ANNUAL REPORT 2018

CONTENTS

Remuera Kindergarten, 2018 ERO Report

Teachers provide a stimulating and vibrant environment that fosters a high level of child-led learning through play. Interesting and inviting play areas support sustained play, and promote children's sense of themselves as capable learners. Displays reflect teachers' respect for Te Ao Māori and children's leadership. Children explore, make discoveries, and learn about Papatūānuku in the attractive outdoor area. The environment is harmonious and welcoming for children and families.

Dannemora Kindergarten, 2018 ERO Report

Respect for Te Ao Māori is highly visible in the kindergarten. Teachers work collaboratively with whānau and community to celebrate the bicultural heritage of Aotearoa New Zealand. Māori children's cultural identity is affirmed. Teachers naturally include te reo Māori in routines and conversations, as well as in waiata and dance...Teachers continue to enhance their very good practices.

FROM THE BOARD CHAIR AND INTERIM CHIEF EXECUTIVE

AKA is a fantastic organisation to be part of, with its purpose to 'ignite young minds' evident in every one of our 107 kindergartens, our 5 KiNZ centres and our 5 Playgroups. I would like to extend my appreciation for the effort and passionate enthusiasm that Pauline Winter brings to the organisation as Interim Chief Executive. After 5 years as Chair, I am stepping down from the position. I believe the changes that we have implemented in the last year will set Auckland Kindergarten Association up strongly for the future.

Noho ora mai

Simon Jones, Board Chair, Auckland Kindergarten Association

WELCOME,

Tēnā koutou kātoa

On behalf of the board of Auckland Kindergarten Association (AKA), we present our annual report for the year ended 30 June 2018.

It has been a year of transformation, as we have tackled a range of challenges and are seeking sustainable ways to secure a strong and vibrant future for our organisation.

The evolving early childhood education sector

While we are incredibly proud of our rich history of 110 years educating preschool-aged children in the wider Auckland area, over the past decade the early education sector has changed considerably. This is due to a variety of factors, including a rapid increase in home based care, combined care and learning services, and parents having to return to work sooner after having children. We know that our organisation must continually evolve in order to meet the needs of new generations of Aucklanders. In the past decade, and specifically in the last 18 months, AKA has considered a number of different models: from extending session hours; to opening full-service day care centres; to providing a service that caters to two-year-olds – all initiatives to ensure the organisation is sustainable for the next 100 years. We have moved from our kindergartens being primarily administered locally, to a model where operations are centralised at a support office.

Although we have conducted reviews about the efficacy of some of these moves along the way, it became clear that many of the changes have not provided us with the benefits we'd expected.

Coupled with this, in recent years community engagement with our kindergartens has diminished. In September 2017 our parents, whānau and communities signalled they would like to be more involved in the success of their local kindergartens. This re-engagement is a positive opportunity for us to use that support and influence to provide improved and unique educational opportunities and service to our children.

Hence we began a re-assessment of our current operations. We sought out the views of parents and teachers so together we can build a bright future for the organisation and the children we serve.

Increasing support locally

From this feedback we determined we needed more support-based roles in the community, as opposed to having all services provided from a centralised support services team. It was obvious we also needed to find efficiencies in the way this function is organised. In recognition of this, we undertook a review of our support services this year and restructured the support model for teaching teams based in our kindergartens.

As a result, a number of roles have been disestablished and others established to ensure the organisation has the necessary skill set to continue to drive the teaching excellence AKA kindergartens are renowned for. Ten of the roles established are totally focused on supporting our teaching teams in our kindergartens.

Moving forward

With the support that parents and whānau offered up last year, we are reinvigorating parent committees that will assist and benefit each kindergarten. One of the special aspects of kindergarten education is the involvement of our parents and their participation is critical to the ongoing success of our kindergartens. In keeping with our holistic vision for early childhood education we believe that kindergartens are a community resource, and that parent involvement is welcome at any time. We intend for these parent committees to be structured in a way that caters to today's lifestyles, so that full-time working parents and caregivers can take part if they so choose.

The 'kindergarten difference'

What has remained constant at AKA is the excellent teaching standards that ensure our kindergartens regularly receive the highest endorsements from the Education Review Office. The 'kindergarten difference' starts with our focus on education, and we often hear from primary school principals how well prepared 'kindy kids' are for school. Kindergartens come under the State Sector Act and we employ qualified and certified teachers. We operate a stable learning environment with qualified teaching teams, and we provide structured and deliberate education. In all our kindergartens there is a strong emphasis on nature-based play in our teaching, which is expressed in our name ('kinder' meaning child, and 'garten' meaning garden).

The Government is currently undertaking a broad based review of the Early Childhood Education Sector and it's important that we are clear about the purpose and role of kindergartens in the sector. We will be actively participating in the review to ensure that AKA's voice is heard and understood.

Financial Result

AKA was cash flow positive from operations for the year of $2.1million, however due to a number of factors, the Consolidated Statement of Comprehensive Revenue and Expense shows a deficit of $2.2million. These factors include:

- one-time payments and non-cash adjustments arising from the write-down of the KiNZ large format centres. As an organisation we have decided to exit the large format KiNZ centres and focus on our core charitable operations of smaller, community-based centres.
- declining enrolments at kindergartens. We are urgently addressing this situation, and we note there is similar decline across the kindergarten sector nationwide.
- additional costs have also been incurred this year as we have put in place programmes to address the issues facing our organisation, and to ensure AKA is structured so as to continue to provide exceptional educational outcomes for the children we serve for the next 100 years.

Against this backdrop, there are nevertheless a number of positive activities underway which will improve the financial standing of the organisation for future years.

Vision for the future

Tāmaki Makaurau is a vibrant region and AKA opens its arms to families from all cultures, languages and backgrounds. We like to celebrate and cater to Auckland's unique diversity, with our tamariki coming from many different backgrounds. The variety of learning requirements means we work hard to find innovative ways and the right learning solutions to deliver high-quality service to all children.

It remains my privilege to continue as interim Chief Executive for Auckland Kindergarten Association, leading the organisation to be an exemplar of good practice at every single level - governance, management, operations, ICT and communication - and helping ensure sustainability for the next 100 years of our unique offering in the early childhood education sector. Ehara taku toa, he taki tahi, he toa taki tini.

Pauline A Winter, interim CEO, Auckland Kindergarten Association

Innovation in practice stretches far and wide - from the growing number of kindergartens and centres being recognised as Enviroschools, the continued evolution of how we support our tamariki best for the way they learn, and to the many ways our teachers spearhead curriculum development and research. Our Learning Support function, for example, includes a dedicated team ensuring equitable access to learning opportunities for all children. We also continue to advocate for greater participation in Kāhui Ako – Communities of Learning (CoLs), which has significantly increased representation of the early childhood sector and creates better alignment with schools around learning goals for our children.

Our focus for the 2019 financial year is improving the financial performance of the organisation - continuing to review and strengthen our systems, processes and capabilities to ensure enduring sustainability for the next 100 years. A key element includes our ongoing re-engagement with parents, whānau and communities. We currently have a programme of work underway to achieve this, which includes:

- Reigniting enrolments – working with each kindergarten to understand the needs of its community and how we can lift enrolments
- Building capability – establishing the new support services function, ensuring we have the right capability mix of commercial skills and education and learning support for our teaching teams
- Refocusing on the organisation's core operations of smaller, community-based centres
- Optimising all our systems, financial reporting and information
- Proactive marketing communications to lift enrolments and drive attendance at our kindergartens
- Engaging with the government and inputting into the ECE 10 year strategic plan to help deliver the best possible outcomes for AKA and the sector

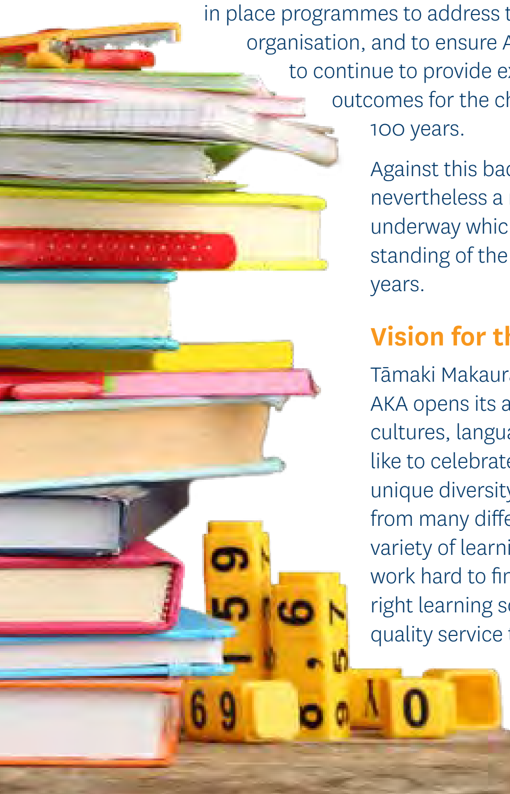
Acknowledgements

Thank you to everyone who continues to support and cherish what AKA has to offer. We acknowledge our teachers and staff - without their support and dedication we would not have the high quality kindergartens that we have. We acknowledge our life members who continue to take an active interest in our organisation. To all our parents and whānau – thank you for entrusting your precious young ones to us. And finally, to the Board members of AKA, it has been a pleasure to work alongside you this year.

Ngā manaakitanga

Simon Jones
Board Chair

Pauline A. Winter
Interim Chief Executive



BOARD MEMBERS

AUCKLAND KINDERGARTEN ASSOCIATION BOARD MEMBERS

Simon Jones MBA, MCom (Hons), CA
Chair

Robin Houlker MED (Hons), Dip.Tchg
Deputy Chair

Bruce McLachlan MA (Hons), Dip.Tchg

Chris Barrow BCom, LLB

Clive Nelson MBA

Jo Jukes

Richard Neal BA Maori/Philosophy

KINDERGARTEN NZ LIMITED BOARD MEMBERS

Bruce McLachlan MA (Hons), Dip.Tchg

LIFE MEMBERS

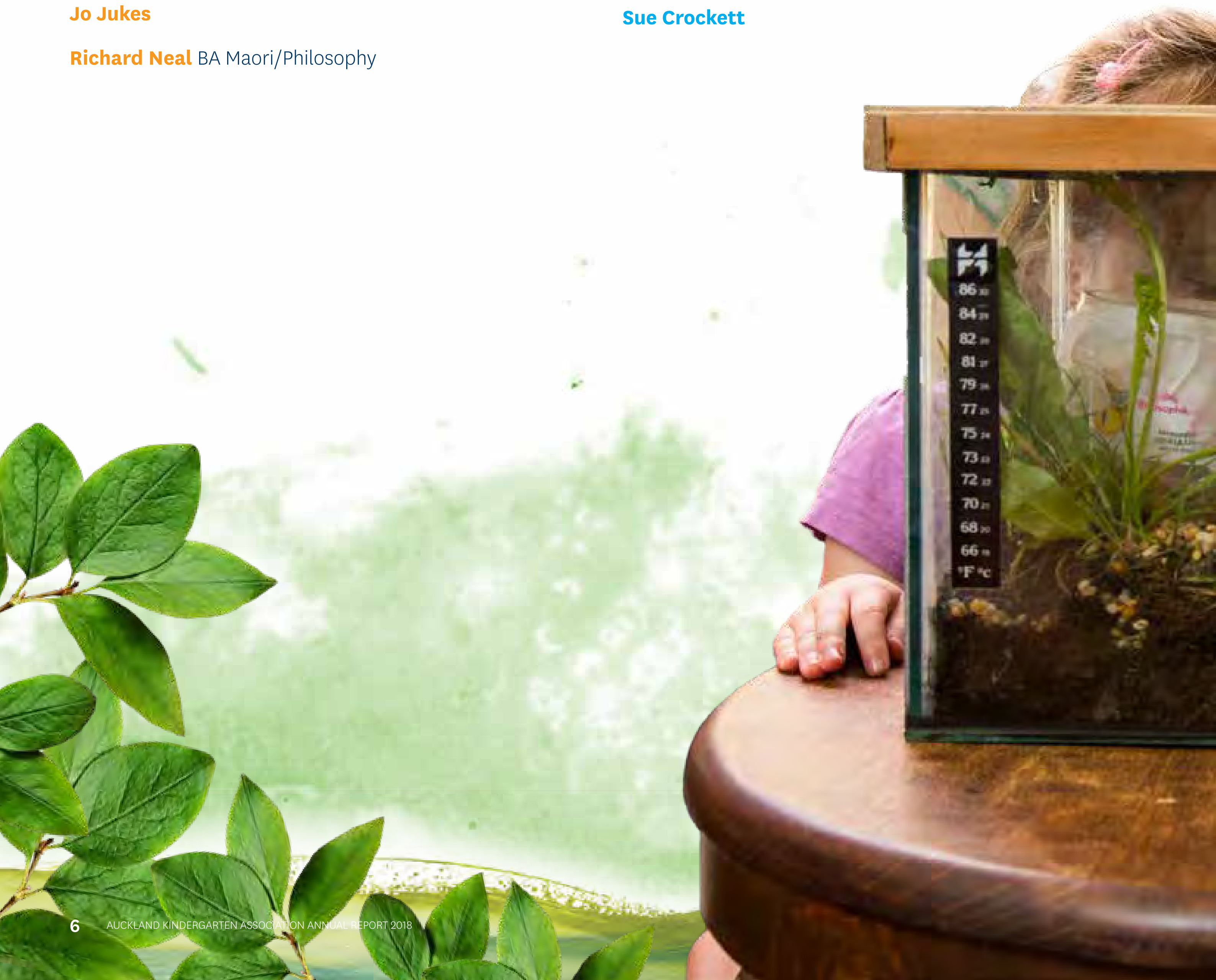
Denise Iversen

Hewitt Harrison

Ian Kendall

Jeremy Drummond ONZM

Sue Crockett



Many people are not aware that AKA is a charitable organisation and while we are primarily funded by the Government we do require additional support in order to provide high-quality education. One way we ask our parents to contribute is to assign their 20 hours of Early Childhood Education credits to their AKA kindergarten. This is essential to ensuring our sound financial health into the future.

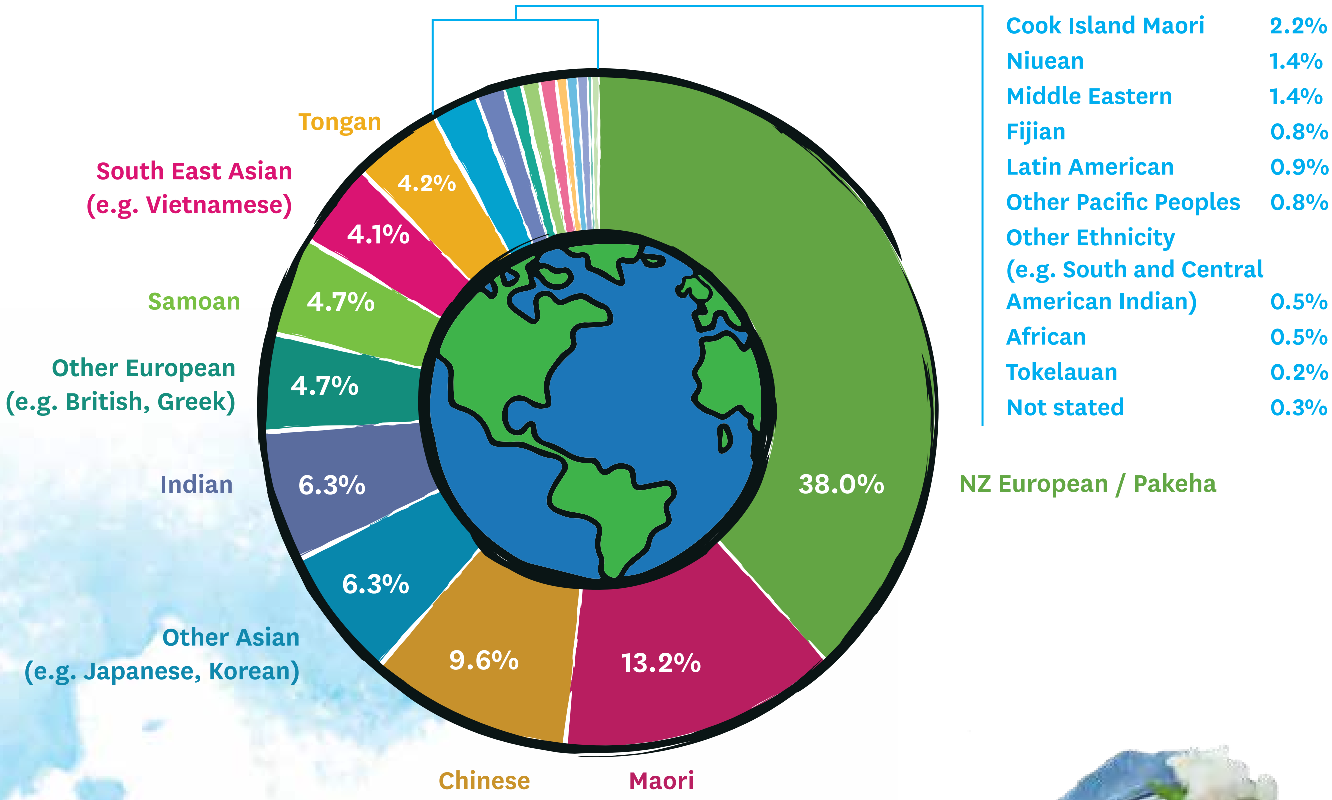
We remain passionate about our unique place in the early childhood education sector and committed to igniting happy, healthy, confident minds of Auckland tamariki at the start of their education journey.

KEY STATISTICS

AKA IS NEW ZEALAND'S LARGEST KINDERGARTEN ASSOCIATION

NUMBER OF CHILDREN ENROLLED:

Total number of children currently enrolled (as at 30 June 2018)	Kindergartens	KiNZ Centres	Playgroups
5,868	5,405	301	162



LOCATIONS:

RATINGS: *1 KINZ CENTRE NOT RATED YET

2
KiNZ Centres
with
4 year rating
"Very well placed"

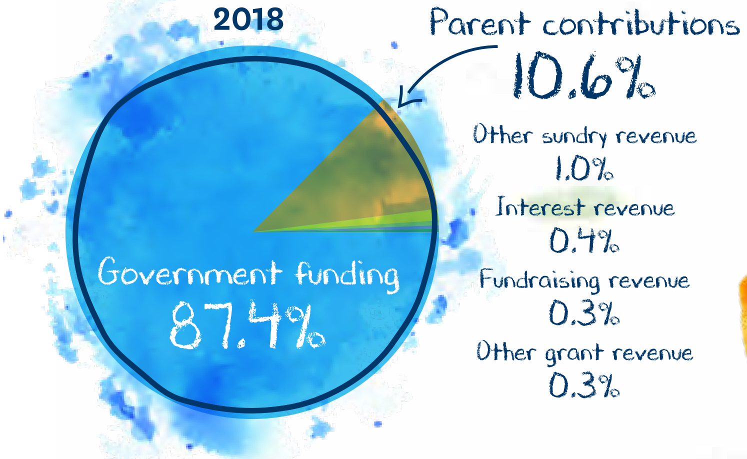
2
KiNZ Centres
with
3 year rating
"Well placed"

43
Kindergartens
with
4 year rating
"Very well placed"

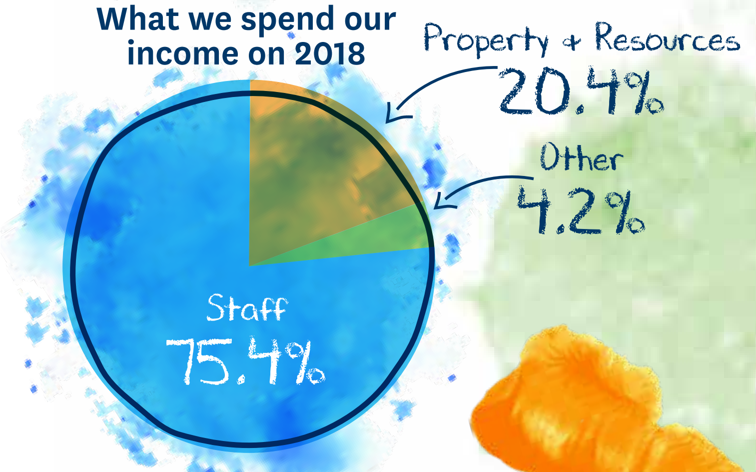
64
Kindergartens
with
3 year rating
"Well placed"

INCOME AND EXPENSES:

Sources of income 2018



What we spend our income on 2018



EMPLOYEE GROUPING (AS AT 30 JUNE 2018):

Total staff	1066
Teachers	416
Support	260
Relievers	334
Support services	56

CONSOLIDATED STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE

For the 12 months ended 30 June 2018

Revenue ($000's)	Note	2018	2017
Government funding		47,803	46,591
Other grant revenue		150	170
Parent contributions		5,807	5,362
Fundraising revenue		188	212
Interest revenue		200	228
Other sundry revenue		549	675
Total Revenue	4	54,697	53,238
Expenses			
Staff		42,843	39,431
Professional and consultancy fees		895	846
Management administration		64	93
Property and resources		8,561	8,638
Depreciation	11 (a)	2,259	2,027
Loss / (gain) on disposal of fixed assets		18	(47)
Office administration		1,172	1,421
Marketing and public relations		254	432
Impairment of property, plant and equipment	5	798	-
		56,864	52,841
Surplus / (deficit) for the period		(2,167)	397
Total comprehensive revenue / (expense)		(2,167)	397

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS/EQUITY

For the 12 months ended 30 June 2018

($000's)	Note	2018	2017
Accumulated comprehensive revenue and expense at the start of the year		31,822	31,425
Surplus / (deficit) for the year		(2,167)	397
Accumulated comprehensive revenue and expense at the end of the year		29,655	31,822

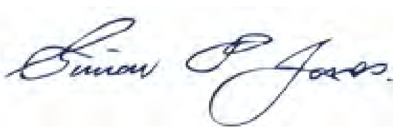
The Notes to the financial statements form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

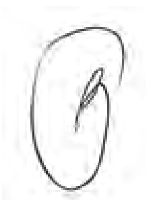
Current assets ($000's)	Note	2018	2017
Cash and cash equivalents	17 (a)	9,316	10,186
Trade and other receivables	8	309	236
Taxes receivable	9	205	429
Assets held for sale	11 (b)	-	-
Other assets	10	1,152	128
Total current assets		**10,982**	10,979
Non-current assets			
Property, plant and equipment	11 (a)	24,742	25,800
Total non-current assets		**24,742**	25,800
Total assets		**35,724**	36,779
Current liabilities			
Trade and other payables	12	5,189	4,528
Taxes payable	9	846	429
Provisions	13	34	-
Total current liabilities		**6,069**	4,957
Total liabilities		**6,069**	4,957
Net assets		**29,655**	31,822
Net Assets/Equity			
Accumulated comprehensive revenue and expense		29,655	31,822
Total net assets/equity		**29,655**	31,822

On behalf of Auckland Kindergarten Association Board:



Simon Jones
Chair

8 November 2018



Christopher Barrow
Chair, Audit Risk Assurance Committee

8 November 2018

The Notes to the financial statements form part of this financial statement.

CONSOLIDATED CASH FLOW STATEMENT

For the 12 months ended 30 June 2018

Cash flows from operating activities ($000's)	Note	2018	2017
Government funding received		47,786	46,713
Other grant revenue received		150	170
Parent contributions received		5,751	5,526
Fundraising revenue received		250	365
Interest received		200	201
Other sundry revenue received		535	816
Payments to employees		(42,148)	(39,042)
Payments to suppliers		(10,430)	(11,374)
Net cash provided by operating activities	17 (b)	2,094	3,375

Cash flows used in investing activities			
Payment for property, plant and equipment		(1,964)	(3,547)
Proceeds for term deposit		(1,000)	-
Proceeds from sale of property, plant and equipment		-	62
Net cash used in investing activities		(2,964)	(3,485)

Net decrease in cash and cash equivalents		(870)	(110)
Cash and cash equivalents at the beginning of the period		10,186	10,296
Cash and cash equivalents at the end of the period	17(a)	9,316	10,186

The Notes to the financial statements form part of this financial statement.

NOTES TO THE FINANCIAL STATEMENTS

1. General information

Auckland Kindergarten Association was founded in 1908 and is domiciled in New Zealand. Auckland Kindergarten Association is registered as a charitable entity under the Charities Act 2005.

The financial statements comprise Auckland Kindergarten Association (the Association), which includes its constituent kindergartens and its wholly owned subsidiary, Kindergarten NZ Limited (collectively, the Group).

The principal activity of the Group is the provision of early childhood education.

2. Basis of preparation

These financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP) and the requirements of the Charities Act 2005. For the purposes of complying with NZ GAAP, the Group is a public benefit entity.

The financial statements comply with New Zealand Public Benefit Entity International Public Sector Accounting Standards. The financial statements also comply with Public Benefit Entity International Financial Reporting Standards.

Comparatives

Certain immaterial comparative figures within the financial statements have been re-classified to align with the current period presentation.

Measurement basis

The financial statements for the Group have been prepared on the basis of historical cost.

Functional and presentation currency

All transactions and balances are presented in New Zealand dollars, which is also the functional currency. All amounts are rounded to the nearest thousand dollars ($000) unless otherwise stated.

Use of judgements and estimates

In the process of applying the accounting policies, management make judgements, estimates and assumptions. Actual results may differ from these estimates.

Information about critical judgements that have the most significant effect on the amounts recognised in the financial statements is included below:

Provisions (note 13)

The provision for onerous leases arises from noncancellable contracts where the unavoidable costs of meeting the contracts exceeds the economic benefits to be received from them. This requires management to assess the likelihood, amount and timing of future economic benefits or service potential including period to novate or sublet and sub-lease income expected.

Contingent liabilities (note 14)

Contractual lease obligations require the Group to make good the condition of land and buildings upon terminating a lease and vacating the premises. Estimation and assumptions are made in determining the likelihood, amount and timing of cash necessary to settle the obligations.

NOTES TO THE FINANCIAL STATEMENTS

3. Accounting policies

Basis of consolidation

Subsidiaries are investees controlled by the Group. The Group controls an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of the subsidiaries are included in the Group's financial statements from the date on which control commences until the date control ceases.

All intra-group balances and transactions, and unrealised income and expenses resulting from intra-group transactions are eliminated on consolidation. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

When the Group loses control over a subsidiary, it derecognises the related assets and liabilities, and any other components of equity. Any interest in the former subsidiary is measured at fair value when control is lost.

Business combination

Business combinations are accounted for using the acquisition method. The consideration transferred in the acquisition is measured at fair value at the acquisition date. Acquisition related costs are expensed as incurred, except if they are related to the issue of debt or equity securities.

Goodwill is initially measured at cost, being the excess of the consideration transferred and the fair value net identifiable assets acquired and liabilities assumed. Any gain on a bargain purchase is recognised in surplus or deficit immediately. After initial recognition goodwill is measured at cost less any accumulated impairment losses.

Financial instruments

All financial instruments are initially recognised at the fair value of the consideration received less, in the case of financial assets and liabilities not recorded at fair value through surplus or deficit, directly attributable transaction costs.

Subsequently the Group applies the following accounting policies for financial instruments:

(i). Loans and receivables

Financial assets in this category include:
- cash and cash equivalents;
- investment securities: term deposits;
- trade receivables.

Cash and cash equivalents include cash on hand, cash at bank (including any overdraft), money market deposits on call and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are recognised at their cash settlement value.

Subsequent to initial recognition, loans and receivables are carried at their amortised cost, in accordance with the effective interest rate method, less impairment.

Loans and receivables are regularly reviewed for impairment, both individually and collectively in groups of financial assets with similar risk profiles. An impairment loss is recognised when there is objective evidence that future cash flows from the asset will decline from the previous expected levels. The amount of any impairment is measured as the difference between the asset's carrying value and the present value of the re-estimated cash flows, discounted at the original effective interest rate. Any impairment loss is recognised in surplus or deficit with a corresponding reduction in the carrying value of the financial asset through an impairment allowance account.

(ii). Financial liabilities at amortised cost

Financial liabilities in this category include:
- trade and other payables.

Subsequent to initial recognition, financial liabilities at amortised costs are carried at their amortised cost in accordance with the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS

Impairment of non–financial assets

Non-financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An annual internal review of asset values is performed at the end of each financial year. External factors, such as changes in expected future processes, technology and economic conditions, are also monitored to assess for indicators of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

An impairment loss is recognised for any amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Value in use is determined using a discounted cash flow model. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Any impairment losses are recognised in surplus or deficit. Non-financial assets that suffered impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

Property, plant and equipment

Land and Buildings include buildings which have been purchased with government assistance and are recorded at historical cost. Whilst the Group is responsible for the care and maintenance of these buildings, there may be restrictions on the entitlements to any proceeds from a sale or disposition of such land and buildings.

Land used but not owned by the Group, is not attributed any value in the Group's accounts.

Buildings used by the Group, under a lease to occupy are not attributed a value on commencement of the lease. Any improvements of a capital nature required to ensure the buildings meet the needs of the Group are capitalised and depreciated over their estimated economic useful life.

Depreciation is provided on property, plant and equipment, including buildings developed and owned by the Group but excluding land.

Depreciation is calculated on a straight line basis so as to write off the net cost of an asset over its expected useful life to its estimated residual value. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each annual reporting period.

Buildings erected on land owned by the Group are depreciated at the rate of 3% per annum on cost. Other buildings used by the Group are depreciated at rates calculated to amortise the cost of the buildings over their useful economic life.

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

Buildings	25 – 50 years
Playgrounds	10 years
Plant and equipment	5 years

Employee benefits

Annual leave

Provision is made for annual leave in accordance with the accumulated entitlement as at the reporting date. This is carried at the cash amount necessary to settle the obligation.

Sick leave

The sick leave allowance is calculated by assuming each person on the relevant contract is entitled to a certain number of days sick leave in a year. An estimate is made of the likelihood of each person drawing upon an accumulated entitlement over and above the standard number of sick leave days in the forthcoming year. These surplus days are valued at the current rate of pay plus an increment to represent the pay rate at which the sick leave is likely to crystallise.

Leases

Payments made under operating leases are charged to surplus or deficit on a straight-line basis over the period of the lease. Any lease incentives are amortised over the estimated occupancy periods and offset against lease expenditure in surplus or deficit. The estimated occupancy period is based on the contractual terms of the lease and is reviewed annually.

NOTES TO THE FINANCIAL STATEMENTS

Taxes

Current tax

Auckland Kindergarten Association, along with its subsidiary is a registered charitable entity. The Inland Revenue Department has confirmed that the charitable entity is exempt from income tax.

Goods and services tax

All revenues and expenses are recognised net of goods and services tax (GST). Any GST on expenses that is not recoverable is recognised in surplus or deficit.

Receivables and payables are recognised inclusive of any applicable GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

Revenue recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

Government funding

Government funding is recognised in surplus or deficit on completion of the relevant services.

Grant revenue

Grants are recognised in surplus or deficit when received and applied in accordance with conditions of the grantor. Depending on the nature of the conditions, where conditions are not met at balance date grants received are recognised as a liability and may be repayable to the grantor.

Parent fees

Parent fees and optional charges received or receivable are recognised in surplus or deficit on completion of the relevant services.

Fundraising revenue and donations

Money raised from fundraising activities and donations is recognised in surplus or deficit when received.

Interest revenue

Interest revenue is recognised using the effective interest method.

Donated services

The work of kindergartens is partly dependent on the voluntary service of parents, caregivers and the general public. Since these services are not normally purchased by the Group and because of the difficulty of determining their value with reliability, donated services are not recognised in these financial statements.

Presentation of cash flows

Cash flows from operating activities are cash flows from the principle revenue producing activities of the Group.

Cash flows from investing activities are cash flows from the acquisition, holding and disposal of property, plant and equipment and investments.

NOTES TO THE FINANCIAL STATEMENTS

4. Revenue

Government funding: ($000's)	2018	2017
Bulk funding income	28,975	28,745
20 hours ECE funding	17,863	16,797
Equity funding income	965	1,049
Total Government funding	**47,803**	46,591
Other grant revenue	**150**	170
Parent contributions:		
Donations	15	23
Fees	5,773	5,268
Optional charges	19	71
Total Parent contributions	5,807	5,362
Fundraising revenue	**188**	212
Interest revenue:		
Cash and cash equivalents	200	228
Other sundry revenue	**549**	675
Total revenue	**54,697**	53,238

Revenue is classified as exchange and non-exchange. The Group has determined exchange transactions to include parent fees, interest revenue and other sundry revenue. All other sources are considered to be non-exchange.

5. Impairment of assets

($000's)	Note	2018	2017
Impairment of property, plant and equipment	11	532	-
Impairment of assets held for sale	11	266	-
		798	-

The impairment of property, plant and equipment relates to items of buildings, playgrounds and plant and equipment of an operating centre, where the carrying amount of the assets, exceed their recoverable amounts. Refer Note 15 Events after the reporting date.

The impairment of assets held for sale relates to property, plant and equipment which have been reclassified to assets held for sale. These assets were under development for new centres planned which the Group is now in the process of exiting. A sale process has started, and is expected to complete during the next financial year, and the fair value of assets held for sale have been revalued to anticipated sales prices. Refer Note 11 (b) Assets held for sale.

NOTES TO THE FINANCIAL STATEMENTS

6. Key management personnel

Key management personnel comprises the Chief Executive, permanent, seconded or contract members of the Executive and members of the Board.

($000's)	2018	2017
Key management personnel compensation comprises:		
Chairperson honorarium – 1 person (2017: 1 person)	11	11
Board member fees – 6 people (2017: 9 people)	12	9
Executive Leadership Team - 7 people* (2017: 5 people)	1,267	859
	1,290	879

**During the year 3 members of the Executive Leadership Team ceased employment.*

7. Remuneration of auditors

($000's)	2018	2017
Audit of the financial statements	51	48
	51	48

The auditor of Auckland Kindergarten Association and the Group is Deloitte Limited.

8. Trade and other receivables

Non Exchange transactions: ($000's)	2018	2017
Funding receivable	251	234
Exchange transactions		
Debtors	58	2
	309	236

The Group does not have any impaired receivables and therefore no provision for bad debts is required.

9. Taxes receivable / (payable)

($000's)	2018	2017
Payroll tax (PAYE)	(846)	(429)
Goods and services tax (GST)	205	429
	(641)	-

10. Other assets

($000's)	2018	2017
Prepayments	142	132
Sundry debtors	10	(4)
Term deposit	1,000	-
	1,152	128

NOTES TO THE FINANCIAL STATEMENTS

11 (a). Property, plant and equipment

Gross value: ($000's)	Land	Buildings	Playgrounds	Plant and equipment	Capital work in progress	Total
Gross value at 30 June 2016	**342**	**28,283**	**4,529**	**7,323**	**718**	**41,195**
Additions	-	-	-	-	3,547	3,547
Disposals	-	-	(2)	(265)	-	(267)
Transfers	-	1,943	1,016	530	(3,489)	-
Gross value at 30 June 2017	**342**	**30,226**	**5,543**	**7,588**	**776**	**44,475**
Additions	-				2,021	2,021
Disposals	-	(63)	(14)	(90)	-	(167)
Transfer to Assets Held for Sale (Note 5, 11 (b))	-	-	-	-	(266)	(266)
Transfers	-	1,012	713	718	(2,443)	-
Gross Value at 30 June 2018	**342**	**31,175**	**6,242**	**8,216**	**88**	**46,063**

Accumulated depreciation:	Land	Buildings	Playgrounds	Plant and equipment	Capital work in progress	Total
Accumulated depreciation at 30 June 2016	**-**	**(8,297)**	**(2,386)**	**(6,217)**	**-**	**(16,900)**
Disposals	-	-	-	252	-	252
Transfers	-	-	(176)	176	-	-
Depreciation expense	-	(1,082)	(342)	(603)	-	(2,027)
Accumulated depreciation at 30 June 2017	**-**	**(9,379)**	**(2,904)**	**(6,392)**	**-**	**(18,675)**
Disposals	-	48	14	83	-	145
Impairment (Note 5, 15)	-	(298)	(85)	(149)	-	(532)
Depreciation expense	-	(1,181)	(432)	(646)	-	(2,259)
Accumulated depreciation at 30 June 2018	**-**	**(10,810)**	**(3,407)**	**(7,104)**	**-**	**(21,321)**

Net book value	Land	Buildings	Playgrounds	Plant and equipment	Capital work in progress	Total
At 30 June 2017	342	20,847	2,639	1,196	776	25,800
At 30 June 2018	**342**	**20,365**	**2,835**	**1,112**	**88**	**24,742**

11 (b). Assets held for sale

($000's)	
Gross value at 30 June 2017	-
Transfer from capital work in progress (Note 11 (a))	266
Impairment	(266)
Balance at 30 June 2018	**-**

The Group is actively promoting the sale of two non-operating centres in their development phase and the transfer of accompanying property lease obligations. The fair value of the assets held for sale of $0 has been determined based on anticipated sales prices.

12. Trade and other payables

Non Exchange transactions: ($000's)	2018	2017
Targeted funding for disadvantage	**81**	-
Exchange transactions		
Creditors and accruals	**3,878**	3,384
Employee entitlements	**1,230**	1,144
	5,189	4,528

All payables are due within 30 days of purchase. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

NOTES TO THE FINANCIAL STATEMENTS

13. Provisions

Onerous leases: ($000's)	2018	2017
Opening balance	-	-
Additional provision made	34	-
Amounts used	-	-
Closing balance	34	-

The provision for onerous leases arises from one non-cancellable contract where the unavoidable costs of meeting the contract exceed the economic benefit to be received from it.

14. Commitments and contingencies

Analysis of operating lease commitments: ($000's)	2018	2017
Payable within 1 year	1,196	768
Payable after 1 year and within 5 years	4,817	2,902
Payable after 5 years	8,184	2,903
	14,197	6,573

Capital Commitments		
Playground upgrades	187	210
	187	210

Contingent liabilities

The Group received in 2010 a capital accommodation grant relating to the KiNZ Mission Heights centre totalling $1,365,000. If the centre ceases to operate, closes or is sold within 10 years of receipt of the grant (or in certain other circumstances) the Group may be required to repay the grant in part or full. As such the Group has a contingent liability of $1,365,000 (2017: $1,365,000).

The Group leases properties from Auckland Council. A number of these leases are currently being renegotiated and renewed. Auckland Council is requiring all new lease agreements to have initial terms of up to 10 years, no tenant only rights of renewal and obligations to make good properties to pre-lease conditions. There is now some doubt regarding the likelihood of leases being renewed or extended beyond their initial terms, although the Group has no historical experience of leases being terminated by Auckland Council. The Group is not able to reliably estimate the costs of reinstatement and has made no provision for any future reinstatement costs.

15. Events after the reporting date

On the 23 August 2018 management announced changes to the Group's support services function and structure. The purpose of these changes is to improve the leadership, management and support of kindergartens, with the objective of lifting the engagement and performance of teaching teams. Costs of restructuring are yet to be determined.

The Group has decided, after the reporting date, to market the sale of one of its operating centres.

16. Related party disclosures

Lee-Anne Coburn, board member of Auckland Kindergarten Association, is the wife of Brian Coburn a partner of the law firm Hesketh Henry which the Group engages from time to time for legal advice. Fees paid to Hesketh Henry in 2018 were $103k (2017: $66k). Lee-Ann Coburn resigned from the board of Auckland Kindergarten Association on 24 January 2018.

NOTES TO THE FINANCIAL STATEMENTS

17. Cash Flow Statement

(a) Reconciliation of cash and cash equivalents

For the purposes of the Cash Flow Statement, cash and cash equivalents includes cash on hand and in banks and investments in term deposits. Cash and cash equivalents at the end of the financial year as shown in the Cash Flow Statement is reconciled to the related items in the Statement of Financial Position as follows:

($000's)	2018	2017
Cash in bank	1,371	1,106
Short term deposits	7,945	9,080
	9,316	10,186

In addition to the above a credit card facility is held.

(b) Reconciliation of profit for the period to net cash flows from operating activities

($000's)	Note	2018	2017
(Deficit) / Surplus for the period		(2,167)	397
Loss / (gain) on sale or disposal of non-current assets		18	(47)
Depreciation of non-current assets	11 (a)	2,259	2,027
Impairment		798	-
Changes in net assets and liabilities:			
(Increase)/decrease in assets:			
Current receivables		(73)	268
Other current assets		200	304
Increase/(decrease) in liabilities:			
Current payables		1,059	426
Net cash inflow/(outflow) from operating activities		2,094	3,375

Gross cash flows are presented exclusive of GST.

(c) Restrictions on cash received

Cash received from grants is restricted to the purpose for which the grant was approved.

NOTES TO THE FINANCIAL STATEMENTS

18. Financial instruments

All financial instruments to which the Group is a party are recognised in the financial statements.

There are no changes from the previous year in how the Group manages its credit risk, interest risk and liquidity risk.

(a) Credit risk management

In the normal course of business, the Group incurs credit risk from trade and other receivables and banking institutions. The Group manages its exposure to credit risk by:

(i) holding cash and cash equivalents and term deposits with New Zealand registered banking institutions; and

(ii) maintaining credit control procedures over trade and other receivables.

The Group has no significant concentration of credit risk. The maximum exposure at balance date is equal to the total amount of cash and cash equivalents, short term deposits and trade and other receivables disclosed in the Statement of Financial Position.

The Group does not require any collateral or security to support financial instruments it holds due to the low risk associated with the realisation of these instruments.

(b) Interest rate risk management

The interest rate risk on funds held is managed through the use of term investments, held until maturity. The interest rate risk associated with short term deposits is considered minimal as the Group's deposits mature within approximately 3 months from investment date.

(c) Liquidity risk management

Liquidity risk is the risk that the Group will encounter difficulty raising liquid funds to meet commitments as they fall due. Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents on hand as disclosed in Note 17 Cash flows.

All financial liabilities fall due within 30 days of balance date.

(d) Capital risk management

The Group manages its capital to ensure that the Group will be able to continue as a going concern.

The capital structure of the Group consists of net assets/equity, comprising accumulated comprehensive revenue and expense as disclosed on the Statement of Changes in Net Assets/Equity.

The Group's overall strategy remains unchanged from 2017.

There are no externally imposed capital requirements on the Group.

(e) Fair values

The directors consider that the carrying amount of financial assets and financial liabilities recorded in the financial statements approximates their fair value.

NOTES TO THE FINANCIAL STATEMENTS

(f) Categories of financial instruments

	Consolidated at 30 June 2018		
Assets ($000's)	**Loans and receivables**	**Financial assets and liabilities at amortised cost**	**Total**
Cash and cash equivalents	9,316	-	**9,316**
Trade and other receivables	514	-	**514**
Sundry debtors	1,152	-	**1,152**
Total financial assets	**10,982**	**-**	**10,982**
Total non-financial assets			**24,742**
Total assets			**35,724**
Liabilities			
Trade and other payables	-	6,069	**6,069**
Total financial liabilities	**-**	**6,069**	**6,069**
Total non-financial liabilities			**-**
Total liabilities			**6,069**

	Consolidated at 30 June 2017		
Assets ($000's)	**Loans and receivables**	**Financial assets and liabilities at amortised cost**	**Total**
Cash and cash equivalents	10,186	-	**10,186**
Trade and other receivables	665	-	**665**
Sundry debtors	128	-	**128**
Total financial assets	**10,979**	**-**	**10,979**
Total non-financial assets			**25,800**
Total assets			**36,779**
Liabilities			
Trade and other payables	-	4,957	**4,957**
Total financial liabilities	**-**	**4,957**	**4,957**
Total non-financial liabilities			**-**
Total liabilities			**4,957**

NOTES TO THE FINANCIAL STATEMENTS

19. Equity funding

Equity funding received from the Government provides additional targeted funding to make early learning opportunities equally available for all Auckland children.

Equity funding received: ($000's)	2018	2017
Low social economic	1,055	1,018
Special needs & non-English speaking backgrounds	29	31
	1,084	1,049

Equity funding has been used for:		
Discounted Fees	777	588
Learning support	160	185
Teaching resources	2	246
Property	-	6
Sundry expenses	-	24
	939	1,049

During the year the Group focused on increasing the participation of children in early learning by offering parents from 41 communities discounted fees.

Deloitte.

Independent Auditor's Report

To the Members of Auckland Kindergarten Association

Opinion

We have audited the financial statements of Auckland Kindergarten Association (the 'Association') and its subsidiary ('the group'), which comprise the consolidated statement of financial position as at 30 June 2018, and the consolidated statement of comprehensive revenue and expense, consolidated statement of changes in net assets/equity and consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements, on pages 10 to 24, present fairly, in all material respects, the consolidated financial position of the group as at 30 June 2018, and its consolidated financial performance and cash flows for the year then ended in accordance with Public Benefit Entity Standards.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ('ISAs') and International Standards on Auditing (New Zealand) ('ISAs (NZ)'). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

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

We are independent of the group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants*, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Other than in our capacity as auditor, we have no relationship with or interests in the entity or any of its subsidiaries, except that partners and employees of our firm deal with the entity and its subsidiary on normal terms within the ordinary course of trading activities of the business of the entity and its subsidiary.

Other information

The Association is responsible on behalf of the group for the other information. The other information comprises the information in the Annual Report that accompanies the consolidated financial statements and the audit report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information obtained prior to the date of our audit report, and consider whether it is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If so, we are required to report that fact. We have nothing to report in this regard.

Association's responsibilities for the consolidated financial statements

The Association is responsible on behalf of the group for the preparation and fair presentation of the consolidated financial statements in accordance with Public Benefit Entity Standards and for such internal control as the Association determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Association is responsible on behalf of the group 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 Association either intends to liquidate the group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are 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 ISAs and ISAs (NZ) 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 these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located on at the External Reporting Board's website at:

https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-7

This description forms part of our auditor's report.

Restriction on use

This report is made solely to the Members of the Association, as a body, in accordance with Section 10 of the Constitution of the Association. Our audit has been undertaken so that we might state to the Members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Members as a body, for our audit work, for this report, or for the opinions we have formed.

Deloitte Limited

Auckland, New Zealand
8 November 2018

ACKNOWLEDGEMENTS 2018

We are very grateful to the following individuals and organisations for their support of the Auckland Kindergarten Association:

- All those who fundraise to assist kindergartens
- Auckland Airport Community Trust
- Auckland Council
- Auckland Libraries
- Blue Sky Community Trust
- Chenery Trust
- Community Organisation Grants Scheme
- EcoMatters
- Four Winds Foundation
- Fresh Choice
- Grassroots Trust
- Howick Club
- Keep Waitakere Beautiful
- Lion Foundation
- Local Community Boards
- Local Licensing Trusts
- Local Rotary Clubs
- Local RSAs
- Ministry of Defence
- Ministry of Education
- Mt Wellington Foundation
- North and South Trust
- Plunket
- The June Gray Charitable Trust
- The Trusts Community Foundation Inc
- Trillian Trust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