AUCKLAND KINDERGARTEN ASSOCIATION

ANNUAL REPORT 2019

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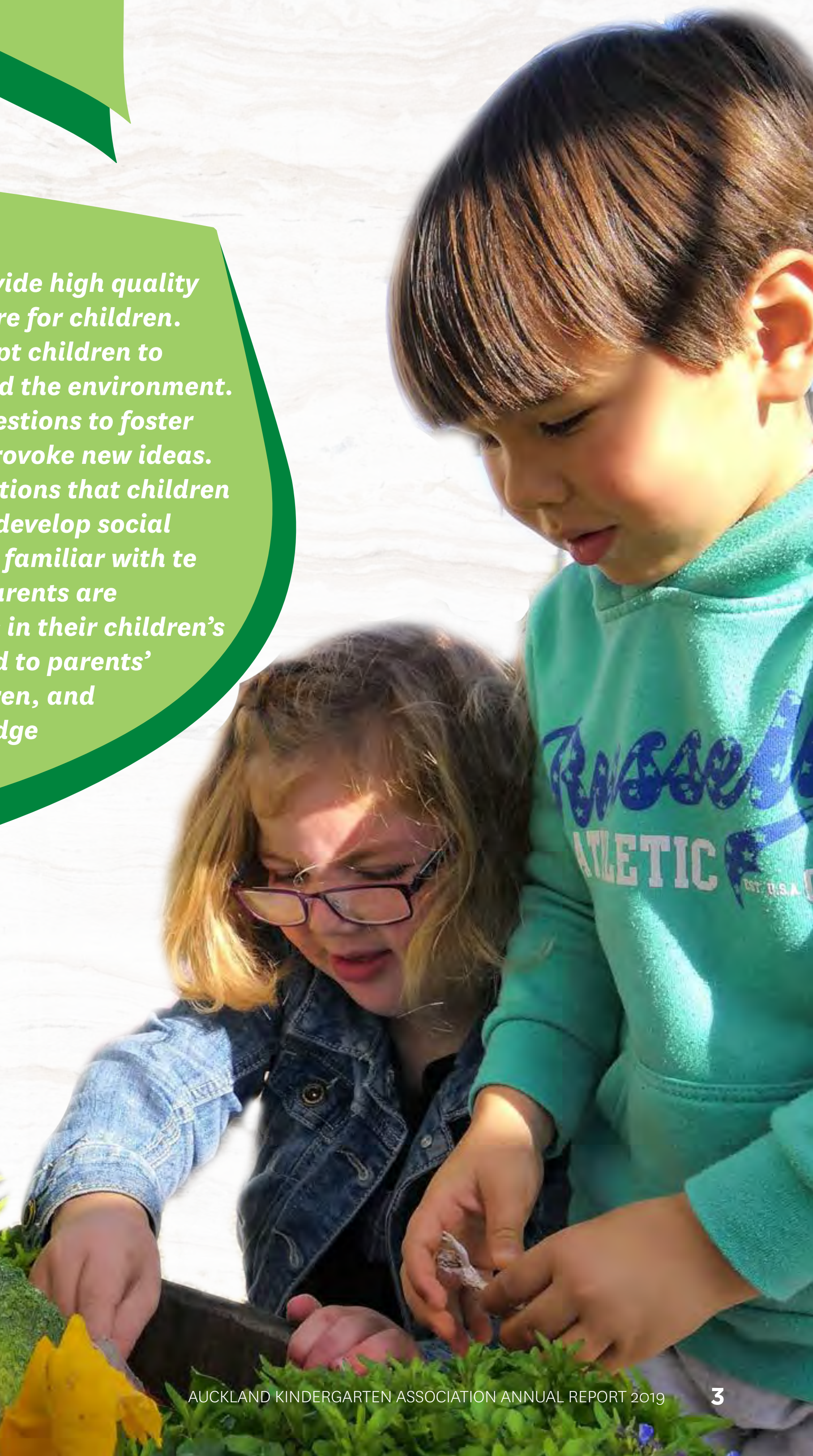
"Children have a strong sense of themselves as capable and competent learners. Teachers' focus on supporting mana is resulting in children's confidence that they are valued members of this kindergarten family. They demonstrate their pleasure in being in the kindergarten and in playing with others. The programme provided for children reflects teachers' knowledge of individuals and their interests."

Pakuranga Kindergarten, 2019 ERO Report

Colwill Kindergarten, 2019 ERO Report

"Teachers provide high quality education and care for children. They skilfully prompt children to explore resources and the environment. Teachers use open questions to foster problem solving and provoke new ideas. They have high expectations that children will take learning risks, develop social competence and become familiar with te reo and tikanga Māori. Parents are encouraged to be partners in their children's learning. Teachers respond to parents' aspirations for their children, and value the skills and knowledge that families share."



FROM THE BOARD CHAIR AND CHIEF EXECUTIVE

Over the last year Auckland Kindergarten Association has successfully continued on its journey towards delivering the services its communities want, building the right support services capability, and engaging with government on the future of early childhood education (ECE). The goals for the Association remain unchanged: to secure a sustainable and vibrant future and under the guidance of fully qualified teachers continue to ignite young minds.

TĒNĀ KOUTOU KĀTOA,

On behalf of the Board and Executive Leadership Team, we are pleased to present Auckland Kindergarten Association's Annual Report for the financial year ended 30 June 2019.

It's been a busy year implementing our transition programme which came out of the Independent Review, with a number of activities running in parallel: rolling out support services change, exiting non-core activities, revising our constitution and working closely with kindergartens and communities to understand needs and lift enrolments.

Organisational change

The restructure of our Support Services at Queen Street was completed during the year leading to more support-based roles in the community.

The new operating model continues to have tamariki, whānau and community at its centre and a mobile team of Area Leaders has been introduced to provide support to the eight newly formed clusters of kindergartens and centres. This leadership model, with enhanced performance reporting, is enabling informed decision making for improvements across the organisation. We are confident the gains made thus far will gather momentum over the coming year.

At governance level, the Board established a number of committees following recommendations from the Independent Review 2018 to drive key strategies and changes.

Exiting non-core activities

Three large-format centres deemed non-core were sold during the year along with the transfer of accompanying property lease obligations. Auckland Kindergarten Association remains focused on its core business of providing low cost, high quality early childhood education.

Auckland Kindergarten Association Constitution review

After the request from members at the 2017 AGM, the board and management have reviewed the Constitution. In the earlier part of 2019, extensive consultation has taken place with the membership and other interested parties and our teachers and staff. As a result of this work there is a new constitution for adoption at the 2019 AGM.

Engaging our communities

One of the special aspects of kindergarten education is the involvement of our parents and their participation is critical to the ongoing success of kindergartens. With the support of parents and whānau, most kindergartens now have a Parent Whānau Group (PWG). The PWG offers a focus for all whānau to support their local kindergarten and to have a voice.

We have increased fees this year and continue to encourage more parent contributions and fundraising so we acknowledge your commitment to supporting our services. We are very reliant upon the contributions and fees to make up the shortfall not met by government. Your engagement and help is however, a unique aspect of our services, contributing to the kindergarten movement. It is also in keeping with our view that kindergartens are a community resource.

Financial sustainability

All Kindergarten Associations have faced a significant decline in government funding over the past 10 years and so we continue to advocate with our colleagues across Aotearoa for government to commit to funding improvements. This was a significant message in our submission to the ECE 10-year strategic plan

Meanwhile, lifting the Association's financial performance to ensure the organisation is financially sustainable in the long term is crucial. We have economised on spending and intensive work has been done to generate the data we need for longer term planning and informed decision making.

With the ongoing uncertainty of government funding, we are also focussed upon exploring other sources of income aside from raising our fees. We are actively pursuing funding opportunities from alternative government sources and philanthropic organisations to ensure we can provide the level of services we have maintained for the past 100 years.

Strengthening relationships

The Auckland Kindergarten Association continues to work closely with Auckland Council and the Ministry of Education to ensure we know of any changing policy or developments that may affect us. Working with other kindergarten associations is also important as we look ahead in this time of change. It is beneficial for all associations to work collaboratively at all levels. Broadening relationships is also cemented when visitors come from overseas to explore our wonderful kindergartens and centres. This also builds teacher connections. Our visitors this year have included the Prime Minister who opened the butterfly garden at Grey Lynn Kindergarten. Other central and local politicians, councillors and local board members have also supported and celebrated in our beautiful kindergartens.

Educational excellence

Our teachers continue to collaborate and share their expertise with their colleagues and the wider education sector. The Auckland Kindergarten Association has increased its involvement with Kāhui Ako (Communities of Learning) facilitating professional dialogue with primary and early childhood teachers in local communities.

Research is a key element of sound practice and our teachers continue to be involved in initiatives such as the Teacher Led Innovation Fund (TLIF) research which was supported by Dr Rachel Williamson, Dean from Woolf Fisher Research Centre, University of Auckland. Other research initiatives have included participation in the pilot study of the ENGAGE programme designed to develop the ability for tamariki to self-regulate through the facilitation of interactive games and experiences. We have continued to provide iMOKO, a health initiative set up by Dr Lance O'Sullivan. This has supported families and children to receive the timely health support required that allows children to maintain more regular attendance and therefore less interruption to their learning.

I am pleased to report that Auckland Kindergarten Association is on track to complete the transition programme arising from the 2018 Independent Review and be well placed to successfully respond to the government's ECE 10-year strategic plan *He taonga te tamaiti, Every child a taonga, the draft strategic plan for early learning 2019-29.*

The Whakamanawa programme, which enhances our teachers' abilities with Te Ao Māori, is an important support for our teaching teams and has delivered positive outcomes for all participants.

Auckland Kindergarten Association also continues to be a leading provider of the Incredible Years Teacher programme to the wider ECE sector.

Te Horapa, our digital e-news, is another avenue by which the Auckland Kindergarten Association encourages and shares kindergarten and other services experiences. Head teachers coming together at hui remains a key focus, as it enables us to expose our education leaders to keynote speakers, both educational and operationally, and we encourage all teachers to participate in professional conferences and seminars.

The future of ECE

During the year we were fortunate to have the Minister of Education Hon. Chris Hipkins address our head teachers. The Minister spoke to his review of the early childhood sector, alongside other reviews being carried out across the wider education sector. He encouraged Auckland Kindergarten Association to feed back on the draft 10-year strategy for early learning.

He taonga te tamaiti, Every child a taonga, the draft strategic plan for early learning 2019-29, was duly released for consultation.

The plan focused on five goals:

- Quality is raised for children by improving regulated standards;
- Every child is empowered through timely access to the resources they need to thrive;
- Investment in our workforce supports excellence in teaching and learning;
- Planning ensures that provision is valued, sufficient and diverse;
- The early learning system continues to innovate, learn and improve

Our submission focussed strongly on maintaining 100% qualified teachers, a full review of the ECE funding model and increased support for kindergarten property portfolios. We eagerly await the outcome of the government's ECE 10 year strategic plan due in September 2019. We have high expectations that funding will be re-instated for 100% qualified teachers and that the kindergarten difference will be acknowledged and recognised. This, and the government's recently announced Well-being Strategy, signals increased opportunities for our association and the kindergarten movement.

The Executive Leadership Team

During the year, we welcomed two new team members:

With more than two decades of educational sector experience, respected educator and principal Matthew Crumpton, joined the Association as General Manager of Education and Innovation. Casey Muraahi was appointed General Manager of Community Engagement, bringing over 20 years of experience in the education sector in senior management roles.

Both Matthew and Casey will continue to support our innovative practices and our deep commitment to engaging with our kindergarten and centre communities.

Acknowledgements

To our parents and whānau, we thank you for your commitment and your involvement in our kindergartens and centres. Your energy and time to support our teachers, along with the assistance you give us with fundraising and care of our environments is valued. Each day we enjoy seeing your tamariki learning and growing. Every kindergarten or centre setting is a special place where your children are supported by our dedicated teachers, and we value being a part of your lives.

Thank you to the teachers and all the staff at Auckland Kindergarten Association who, together, deliver the unique kindergarten experience that is educating the citizens of tomorrow. We know you make children the heart of all you do, and your energy, kindness and compassion for your families is very evident in any kindergarten or centre. Our strategy pillar of education excellence is key to providing the sound foundations for our tamariki and whānau. We acknowledge the passion you bring while always striving for responsive culturally appropriate pedagogy. It has been a difficult year with many changes, but they have been embraced by you and you have stepped up to the challenges.

To members of the Board, thank you for your commitment during this time of change and your ongoing contribution to securing the future of Auckland Kindergarten Association. We have had to wrestle with some difficult decisions as we return the association to smoother waters and your various expertise and input has helped shape our way forward.

The Board has enjoyed visits to our kindergartens and centres and are proud to have been part of some wonderful anniversaries, celebrating their place in the community for more than 50 years. We have enjoyed welcoming our life members on these occasions knowing they value their links with the Auckland Kindergarten Association. These celebrations are very significant events in Aotearoa as few organisations have the longevity of the Auckland Kindergarten Association.

Celebrations

Avondale – 75 years
Epsom South – 75 years
KiNZ Mission Heights – 10 years
Mission Bay – 75 years
Murdoch Park – 50 years
Takapuna – 75 years
Waitakere – 25 years
Wellsford – 50 years

Finally, thank you to all who continue to lend their support to our kindergartens and believe in the 'Kindergarten Movement'. We will ensure that future generations of children continue to have access to the magic of quality early education in the gardens of our kindergartens and centres, delivered by passionate, dedicated teachers and staff.

Ngā mihi,

Robin Houlker
Chair, Auckland Kindergarten Association Board

Pauline A. Winter
Chief Executive, Auckland Kindergarten Association

BOARD MEMBERS

AUCKLAND KINDERGARTEN ASSOCIATION BOARD MEMBERS

Robin Houlker MEd (Hons), Dip Tchg
Chair

Bruce McLachlan MA (Hons), Dip Tchg
Deputy Chair

Chris Barrow BCom, LLB

Jo Jukes

Julie Anderson BEd

Katherine Souness BA, GradDipTchLn

Nick Davies BSc, Post Grad Dip in Business Administration, MBA

Richard Neal BA Maori/Philosophy

KINDERGARTEN NZ LIMITED BOARD MEMBERS

Bruce McLachlan MA (Hons), Dip Tchg

LIFE MEMBERS

Denise Iversen

Sue Crockett

Hewitt Harrison

Ian Kendall

Jeremy Drummond ONZM

The Auckland Kindergarten Association is a charitable organisation committed to giving tamariki across the Auckland region access to high-quality education. And, whilst we are primarily funded by the Government, we do require additional support to continue offering exceptional learning programmes for our tamariki. To this end, we encourage our parents and whānau to allocate their 20 hours of Early Childhood Education credits to their kindergartens to ensure the ongoing future of our Association.

We are committed to creating the best learning environments for Auckland tamariki, igniting happy, healthy, confident minds with a love of learning at the start of their educational journey.

KEY STATISTICS (as at 30 June 2019)

AUCKLAND KINDERGARTEN ASSOCIATION IS NEW ZEALAND'S LARGEST KINDERGARTEN ASSOCIATION

NUMBER OF CHILDREN ENROLLED:

5,979 Total

5,578 Kindergartens

256 KiNZ centres

145 Playgroups

ETHNICITIES OF CHILDREN ENROLLED:

NZ European/Pākehā	45.5%	Cook Island Maori	2.1%
Maori	10.6%	Middle Eastern	1.3%
Chinese	9.4%	Other Pacific Peoples	0.9%
Other Asian	6.3%	African	0.7%
Indian	6.2%	Latin American	0.6%
Samoan	4.7%	Niuean	0.5%
Southeast Asian	3.9%	Fijian	0.4%
Other European	3.7%	Other Ethnicity	0.3%
Tongan	2.8%	Tokelauan	0.1%

LOCATIONS:

107 Kindergartens

4 KiNZ Centres

5 Playgroups

EDUCATION REVIEW OFFICE RATINGS:

2
KiNZ centres with rating
"Very well placed"

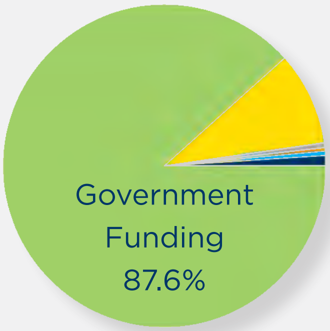
43
Kindergartens with rating
"Very well placed"

2
KiNZ centres with rating
"Well placed"

63
Kindergartens with rating
"Well placed"

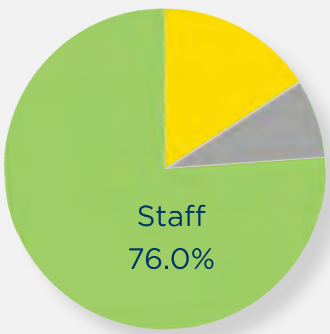
INCOME AND EXPENSES:

Sources of income 2019



87.6% Government Funding
9.4% Parent Fees
0.5% Fundraising
0.4% Interest
0.3% Grants
1.8% Other Income

How we spent our income 2019



76.0% Staff
15.7% Property & Resources
8.3% Other

EMPLOYEES:

952	**Total staff**
408	**Teachers**
277	**Support**
206	**Relievers**
61	**Support Services**

CONSOLIDATED STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE

For the 12 months ended 30 June 2019

Revenue ($000's)	Note	2019	2018
Government funding		47,979	47,803
Grant revenue		180	150
Parent contributions		5,465	5,807
Fundraising revenue		289	188
Interest revenue		235	200
Other sundry revenue		956	763
Total revenue	4	**55,104**	54,911

Expenses	Note	2019	2018
Staff		43,483	43,057
Professional and consultancy fees		1,128	895
Property and resources		8,671	8,561
Depreciation	11(a)	2,345	2,259
Loss/(gain) on disposal of fixed assets		11	18
Office administration		1,396	1,236
Marketing and public relations		159	254
Impairment of property, plant and equipment	5	-	798
Total expenses		**57,193**	57,078

Surplus / (deficit) for the year		**(2,089)**	(2,167)
Total comprehensive revenue / (expense)		**(2,089)**	(2,167)

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS/EQUITY

For the 12 months ended 30 June 2019

($000's)	Note	2019	2018
Accumulated comprehensive revenue and expense at the start of the year		29,655	31,822
Surplus / (deficit) for the year		(2,089)	(2,167)
Accumulated comprehensive revenue and expense at the end of the year		27,566	29,655

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

Current assets ($000's)	Note	2019	2018
Cash and cash equivalents	17 (a)	8,442	9,316
Trade and other receivables	8	1,152	782
Taxes receivable	9	127	205
Assets held for sale	11 (b)	-	-
Other assets	10	388	1,152
Total current assets		**10,109**	11,455

Non-current assets			
Property, plant and equipment	11 (a)	24,406	24,742
Total non-current assets		**24,406**	24,742
Total assets		**34,515**	36,197

Current liabilities			
Trade and other payables	12	6,049	5,662
Taxes payable	9	900	846
Provisions	13	-	34
Total current liabilities		**6,949**	6,542
Total liabilities		**6,949**	6,542
Net assets		**27,566**	29,655

Net assets/ equity			
Accumulated comprehensive revenue and expense		27,566	29,655
Total net assets/equity		**27,566**	29,655

On behalf of Auckland Kindergarten Association Board:

Robin Houlker
Chair

30 September 2019

Christopher Barrow
Chair, Audit Risk Assurance Committee

30 September 2019

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

CONSOLIDATED CASH FLOW STATEMENT

For the 12 months ended 30 June 2019

Cash flows from operating activities ($000's)	Note	2019	2018
Government funding received		48,406	47,786
Grant revenue received		245	150
Parent contributions received		5,379	5,751
Fundraising revenue received		288	250
Interest received		235	200
Other sundry revenue received		545	535
Payments to employees		(43,175)	(42,148)
Payments to suppliers		(11,724)	(10,430)
Net cash provided by operating activities	17(b)	**199**	2,094

Cash flow used in investing activities			
Payment for property, plant and equipment		(2,073)	(1,964)
Term deposit investment - net		1,000	(1,000)
Intercompany transfers - net		-	-
Net cash used in investing activities		**(1,073)**	(2,964)

Net increase/(decrease) in cash and cash equivalents		(874)	(870)
Cash and cash equivalents at the beginning of the period		9,316	10,186
Cash and cash equivalents at the end of the period	17(a)	**8,442**	9,316

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

The 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 Public Sector Accounting Standards.

Comparatives

Certain 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 non-cancellable 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 conditions 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.

Contractual lease obligations for leases assigned to a third party require the Group to pay the outstanding rent due to the leasor should the assignee default on the lease. 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

Provision is made for benefits accruing to employees in respect of salaries and wages and annual leave where it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits are recorded at nominal values. The value of provisions recognised reflect accrued entitlements at balance date calculated at the prevailing rates of pay.

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 contribution

Parent contribution and optional charges received or receivable are recognised in surplus or deficit on receipt.

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)	2019	2018
Operational funding	46,801	46,838
Equity funding	1,178	965
Total Government funding	47,979	47,803
Grant revenue	180	150
Parent contributions	5,465	5,807
Fundraising revenue	289	188
Interest revenue	2019	2018
Cash and cash equivalents	235	200
Other sundry revenue	956	763
Total revenue	55,104	54,911

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

5. Impairment of Assets

($000's)	Note	2019	2018
Impairment of property, plant and equipment	11(a)	-	532
Impairment of assets held for sale	11(b)	-	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, exceeded their recoverable amounts.

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 exited during the year.

NOTES TO THE FINANCIAL STATEMENTS

6. Key management personnel

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

($000's)	2019	2018
Key management personnel compensation comprises:		
Board member fees and expenses - 8 FTE people (2018: 7 FTE people)	83	23
Executive Leadership Team - 6 FTE people (2018: 7 FTE people)	1,262	1,267
	1,345	1,290

FTE = Full time equivalent

Board member fees include the salary of an employee board member.

7. Remuneration of auditors

($000's)	2019	2018
Audit of the financial statements	81	51
	81	51

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

8. Trade and other receivables

Non exchange transactions ($000's)	2019	2018
Funding receivable	1,034	724
Exchange transactions		
Debtors	118	58
	1,152	782

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

9. Taxes receivable / (payable)

($000's)	2019	2018
Payroll tax (PAYE)	(900)	(846)
Goods and services tax (GST)	127	205
	(773)	(641)

10. Other assets

($000's)	2019	2018
Prepayments	388	142
Sundry debtors	-	10
Term deposit	-	1,000
	388	1,152

NOTES TO THE FINANCIAL STATEMENTS

11(a). Property, plant and equipment

($000's)	Land	Buildings	Playgrounds	Plant and Equipment	Capital work in progress	Total
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**
Additions	-	-	-	-	2,037	2,037
Disposals	-	(367)	(101)	(232)	(107)	(807)
Transfers	-	523	635	801	(1,959)	-
Gross value at 30 June 2019	**342**	**31,331**	**6,776**	**8,785**	**59**	**47,293**

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)**
Disposals	-	308	195	276	-	779
Impairment	-	-	-	-	-	-
Depreciation expense	-	(1,215)	(498)	(632)	-	(2,345)
Accumulated depreciation at 30 June 2019	**-**	**(11,717)**	**(3,710)**	**(7,460)**	**-**	**(22,887)**
Net book value						
At 30 June 2018	342	20,365	2,835	1,112	88	24,742
At 30 June 2019	**342**	**19,614**	**3,066**	**1,325**	**59**	**24,406**

11 (b). Assets held for sale

($000's)	2019	2018
Opening balance	-	-
Transfer from capital work in progress (Note 11(a))	-	266
Impairment	-	(266)
Closing balance	**-**	**-**

The Group completed the sale of two non-operating centres in their development phase and the transfer of accompanying property lease obligations in the year. Actual sales prices were $nil. The fair value of the assets held for sale in 2018 of $nil was determined based on anticipated sales prices.

NOTES TO THE FINANCIAL STATEMENTS

12. Trade and other payables

Non exchange transactions ($000's)	2019	2018
Targeted funding for disadvantaged	239	81
Equity funding for disadvantaged	991	1,076
Exchange transactions		
Creditors and accruals	1,589	1,502
Employee entitlements	3,230	3,003
	6,049	5,662

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.

13. Provisions

Onerous leases ($000's)	2019	2018
Opening balance	34	-
Additional provision made	-	34
Amounts used	(34)	-
Closing balance	-	34

The provision for onerous leases arose from one non-cancellable contract where the unavoidable costs of meeting the contract exceeded the economic benefit to be received from it. The Group assigned the lease during the year. Refer to note 14 for further details..

14. Commitments and contingencies

Operating lease commitments ($000's)	2019	2018
Payable within 1 year	578	1,196
Payable after 1 year and within 5 years	986	4,817
Payable after 5 years	-	8,184
	1,564	14,197

Capital commitments ($000's)	2019	2018
Playground upgrades	-	187
	-	187

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 (2018: $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.

NOTES TO THE FINANCIAL STATEMENTS

The Group assigned the leases of one early childhood education centre (Lease 1) and two development sites (Lease 2 and Lease 3) during the year. Under New Zealand Law the Group remains liable to the landlord for the payment of rent and the performance of the covenants of each lease until the end of the term of each lease. The Group is contingently liable to the landlord, following the date of assignment, in the event of a default by the assignee. The Group is not able to determine the likelihood or timing of any default or reliably estimate the cost of any default and has made no provision for any costs of a default. In addition, the Group has provided to the landlord of Lease 1 a bank guarantee irrevocable until and including the first renewal date and equivalent to twelve months passing rent. The bank guarantee has been provided as security for the observance and performance of the terms and conditions contained in the lease.

	Anniversary date	1st renewal date	Annual rent at date of assignment	Fixed rent increase
Lease 1	18th April	18/04/2030	$306,306.00	2% per annum
Lease 2	8th October	26/08/2033	$312,000.00	2% per annum
Lease 3	16th June	16/06/2032	$283,920.00	2% per annum

15. Events after the reporting date

There were no subsequent events.

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. 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)	2019	2018
Cash on hand	53	53
Cash in bank	8,341	1,318
Short term deposits	48	7,945
	8,442	9,316

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)	2019	2018
(Deficit)/surplus for the year	(2,089)	(2,167)
Loss/gain on sale or disposal of non-current assets	11	18
Depreciation of non-current assets	2,345	2,259
Impairment	-	798
Changes in net assets and liabilities		
(Increase)/decrease in assets:		
Current receivables	(370)	(73)
Other current assets	(158)	200
Increase/(decrease) in liabilities:		
Current payables	460	1,059
Net cash provided by operating activities	199	2,094

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.

Equity funding is received from the Government and is specifically for the use of an individual kindergarten. While ultimately these funds will be used for the benefit of the respective kindergarten there is no specific timeframe or obligation on the Group to spend these funds. Refer to note 19 for further details.

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 however the Group only deal with one bank currently ASB, and its funding receiveable is from the Ministry of Education. 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 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 2018.

There are no externally imposed capital requirements on the Group.

(e) Fair values

Management 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 2019		
Assets ($000's)	**Loans and receivables**	**Financial assets and liabilities at amortised cost**	**Total**
Cash and cash equivalents	8,442	-	8,442
Trade and other receivables	1,152	-	1,152
Taxes receivable	127	-	127
Total financial assets	**9,721**	**-**	**9,721**
Total non-financial assets			**24,794**
Total assets			**34,515**
Liabilities ($000's)			
Trade and other payables	-	6,049	6,049
Taxes payable	-	900	900
Total financial liabilities	**-**	**6,949**	**6,949**
Total non-financial liabilities			**-**
Total liabilities			**6,949**

	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	782	-	782
Taxes receiveable	205	-	205
Sundry debtors	1,010	-	1,010
Total financial assets	**11,313**	**-**	**11,313**
Total non-financial assets			**24,884**
Total assets			**36,197**
Liabilities ($000's)			
Trade and other payables	-	5,662	5,662
Taxes payable	-	846	846
Total financial liabilities	**-**	**6,508**	**6,508**
Total non-financial liabilities			**34**
Total liabilities			**6,542**

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 income ($000's)	**2019**	**2018**
Low social economic	**796**	562
Special needs & non-English speaking backgrounds	**382**	403
	1,178	965

Equity funding utilised ($000's)	**2019**	**2018**
Discounted parent contributions	**1,105**	880
Learning support	**73**	85
	1,178	965

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

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 2019, 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 25, present fairly, in all material respects, the consolidated financial position of the group as at 30 June 2019, 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
30 September 2019

ACKNOWLEDGEMENTS 2019

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
- BlueSky Community Trust
- Chenery Memorial Trust
- Eco Matters
- Four Winds Foundation
- Grassroots Trust
- Howick Club
- Lion Foundation
- North and South Trust
- The Moko Foundation
- The Trusts Community Foundation
- Western Districts Community Foundation

AUCKLAND KINDERGARTEN ASSOCIATION

KiNZ
care and early learning
Te Tiaki, Te Ako Kōhungahunga

Playgroup
playing and learning together
ka tākaro tahi, ka ako tahi

PO Box 6933
Wellesley Street
Auckland 1141

Tel 09 373 5635
Fax 09 307 1248
Email info@aka.org.nz

Tel 0800 4 KINDY
www.aka.org.nz