otherwise of Applications for Research and Evaluation at SDN in accordance with ethical principles identified in the Guidelines for Research and Evaluation at SDN, monitors compliance by those granted approval, and provides advice on policies and procedures relating to research and evaluation at SDN.

Governance and Remuneration Committee

This Committee assists and advises the Boards in fulfilling its responsibilities in governing both organisations and the SDN group collectively, including consideration of board composition, board renewal and development, CEO succession planning and review. This Committee also works with the CEO to determine the overarching remuneration policy.

Property Committee

This is an ad hoc committee which assists and advises the SDN Board in fulfilling its responsibilities in decision making regarding the proposed major development and/or divestment of specific properties owned by SDN.

You can read more about the governance of SDN on our website at www.sdn.org.au/about-sdn/governance/.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sdn

Other items to report

Membership

SDN is a company limited by guarantee. The contribution payable per member in the event of winding up is limited to twenty dollars.

Review of Operations

Information on the operations and financial position of the SDN group and its business strategies and prospects are set out in the President's and CEO'S Report on page 8 of this Report.

Likely developments and expected results of operations

The group will continue to pursue its objectives of improving the performance and quality of its children's services during the next financial year.

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

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

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.

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 company 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 2022 has been received and is on page 32.
Signed in accordance with a Resolution of the Board of Directors:

....

Tamara Johnston
President Dated: 18 October 2022


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Contents of **Financial Statements**

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Fax: +61 2 9240 9821
www.bdo.com.au

Level 11, 1 Margaret Street
Sydney NSW 2000
Australia

DECLARATION OF INDEPENDENCE BY ELYSIA ROTHWELL TO THE DIRECTORS OF SDN CHILDREN'S SERVICES

As lead auditor of SDN Children’s Services for the year ended 30 June 2022, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of section 60-40 of the *Australian Charities and Not-for-profit Commission Act 2012* 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.

Rothwell

Elysia Rothwell
Director

BDO Audit Pty Ltd

Sydney

18 October 2022

Consolidated Statement of Profit or Loss and other Comprehensive Income for the year ended 30 June 2022

	Notes	2022 $	2021 $
Revenue	A1	54,806,502	55,819,426
Employee benefits expenses	A2	(46,452,782)	(41,136,852)
Occupancy expenses	A2	(2,724,644)	(2,458,469)
Administration expenses	A2	(5,166,122)	(5,254,999)
Service delivery expenses	A2	(3,020,475)	(3,068,650)
Depreciation expenses	A2	(2,308,204)	(2,174,937)
(Deficit)/surplus before income tax expense		(4,865,725)	1,725,519
Income tax expense	E5 (v)	—	—
(Deficit)/surplus for the year		(4,865,725)	1,725,519
Other comprehensive income, net of tax			
Will not be reclassified to profit or loss			
Revaluation gain on land and buildings	B1		
		—	4,999,700
Total comprehensive income for the year		**(4,865,725)**	**6,725,219**

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 2022

	Notes	2022	2021
		$	$
Current assets			
Cash and cash equivalents	C1 (ii)	13,229,751	15,514,708
Trade and other receivables		1,454,528	901,777
Financial assets		376,568	28,711
Other current assets		176,959	868,097
Total current assets		15,237,806	17,313,293
Non-current assets			
Property, plant and equipment	B1	46,210,647	44,666,698
Right-of-use-assets	B1	3,588,793	1,535,241
Total non-current assets		49,799,440	46,201,939
Total assets		**65,037,246**	**63,515,232**
Current liabilities			
Trade and other payables	C1 (iii)	9,870,033	8,811,851
Provisions	C1 (iv)	5,678,064	4,941,768
Lease liabilities - current	C1 (v)	845,421	771,507
Borrowings - current	C1 (vii)	281,050	—
Total current liabilities		16,674,568	14,525,126
Non-current liabilities			
Provisions	C1 (iv)	887,532	742,757
Lease liabilities - non-current	C1 (vi)	3,190,030	834,026
Borrowings - non-current	C1 (vii)	1,737,518	—
Total non-current liabilities		5,815,080	1,576,783
Total liabilities		**22,489,648**	**16,101,909**
Net assets		**42,547,598**	**47,413,323**
Equity			
Reserves	D1 (i) (ii)	33,745,626	33,751,351
Retained earnings	D1 (iii)	8,801,972	13,661,972
Total equity		**42,547,598**	**47,413,323**

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 2022

	Notes	Retained earnings	Asset revaluation reserve	Fundraising reserve	Total
		$	$	$	$
Balance at 1 July 2020		**11,935,584**	**28,720,911**	**31,609**	**40,688,104**
Other comprehensive income		—	4,999,700	—	4,999,700
Surplus for the year		1,725,519	—	—	1,725,519
Total comprehensive income for the year		**1,725,519**	**4,999,700**	—	**6,725,219**
Transfers to and from reserves					
— fundraising reserve	D1 (i)	869	—	(869)	—
Balance at 30 June 2021		**13,661,972**	**33,720,611**	**30,740**	**47,413,323**
Other comprehensive income		—	—	—	—
Deficit for the year		(4,865,725)	—	—	(4,865,725)
Total comprehensive income for the year		**(4,865,725)**	—	—	**(4,865,725)**
Transfers to and from reserves					
— fundraising reserve	D1 (i)	5,725	—	(5,725)	—
Balance at 30 June 2022	D1	**8,801,972**	**33,720,611**	**25,015**	**42,547,598**

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 2022

	Notes	2022	2021
		$	$
Cash flows from operating activities			
Receipts from customers and government (inclusive of GST)		60,304,424	56,775,005
Interest paid on lease liabilities		(71,732)	(68,768)
Payments to suppliers and employees (inclusive of GST)		(60,349,135)	(50,312,983)
Net cash (used in)/from operating activities		**(116,443)**	**6,393,254**
Cash flows from investing activities			
Payments for assets held at amortised cost		—	(141)
Purchase of property, plant and equipment		(2,630,976)	(1,383,301)
Payments for financial assets		(347,857)	—
Net cash used in investing activities		**(2,978,833)**	**(1,383,442)**
Cash flows from financing activities			
Repayments of lease liabilities		(1,207,098)	(1,052,045)
Proceeds from borrowings		2,017,417	—
Net cash from/(used in) financing activities		**810,319**	**(1,052,045)**
Net (decrease)/increase in cash held		**(2,284,957)**	**3,957,767**
Cash and cash equivalents at beginning of financial year		15,514,708	11,556,941
Cash and cash equivalents at end of financial year	**C1 (ii)**	**13,229,751**	**15,514,708**

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 centre fees, Children's Therapies fees and State and Federal Government grants. We also receive donations for children's scholarships and other revenue for student placement.

	2022	2021
	$	**$**
Rendering of services – parent fees and child care benefit	40,071,969	37,163,932
Rendering of services – children's therapies	1,712,655	2,335,512
Grants and subsidies – Commonwealth government	358,953	395,105
Grants and subsidies – NSW state government	11,057,713	11,296,183
Donations for scholarships and centre operations	95,640	78,122
Other revenue	195,480	289,590
Childcare subsidy	1,314,092	2,262,982
Jobkeeper subsidy	—	1,998,000
Total revenue	**54,806,502**	**55,819,426**

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[1]

	2022	2021
	$	**$**
SDN Child and Family Services Pty Limited — general donations[1]	41,958	34,723
SDN Child and Family Services Pty Limited — child care fees[2]	47,707	38,969
SDN Children's Services Incorporated Building Fund — general donations[1]	5,975	4,430
Total donations	**95,640**	**78,122**

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

[2] Revenue from donations that are directed for use in payment of childcare fees.

What is the relevant accounting policy?

Revenue recognition

Revenue from centres and Children's Therapies is recognised over time as performance obligations are satisfied, which is upon delivery of the service, primarily on a daily or monthly basis. Revenue from Child Care Subsidy is recognised in the period to which the subsidy 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 at a point in time in the statement of profit or loss and other comprehensive income when the company obtains control of the grant. 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 performance obligation has been delivered to the contributor, otherwise the grant is recognised as revenue at a point in time 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. General donations are recognised as revenue when received. Donations of child care fees are recognised as revenue when the care is delivered.

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.

	2022 $	2021 $
Provide high quality early childhood education and care services	44,527,496	41,088,647
Support children who face challenges	5,423,525	4,968,670
Strengthen families and communities	9,721,206	8,036,590
Total expenditure	**59,672,227**	**54,093,907**

The main categories of expenditure were as follows:

	2022 $	2021 $
Superannuation expense	3,745,201	3,222,287
Other employee benefits expense	42,707,581	37,914,565
Employee benefits expense	**46,452,782**	**41,136,852**
Rent expenses	195,331	90,292
Repairs and maintenance expenses	2,451,929	2,326,911
Furniture and appliance expenses	77,384	41,266
Occupancy expenses	**2,724,644**	**2,458,469**
Operating expenditure	1,891,803	2,221,135
IT and equipment expense	1,210,647	725,896
Other expenses	855,068	982,313
Marketing expenses	507,811	559,420
Professional fees	700,793	766,235
Administration expenses	**5,166,122**	**5,254,999**
Childcare expenses	1,588,429	1,690,068
Consulting expenses	988,147	687,268
Training and Program expenses	443,900	691,314
Service delivery expenses	**3,020,475**	**3,068,650**
Depreciation expenses	**2,308,204**	**2,174,937**
Total expenditure	**59,672,227**	**54,093,907**

B. What assets do we have and how do we manage them?

B1. Non-current assets

	2022	2021
Property, Plant and Equipment	**$**	**$**
Land and buildings		
Freehold land — at fair value	31,117,750	31,117,750
Total land	**31,117,750**	**31,117,750**
Freehold buildings — at fair value	8,962,250	8,962,250
Less: Accum Dep-Freehold Building	(419,196)	—
Leasehold building — at cost	5,198,119	5,069,463
Less: accumulated depreciation	(1,984,760)	(1,673,557)
Capital works in progress — at cost	133,380	120,236
Total freehold and leasehold buildings	**11,889,793**	**12,478,392**
Plant and equipment — at cost	7,621,671	5,132,495
Less: accumulated depreciation	(4,418,567)	(4,061,939)
Total plant and equipment	**3,203,104**	**1,070,556**
Total property, plant and equipment	**46,210,647**	**44,666,698**

	2022	2021
Right-of-use Assets	**$**	**$**
Right-of-use Assets – Land – at cost	441,084	526,213
Less: accumulated depreciation	(100,849)	(81,051)
	340,235	445,162
Right-of-use Assets – Property – at cost	3,972,186	2,147,584
Less: accumulated depreciation	(1,159,940)	(1,394,122)
	2,812,246	753,462
Right-of-use Assets – Office – at cost	328,708	76,581
Less: accumulated depreciation	(97,830)	(47,728)
	230,878	28,853
Right-of-use Assets – Car Park – at cost	124,867	166,578
Less: accumulated depreciation	(29,199)	(25,641)
	95,668	140,937

	2022	2021
Right-of-use Assets	**$**	**$**
Right-of-use Assets – Vehicle - at cost	168,001	93,279
Less: accumulated depreciation	(87,065)	(39,235)
	80,936	54,044
Right-of-use Assets – Equipment - at cost	266,135	266,340
Less: accumulated depreciation	(237,305)	(153,557)
	28,830	112,783
Total right-of-use Assets	**3,588,793**	**1,535,241**
Total non-current assets	**49,799,440**	**46,201,939**

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:

			Property, plant and equipment	
	Land	**Buildings**	**Plant and Equipment**	**Total**
2022	**$**	**$**	**$**	**$**
Balance at the beginning of year	31,117,750	12,478,392	1,070,556	**44,666,698**
Additions	—	141,799	2,489,117	**2,630,976**
Depreciation expense	—	(730,398)	(356,629)	**(1,087,027)**
Carrying amount at the end of year	31,117,750	11,889,853	3,203,104	**46,210,647**

			Property, plant and equipment	
	Land	**Buildings**	**Plant and Equipment**	**Total**
2021	**$**	**$**	**$**	**$**
Balance at the beginning of year	27,791,700	11,411,246	697,895	**39,900,841**
Additions	—	269,321	812,137	**1,081,458**
Disposals — written down value	—	(292,833)	(60,956)	**(353,789)**
Depreciation expense	—	(582,992)	(378,520)	**(961,512)**
Revaluation gain	3,326,050	1,673,650	—	**4,999,700**
Carrying amount at the end of year	31,117,750	12,478,392	1,070,556	**44,666,698**

Asset revaluations

The freehold land and buildings were last independently valued as at 30 June 2021 by AssetVal Pty Ltd. The valuation was based on fair value and an increment of $4,999,700 was recorded in the prior year. A $4,999,700 revaluation gain was recognised in other comprehensive income in the comparative period.

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.

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 through other comprehensive income 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 external revaluation was completed by AssetVal as at 30 June 2021. 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;

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. The Directors have assessed and are of the view that there has been no significant change to the valuation of the portfolio.

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 $77,000 to $80,000 has been used, in the latest valuation performed as at 30 June 2021.

Impairment

The majority of non-current assets comprise land and buildings. The freehold land and buildings were independently valued at 30 June 2021 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.

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	20% – 33% straight line

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

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.

Right-of-use Assets

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

Lease payments for operating leases, where substantially all of the risks and benefits remain with the lessor, are charged as expenses in the financial period in which they are incurred.

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 Risk and Audit Committee monitors the financial position in line with this objective. The Risk and Audit 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. The external debt held by the group in FY22 is $2,018,568. (2021: NIL)

(i) Working Capital

		2022	2021
		$	$
Current assets		15,237,806	17,313,293
Current liabilities		16,674,568	14,525,126
Net current (liabilities) / assets	E4	(1,436,762)	2,788,167

Refer to going concern considerations in note E5(i).

(ii) Cash and cash equivalents

	2022	2021
	$	$
Cash at bank and on hand	10,361,172	12,646,267
Short-term bank deposits	2,868,579	2,868,441
	13,229,751	15,514,708

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) Trade and other payables

	2022	2021
	$	$
Current		
Trade payables	891,624	1,250,305
Sundry payables and accrued expenses	6,814,957	5,972,272
Unearned income – grant revenue	1,503,066	1,232,566
Unearned income – child care fees in advance	660,386	356,708
	9,870,033	**8,811,851**

Financial liabilities at amortised cost classified as trade and other payables

	2022	2021
	$	$
Trade and other payables:		
Total current	9,870,033	8,811,851
Less: unearned income	(2,163,452)	(1,589,274)
Financial liabilities as trade and other payables	**7,706,581**	**7,222,578**

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 the Supporting Children with Additional Needs (SCAN) program. 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 2022 $735,940 (2021: $735,940) in administration funding was held on behalf of the Department of Education which will be refunded upon request.

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, the unearned income is recognised when the Group satisfies the sufficiently specific performance obligations stated within the funding agreements.

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.

(iv) Provisions

	2022	2021
	$	$
Current:		
Annual leave	3,008,679	2,486,473
Long service leave	2,119,381	1,917,865
Rostered days off	194,772	201,358
Make-good	355,232	336,072
	5,678,064	4,941,768
Non-current:		
Long service leave	167,880	167,863
Contract termination	707,239	574,894
Make-good	12,413	—
	887,532	742,757
	6,565,596	5,684,525

Movement in provisions

	2022	2021
	$	$
Make-good		
Balance brought forward	336,072	278,386
Addition in provision	31,573	57,686
Balance carried forward	367,645	336,072
Contract termination		
Balance brought forward	574,894	469,676
Addition in provision	132,345	105,218
Balance carried forward	707,239	574,894

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 $277,729 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.

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 as there is a legal and constructive obligation at the reporting date. 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.

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.

(v) Lease liabilities – Current

	2022	2021
	$	$
Lease Liabilities – Land	18,659	42,801
Lease Liabilities – Property	683,323	575,063
Lease Liabilities – Office	60,888	25,591
Lease Liabilities – Car Park	7,894	13,568
Lease Liabilities – Equipment	29,883	87,316
Lease Liabilities – Vehicle	44,774	27,169
	845,421	**771,507**

(vi) Lease liabilities – Non - Current

	2022	2021
	$	$
Lease Liabilities – Land	347,683	436,064
Lease Liabilities – Property	2,551,326	199,450
Lease Liabilities – Office	153,192	4,180
Lease Liabilities – Car Park	99,294	138,011
Lease Liabilities – Equipment	—	28,867
Lease Liabilities – Vehicle	38,535	27,454
	3,190,030	**834,026**

Future lease payments

Future lease payments are due as follows.

	2022	2021
	$	$
Within one year	845,420	752,010
One to five years	2,478,956	459,023
More than five years	711,075	394,500
	4,035,451	1,605,533

What is the relevant accounting policy?

Lease liabilities

Leases have been recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the consolidated entity.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the consolidated entity under residual value guarantees;
- the exercise price of a purchase option if the consolidated entity is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the consolidated entity exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the consolidated entity, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

The consolidated entity determines its incremental borrowing rate based on rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. The Company has adopted a borrowing rate of 3.52%.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

(vii) Borrowings

	2022	2021
	$	$
Bank loans (current)	281,050	—
Bank loans (non-current)	1,737,518	—
Total borrowings	**2,018,568**	—

On 28 June 2022, the Group entered into a loan to finance the purchase of furniture and fit outs for the Greek Street office. The term of the loan is 72 months and the interest rate is 6.95%. There are no covenants related to the loan.

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 method.

D. Appendices

D1. Reserves and retained earinings

(i) Reserves and retained earnings

Fundraising reserve	2022	2021
	$	$
Opening balance	30,740	31,609
Transfers to retained earnings	(5,725)	(869)
Closing balance	25,015	30,740

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

	2022	2021
	$	$
Asset revaluation reserve	33,720,611	33,720,611

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

	2022	2021
	$	$
Opening balance	13,661,972	11,935,584
(Deficit)/surplus during the year	(4,865,725)	1,725,519
Transfers from fundraising reserve	5,725	869
Closing balance	8,801,972	13,661,972

D2. Unrecognised items

Contingent liabilities and contingent assets

Contingent Assets

There were no contingent assets as at 30 June 2022.

Contingent Liability

SDN Child and 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 and Family Services Pty Limited is not able to dispose of the land without the prior consent of the NSW Department of Community and Justice. 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, management have followed up, however, to date the landlords have been unresponsive.

Bank guarantees

SDN Children's Services has provided performance and rental guarantees amounting to $490,410 (2021: $35,457). SDN Child and Family Services Pty Limited has provided performance and rental guarantees amounting to $47,575 (2021: $87,450).

D3. Impairment

Impairment of financial assets

The group 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.

E. Other Information

E1. Key management personnel compensation

Key management personnel (as at 30 June 2022)

Directors

Kirsty Albert

Cynthia à Beckett

Linda Cassidy

Angela Donohoe

Helen Hamilton-James

Julie Hourigan Ruse

Glenn Hughes

Tamara Johnston

Darren Mitchell

Thomas Taylor

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

Kay Turner, Chief Executive Officer

Peter Rae, Chief Financial Officer

Jodie Ledbrook, Head of Services

Dianne Speakman, Head of Communications and Corporate Affairs, Company Secretary

Zarin Medhora, Head of People and Organisational Development

Glynis Chang, Director of Organisational Development

Adrienne Jerram, Director of Marketing and Customer Experience

Bryan Mattes, Strategic Project Manager

Peter Luxford, Finance Manager

	Short-term benefits	Post-employment benefits	Other long term benefits	Termination Benefits	Total
	$	$	$	$	$
2022					
Total compensation	1,572,995	147,639	22,304	—	1,742,938
2021					
Total compensation	1,425,265	130,846	—	96,875	1,652,986

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 $117,974 (2021: $121,177).

SDN Children's Services also owns 100% of SDN Child and Family Services Pty Limited, a company limited by shares, incorporated and domiciled in Australia. The principal activities of SDN Child and 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 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 2022, trade payables in SDN Children's Services included an amount of $211,329 (2021: $332,803) payable to its subsidiary, SDN Child and Family Services Pty Limited. The trade receivables balance included an amount receivable of $312,099 (2021: $449,824) from SDN Child and Family Services Pty Limited. These balances have been eliminated on consolidation.

In 2016, SDN Children's Services, the parent entity, provided an unsecured at-call loan of $500,000 to SDN Child and 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 4.52% per annum (2021: 4.52%). No repayments of capital have been made.

E4. Parent entity disclosures

Parent entity disclosure

	2022	2021
	$	$
Current assets	10,990,033	13,789,425
Total assets	62,913,497	59,563,844
Current liabilities	13,520,994	11,774,090
Total liabilities	18,762,847	12,790,075
Equity	42,330,650	46,773,796
(Deficit)/Surplus for the year	(4,413,146)	2,162,273
Other comprehensive income		
Revaluation gain on land and buildings	—	4,999,700
Total comprehensive income for the year	(4,443,146)	7,161,973

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

These general purpose financial statements have been prepared in accordance with the Australian Accounting Standards - Simplified Disclosures issued by the Australian Accounting Standards Board ('AASB') and the Australian Charities and Not-for-profits Commission Act 2012, as appropriate for not-for-profit oriented entities.

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" and "loss" is not applicable and the term "surplus" and "deficit" is used where required. The financial statements are presented in Australian Dollars.

Going Concern Basis

As disclosed in the consolidated financial statements, the group incurred a deficit after tax of $4,865,725 for the year ended 30 June 2022. As at 30 June 2022, the Group also had net current liabilities of $1,436,762 and incurred net cash outflows for operating activities of $116,443. The Directors remain confident that the group will be able to continue as a going concern with debts able to be paid as and when they fall due, and that it is appropriate to adopt the going concern basis in the preparation of the consolidated financial report for the following reasons:

- Over the next 12 months, the group anticipates revenue to grow to pre-COVID19 levels in line with its planned objectives;
- Cashflow projections demonstrate that there is sufficient working capital to maintain a positive cash balance;
- The group holds cash reserves of $13,229,751; and
- The group holds unencumbered property assets of $46,210,647 which can be used as security on an operating overdraft facility if required.

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

AASB 1060 General Purpose Financial Statements - Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities

The company has adopted AASB 1060 from 1 July 2021. The standard provides a new Tier 2 reporting framework with simplified disclosures that are based on the requirements of IFRS for SMEs.

(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 and 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.

E6. Other required disclosures

(i) Auditor's remuneration

	2022	2021
	$	$
Remuneration of the auditor of the consolidated group for:		
- audit services	85,500	81,500
- assistance with the preparation of financial statements	14,500	14,500
	100,000	96,000

(ii) 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 group, the results of those operations, or the state of affairs of the group in future financial years.

(iii) 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.

	2022	2021
	$	$
Statement of fundraising income and expenditure:		
Gross proceeds from fundraising	9,537	5,753
Less: total cost of fundraising	(6,944)	(1,696)
Net surplus from fundraising	2,593	4,057
Application of fundraising proceeds:		
Opening balance	30,740	31,609
Net proceeds from fundraising	2,593	4,057
Contributions towards equipment	—	(2,113)
Contributions towards childcare fees	—	—
Contributions towards excursions / entertainment	—	—
Contributions towards children's materials	(7,005)	(1,193)
Contributions towards playground enhancement	(1,209)	436
Contributions towards staffing costs	—	—
Contribution towards functions	(104)	(2,056)
Total fundraising reserve	**25,015**	**30,740**

Forms of Fundraising Appeals conducted for the year ended 30 June 2022

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 2022. 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	**2022**	**2022**
	$	%
Total cost of fundraising/gross proceeds from fundraising	6,944/9,537	72.8%
Net surplus from fundraising/gross proceeds from fundraising	2,593/9,537	27.2%

Comparisons	**2021**	**2021**
	$	%
Total cost of fundraising/gross proceeds from fundraising	1,696/5,753	29.5%
Net surplus from fundraising/gross proceeds from fundraising	4,057/5,753	70.5%

(v) Company details

The registered office and the principal place of business is:

SDN Children's Services
Level 3
19-37 Greek Street
Glebe NSW 2037

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 consolidated statement of profit and loss and other comprehensive income gives a true and fair view of all income and expenditure of SDN Children's Services with respect to fundraising appeals; and
b. The consolidated statement of financial position gives a true and fair view of the state of affairs with respect to fundraising appeals; and
c. The provisions of the *Charitable Fundraising Act 1991* (NSW), the regulations under the Act and the conditions attached to the authority have been complied with; and
d. The internal controls exercised by SDN Children's Services are appropriate and effective in accounting for all income received and applied by SDN Children's Services from any of its fundraising appeals.

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

……………………………………………….

Tamara Johnston
Director

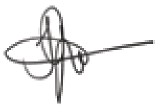
18 October 2022

Director's Declaration
for the year ended 30 June 2022

In the directors' opinion:

1. the attached financial statements and notes comply with the the Australian Accounting Standards - Simplified Disclosures, the Australian Charities and Not-for-profits Commission Act and other mandatory professional reporting requirements;
2. the attached financial statements and notes give a true and fair view of the company's financial position as at 30 June 2022 and of its performance for the financial year ended on that date; and
3. 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:



……………………………………………………

Tamara Johnston
Director

18 October 2022

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Fax: +61 2 9240 9821
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Level 11, 1 Margaret Street
Sydney NSW 2000
Australia

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 consolidated statement of financial position as at 30 June 2022, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated 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 2022 and of its financial performance for the year then ended; and

(ii) Complying with Australian Accounting Standards – Simplified Disclosures and Division 60 of the *Australian Charities and Not-for-profits Commission Regulation 2013*.

In addition, with reference to the *Charitable Fundraising Act 1991* and regulations:

a) The financial statements show a true and fair view of the financial results of fundraising appeals conducted during the year;

b) The financial records have been properly kept during the year in accordance with the Act and the regulations;

c) 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

d) As 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

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 (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Other information

The responsible entities of the registered entity 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 responsible entities for the Financial Report

The responsible entities of the registered entity are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards – Simplified Disclosures and the ACNC Act, and for such internal control as the responsible entities 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, responsible entities 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 the responsible entities either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The responsible entities of the registered entity are responsible for overseeing the Group'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/ar4.pdf

This description forms part of our auditor's report.

BDO Audit Pty Ltd

BDO

Rothwell

Elysia Rothwell
Director

Sydney, 18 October 2022

SDN Children's Services

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View our full Annual Report at www.sdn.org.au/corporate-publications

October 2022