2020 ANNUAL REPORT

AUCKLAND KINDERGARTEN ASSOCIATION

igniting young minds
Whakakāngia hinengaro pūhou

“Kotahi te kākano, he nui ngā hua o te rākau. A tree comes from one seed but bears many fruit.”

In our commonality we are all different. In early learning we celebrate those differences while maintaining our relationship with each other.

He pai te tirohanga ki ngā mahara mō ngā rā pahemo engari ka puta te māramatanga i runga i te titiro whakamua.
It’s fine to have recollections of the past, but wisdom comes from being able to prepare opportunities for the future.

E rere ana ngā mihi ki a koutou katoa, i runga ngā āhuatanga o te wā.
Acknowledgements to you all, in these times.

E ngā mana, e ngā reo, e ngā rau rangatira.
To all authorities, to all voices, to you all as leaders.

Tēnā koutou tēnā koutou tēnā koutou katoa.
Greetings greetings greetings.

Front and back cover
Mt Roskill Kindergarten

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Report from the Chair and Chief Executive

The year in review with Bruce McLachlan, Chair

The 2019/2020 year has been one of significant change, adversity and also success for Auckland Kindergarten Association. I want to start by saying a huge thank you to all our people for their efforts this year. You've delivered great work, and your commitment and contributions to Auckland Kindergarten Association are greatly appreciated.

I also want to acknowledge the contribution from five Directors, Robyn Houlker, Chris Barrow, Jo Jukes, Nick Davies and Julie Anderson, who left the Board during the year. In their place, Tania Ka'ai, Ankita Sharma and Nicole Thompson have joined us as new Directors.

A clear sense of purpose

Our purpose is clear, to ensure tamariki and whānau of Tāmaki Makaurau fully participate in kindergarten early childhood education. We believe all tamariki have the right to excellent early childhood education.

Continuing to deliver quality learning experiences also means we'll live up to our Māori name, Ngā Tamariki Puāwai ō Tāmaki, which means 'The blossoming children of Auckland.'

Good progress has been made

Auckland Kindergarten Association has made good progress on the transition programme which came out of the 2018 Independent Review.

Positive financial results have been delivered. We saw a surplus of $1.25m after a deficit of $2.09m in the prior year. The financial impacts of the COVID-19 pandemic were minimal in the year however we expect a slow recovery to pre-pandemic attendance levels.

Through a focus on service delivery, smart systems and processes, culture and capability we're setting ourselves up for sustainable success and the ability to positively impact the lives of tamariki of Tāmaki Makaurau well into the future.

It's been a pivotal year for Auckland Kindergarten Association, and I look forward to working alongside the Auckland Kindergarten Association team as we increase the participation of tamariki in kindergarten early childhood education, elevate their learning experiences and continue to ignite young minds.

Nāku noa,

Bruce McLachlan
Chair

Looking to the future with Pauline A. Winter, Chief Executive

I feel hugely privileged to work alongside our dedicated and professional kindergarten and support teams who are passionate about growing the young minds of our tamariki.

We've worked extremely hard to position the organisation for the future and continue to deliver high quality early childhood education. We have achieved a great deal over the last two years through our transition programme but there is still more work to do.

Foundations for a sustainable future

We want our people to be engaged in their work and get the development opportunities they need to continue their careers with us and be part of how we shape our future.

After a number of years of under investment we will focus on protecting our infrastructure assets with targeted technology and property initiatives.

Engaging whānau is key to lifting the participation of tamariki at our kindergartens across Tāmaki Makaurau as we recover from the deep and ongoing impacts in our communities of the COVID-19 pandemic.

With ongoing uncertainty of government funding and contractual obligations of increasing workforce costs, we are focused on pursuing funding opportunities from alternative government sources and philanthropic organisations, in addition to any increases in parent contributions.

Strength in our relationships and connection

Our relationships with colleagues of other kindergarten associations is growing and we are collectively developing a vision for a unified kindergarten movement in Aotearoa.

The new Constitution adopted during the year, has allowed the Ngāti Whātua iwi to appoint Professor Tania Ka'ai as Director to represent their interests and involvement of Māori on the Board.

Most kindergartens now have a chair and parent whānau group who will deepen our relationships in local communities and support the prosperity of their kindergartens.

Delivering quality learning experiences

Our ambitions are to deliver the best quality learning experiences for our tamariki so that they may be competent and confident learners and communicators, healthy in mind, body and spirit, secure in their sense of belonging and in the knowledge they make a valued contribution to society.

We will do this with responsive delivery weaving Te Whāriki - He whāriki mātauranga mō ngā mokopuna o Aotearoa, through ako and learning through play in the spirit of partnership and respect.

We've set clear performance outcomes that we'll hold ourselves to account for and keep clearly in mind through all our strategic decisions.

Ngā mihi nui,

Pauline A Winter

Pauline A. Winter
Chief Executive

KEY STATISTICS (as at 30 June 2020)

NUMBER OF CHILDREN ENROLLED:

Total	Kindergartens	KiNZ centres	Playgroups
6,137	**5,646**	**214**	**277**

NZ European/Pākehā	46.5%	Cook Island Maori	1.8%
Maori	10.6%	Middle Eastern	1.1%
Chinese	9.2%	African	0.7%
Other Asian	6.4%	Niuean	0.7%
Indian	6.2%	Latin American	0.7%
Samoan	4.7%	Other Pacific Peoples	0.5%
Other European	3.9%	Fijian	0.4%
Southeast Asian	3.4%	Other Ethnicity	0.3%
Tongan	2.8%	Tokelauan	0.1%

EDUCATION REVIEW OFFICE RATINGS:

33
Kindergartens with rating
"Very well placed"

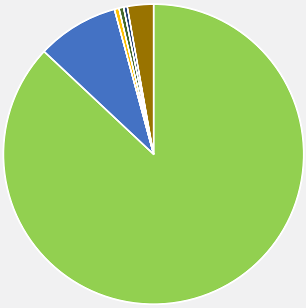
74
Kindergartens with rating
"Well placed"

1
KiNZ centres with rating
"Very well placed"

3
KiNZ centres with rating
"Well placed"

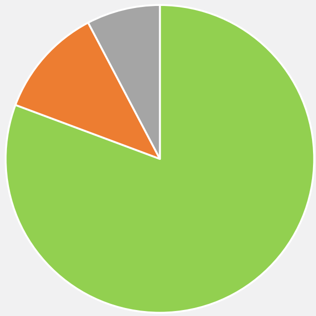
INCOME AND EXPENSES:

Sources of income 2020



87.3% Government Funding
8.5% Parent Contributions
0.5% Fundraising
0.5% Interest
0.4% Grants
2.8% Other Income

How we spent our income 2020



78.9% Staff
12.6% Property & Resources
8.5% Other

NUMBER OF EMPLOYEES:

Total	Teachers	Support	Relievers	Support Services
856	**386**	**232**	**197**	**41**

LOCATIONS:

107 Kindergartens

4 KiNZ Centres

5 Playgroups

Grey Lynn Kindergarten

CONSOLIDATED STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE

For the 12 months ended 30 June 2020

Revenue	Note	2020 ($000)	2019 ($000)
Government funding		49,261	47,979
Grant revenue		222	180
Parent contributions		4,781	5,465
Fundraising revenue		275	289
Interest revenue		295	235
Other sundry revenue		1,584	956
Total revenue	4	**56,418**	55,104

Expenses	Note	2020 ($000)	2019 ($000)
Staff	5	43,512	42,452
Professional and consultancy fees		1,044	2,105
Property and resources		6,969	9,121
Depreciation	11	2,326	2,345
Loss/(gain) on disposal of fixed assets		25	11
Office administration		1,164	1,000
Marketing and public relations		125	159
Total expenses		**55,165**	57,193
Surplus / (deficit) for the year		**1,253**	(2,089)
Total comprehensive revenue / (expense)		**1,253**	(2,089)

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS/EQUITY

For the 12 months ended 30 June 2020

	2020 ($000)	2019 ($000)
Accumulated comprehensive revenue and expense at the start of the year	27,566	29,655
Surplus / (deficit) for the year	1,253	(2,089)
Accumulated comprehensive revenue and expense at the end of the year	**28,819**	27,566

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

Current assets	Note	2020 ($000)	2019 ($000)
Cash and cash equivalents	17(a)	11,696	8,442
Trade and other receivables	8	1,576	1,152
Taxes receivable	9	111	122
Other assets	10	450	388
Total current assets		**13,833**	10,104
Non-current assets			
Property, plant and equipment	11	22,827	24,406
Total non-current assets		**22,827**	24,406
Total assets		**36,660**	34,510
Current liabilities			
Trade and other payables	12	6,865	6,049
Taxes payable	9	897	895
Provisions	13	79	-
Total current liabilities		**7,841**	6,944
Total liabilities		**7,841**	6,944
Net assets		**28,819**	27,566
Net assets/equity			
Accumulated comprehensive revenue and expense		28,819	27,566
Total net assets/equity		**28,819**	27,566

On behalf of Auckland Kindergarten Association Board:

Bruce McLachlan
Chair
23 September 2020

Katherine Souness
Chair, Audit Risk Assurance Committee
23 September 2020

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

CONSOLIDATED CASH FLOW STATEMENT

For the 12 months ended 30 June 2020

Cash flows from operating activities	Note	2020 ($000)	2019 ($000)
Government funding received		50,740	48,438
Grant revenue received		191	245
Parent contributions received		5,016	5,377
Fundraising revenue received		275	288
Interest received		295	235
Other sundry revenue received		152	515
Payments to employees		(43,447)	(42,143)
Payments to suppliers		(9,195)	(12,756)
Net cash provided by operating activities	17(b)	**4,027**	199

Cash flow used in investing activities			
Payment for property, plant and equipment		(773)	(2,073)
Term deposit investment - net		-	1,000
Net cash used in investing activities		**(773)**	(1,073)

Net increase/(decrease) in cash and cash equivalents		3,254	(874)
Cash and cash equivalents at the beginning of the period		8,442	9,316
Cash and cash equivalents at the end of the period	17(a)	**11,696**	8,442

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)

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and the provision can be reliably measured.

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 contributions include parent fees and optional charges. Parent fees are recognised in surplus or deficit on completion of the relevant services. Parent optional charges 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	Note	2020 ($000)	2019 ($000)
Operational funding		**48,301**	46,801
Equity funding	19	**860**	1,178
Targeted funding		**100**	-
Total Government funding		**49,261**	47,979
Grant revenue		**222**	180
Parent contributions		**4,781**	5,465
Fundraising revenue		**275**	289
Interest revenue			
Cash and cash equivalents		**295**	235
Other sundry revenue	4(a)	**1,584**	956
Total revenue		**56,418**	55,104

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

(a) Other sundry revenue

Included in Other sundry revenue is Covid-19 business interruption insurance proceeds of $414,000 (2019: $nil) and Work and Income NZ COVID-19 wage subsidy revenue of $228,000 (2019: $nil).

5. Staff

	2020 ($000)	2019 ($000)
Salaries and wages	**42,435**	41,421
Defined contribution - Kiwisaver	**1,077**	1,031
	43,512	42,452

6. Remuneration of auditors

	2020 ($000)	2019 ($000)
Audit of the financial statements	**54**	81
	54	81

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

NOTES TO THE FINANCIAL STATEMENTS

7. 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.

	2020 ($000)	2019 ($000)
Key management personnel compensation comprises:		
Board member fees - 4 FTE people (2019: 8 FTE people)	**102**	83
Executive Leadership Team - 6 FTE people (2019: 6 FTE people)	**1,402**	1,262
	1,504	1,345

FTE = full time equivalent

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

8. Trade and other receivables

Non exchange transactions	2020 ($000)	2019 ($000)
Funding receivable	**1,411**	1,034
Exchange transactions		
Debtors	**400**	118
Provision for doubtful debt	**(235)**	-
	1,576	1,152

Office administration costs include the movement in provision for doubtful debt expense of $235,000 (2019: $nil) and bad debt expense of $14,000 (2019: $nil).

Doubtful debt provision	2020 ($000)	2019 ($000)
Opening balance	**-**	-
Additional provision made	**(235)**	-
Amounts used	**-**	-
Closing balance	**(235)**	-

9. Taxes receivable / (payable)

	2020 ($000)	2019 ($000)
Payroll tax (PAYE)	**(897)**	(895)
Goods and services tax (GST)	**111**	122
	(786)	(773)

10. Other assets

	2020 ($000)	2019 ($000)
Prepayments	**450**	388
	450	388

NOTES TO THE FINANCIAL STATEMENTS

11. Property, plant and equipment

	Land ($000)	Buildings ($000)	Playgrounds ($000)	Plant and Equipment ($000)	Total ($000)
Gross value at 30 June 2018	**342**	**31,196**	**6,267**	**8,311**	**46,116**
Additions	-	-	-	2,037	2,037
Disposals	-	(367)	(101)	(339)	(807)
Transfers	-	523	635	(1,158)	-
Gross value at 30 June 2019	**342**	**31,352**	**6,801**	**8,851**	**47,346**
Additions	-	-	-	833	833
Disposals	-	(5)	(33)	(409)	(447)
Transfers	-	323	1,893	(2,216)	-
Gross value at 30 June 2020	**342**	**31,670**	**8,661**	**7,059**	**47,732**

Accumulated depreciation at 30 June 2018	**-**	**(10,790)**	**(3,433)**	**(7,151)**	**(21,374)**
Disposals	-	308	195	276	779
Depreciation expense	-	(1,215)	(498)	(632)	(2,345)
Accumulated depreciation at 30 June 2019	**-**	**(11,697)**	**(3,736)**	**(7,507)**	**(22,940)**
Disposals	-	2	31	328	361
Depreciation expense	-	(1,256)	(543)	(527)	(2,326)
Transfers	-	(79)	(1,621)	1,700	-
Accumulated depreciation at 30 June 2020	**-**	**(13,030)**	**(5,869)**	**(6,006)**	**(24,905)**

Net book value					
At 30 June 2019	342	19,655	3,065	1,344	24,406
At 30 June 2020	**342**	**18,640**	**2,792**	**1,053**	**22,827**

NOTES TO THE FINANCIAL STATEMENTS

12. Trade and other payables

Income in advance from non exchange transactions	2020 ($000)	2019 ($000)
Targeted funding for disadvantaged	**285**	239
Equity funding for disadvantaged	**1,169**	991
Payables from exchange transactions		
Creditors and accruals	**2,117**	1,589
Employee entitlements	**3,294**	3,230
	6,865	6,049

All creditors 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

Make good	2020 ($000)	2019 ($000)
Opening balance	**-**	-
Additional provision made	**79**	-
Amounts used	**-**	-
Closing balance	**79**	-

The provision for make good arose from one non-cancellable contract where the Group is required to reinstate the condition of a leased asset to it's condition as it was at the commencement of the lease.

NOTES TO THE FINANCIAL STATEMENTS

14. Commitments and contingencies

Operating lease commitments	2020 ($000)	2019 ($000)
Payable within 1 year	**578**	578
Payable after 1 year and within 5 years	**408**	986
Payable after 5 years	**-**	-
	986	1,564

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 (2019: $1,365,000).

The Group leases properties from Auckland Council. 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.

The Group assigned the leases of one early childhood education centre (Lease 1) and two development sites (Lease 2 and Lease 3) in 2019. 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	Full years since assigment	Fixed rent increase
Lease 1	18th April	18/04/2030	$306,306	1	2% per annum
Lease 2	8th October	26/08/2033	$312,000	1	2% per annum
Lease 3	16th June	16/06/2032	$283,920	1	2% per annum

The Group is currently undertaking a review of their indirect tax obligations in relation to exchange and non-exchange revenue streams, as a result of changes in billing and collection procedures. The outcome of this review is unknown at this stage.

15. Events after the reporting date

There were no subsequent events.

16. Related party disclosures

An employee of the Group is a member of the executive leadership team of the Group and is contracted on a part time basis in the position of General Manager of Northern Auckland Free Kindergarten Association. Included within other income is $20,000 (2019: $nil) for the provision of this service to Northern Auckland Free Kindergarten Association.

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:

	2020 ($000)	2019 ($000)
Cash on hand	**14**	53
Cash in bank	**7,355**	8,341
Short term deposits	**4,327**	48
	11,696	8,442

In addition to the above, the Group has a credit card facility of $250,000 (2019: $250,000).

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

	2020 ($000)	2019 ($000)
(Deficit) / surplus for the year	**1,253**	(2,089)
Loss / (gain) on sale or disposal of non-current assets	**25**	11
Depreciation of non-current assets	**2,326**	2,345
Changes in net assets and liabilities		
(Increase)/decrease in assets:		
Current receivables	**(424)**	(370)
Other current assets	**(51)**	(158)
Increase/(decrease) in liabilities:		
Current payables	**898**	460
Net cash inflow provided by operating activities	**4,027**	199

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 for the expressed purpose of making early learning opportunities available for all Auckland children. There is no specific timeframe or obligation on the Group to spend these funds. Refer 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 deals with one bank, currently ASB, and its funding receivable 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.

All financial liabilities fall due within 30 days of balance 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 2019.

There are no externally imposed capital requirements on the Group.

(e) Fair values

Management considers that the carrying amount of financial assets and financial liabilities recorded in the financial statements approximates their fair value.

(f) Categories of financial instruments

	Consolidated at 30 June 2020		
Assets	**Loans and receivables ($000)**	**Financial assets and liabilities at amortised cost ($000)**	**Total ($000)**
Cash and cash equivalents	11,696	-	11,696
Trade and other receivables	1,576	-	1,576
Taxes receivable	111	-	111
Total financial assets	**13,383**	**-**	**13,383**
Total non-financial assets			**23,277**
Total assets			**36,660**

Liabilities			
Trade and other payables	-	6,865	6,865
Taxes payable	-	897	897
Total financial liabilities	**-**	**7,762**	**7,762**
Total non-financial liabilities			**79**
Total liabilities			**7,841**

	Consolidated at 30 June 2019		
Assets	**Loans and receivables ($000)**	**Financial assets and liabilities at amortised cost ($000)**	**Total ($000)**
Cash and cash equivalents	8,442	-	8,442
Trade and other receivables	1,152	-	1,152
Taxes receivable	122	-	122
Total financial assets	**9,716**	**-**	**9,716**
Total non-financial assets			**24,794**
Total assets			**34,510**

Liabilities			
Trade and other payables	-	6,049	6,049
Taxes payable	-	895	895
Total financial liabilities	**-**	**6,944**	**6,944**
Total non-financial liabilities			**-**
Total liabilities			**6,944**

NOTES TO THE FINANCIAL STATEMENTS

19. Equity funding

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

Equity funding income	2020 ($000)	2019 ($000)
Low social economic	**500**	796
Special needs & non-English speaking backgrounds	**360**	382
	860	1,178

Equity funding utilised	2020 ($000)	2019 ($000)
Discounted parent contributions	**762**	1,105
Learning support	**71**	73
Other	**27**	-
	860	1,178

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 2020, 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 9 to 24, present fairly, in all material respects, the consolidated financial position of the group as at 30 June 2020, 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
23 September 2020

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Community Engagement

ACKNOWLEDGEMENTS 2020

We are very grateful to the following organisations:

- 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

and to our whānau and friends who support our local kindergartens.

We also acknowledge our Life Members:

- Denise Iversen
- Hewitt Harrison
- Jeremy Drummond ONZM
- Sue Crockett
- Robin Houlker

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AUCKLAND KINDERGARTEN ASSOCIATION