



Annual
Financial
Report
2017/18

OC Connections Limited

Registered No. A0022345E

ABN 91 480 733 899

Annual Financial Report

for the year ended 30 June 2018

Corporate Information

Board of Directors

Mr. Peter Willcocks (Chair)
Ms. Emma Liepa (Deputy Chair)
Mr. Mark Toohey (Treasurer)
Mr. David Admans
Mr. Alan Bergman
Mr. Anthony McAvaney
Ms. Sara Brentnall
Ms. Priya Akula

Registered Office

773 Warrigal Road
Oakleigh, Victoria, 3166

Auditors

KPMG
Tower Two, Collins Square
727 Collins Street
Melbourne VIC 3008

Bankers

ANZ Banking Group Limited
Level 1, 10 Main Street
Box Hill, Victoria, 3128

Commonwealth Bank of Australia
Level 13, 385 Bourke Street
Melbourne, Victoria, 3000

Westpac

Level 7, 150 Collins Street
Melbourne, Victoria, 3000

Lawyers

Lander & Rogers
Level 12, 600 Bourke Street
Melbourne, Victoria, 3000

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DIRECTORS' REPORT

The Directors present their report with the financial report of OC Connections Limited ("OC Connections") for the year ended 30 June 2018 and the Auditor's report thereon.

Directors

The names of the Directors in office during the financial year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Mr. Peter Willcocks (Chair)
Ms. Emma Liepa (Deputy Chair)
Mr. Mark Toohey (Treasurer)
Mr. David Admans
Mr. Alan Bergman
Mr. Michael Boyce (resigned 9 May 2018)
Mr. Anthony McAvaney
Mr. Maurice Pitard (resigned 31 January 2018)
Ms. Sara Brentnall (commenced 29 June 2018)
Ms. Priya Akula (commenced 11 July 2018)

Nature of operations and principal activities

OC Connections operates in the disability services sector, with a focus on individuals living with an intellectual disability, and is a not for profit organisation.

OC Connections has been providing a diverse range of specialised, innovative support services to people living with an intellectual disability in the south eastern suburbs of Melbourne for over sixty years. People with moderate and complex needs are supported by OC Connections through a range of different programs which have been developed and enhanced over time and OC Connections has transformed into an organisation that provides support to over 470 people over 18 years of age in the areas of support –coordination, employment, day support, accommodation and recreation.

The disability services sector, and OC Connections, rely heavily on support from both Federal and State government funding to sustain support services for people living with an intellectual disability. The other major sources of funds for OC Connections are internally generated funds and donations through bequests and general donations.

There was no significant change in the nature of these activities during the period.

Employees

OC Connections employed 327 staff (permanent 254, casual 73) as at 30 June 2018.

Operating and financial review

OC Connections generated the following results for the financial year:

- Surplus for the year of \$1,913,990 (2017: \$1,101,034); and
- Net cash from operating activities of \$1,173,224 (2017: \$2,041,535).

Lead auditor's independence declaration

The Lead Auditor's independence declaration is set out on page 30 and forms part of the Directors' Report for the financial year ended 30 June 2018.

Significant changes in state of affairs

In the opinion of the Directors there were no significant changes in the state of affairs of OC Connections that occurred during the financial year under review.

DIRECTORS' REPORT *(continued)*

Dividends

OC Connections' constitution precludes the payment of dividends.

Events subsequent to balance date

Subsequent to 30 June 2018, OC Connections sold 781 Warrigal Road, Oakleigh, Victoria. This property was settled on 17 September 2018 for the sale price of \$1,030,000. Consequently, the loan of \$886,400 secured by that property was repaid in full on 17 September 2018.

Likely developments

The National Disability Insurance Scheme (NDIS) is being rolled out in phases across the State of Victoria. The following dates detail the availability of NDIS in regions where OC Connections' participants reside:

- Inner Eastern Melbourne, available from 1 November 2017;
- Outer Eastern Melbourne, available from 1 November 2017;
- Bayside Peninsula, available from 1 April 2018; and
- Southern Melbourne, available from 1 September 2018.

OC Connections has 96 participants in the NDIS funding program at 30 June 2018.

Further information about likely developments in the operations of OC Connections and the expected results of those operations in future financial years have not been included in this report as the inclusion of such information is likely to result in unreasonable prejudice to OC Connections.

Environmental regulation

OC Connections' operations are not regulated by any significant environmental regulation under the law of the Commonwealth or of a State or Territory. However, the Board believes that OC Connections' has adequate systems in place for the management of its environmental requirements and is not aware of any breach of those environmental requirements as they apply to OC Connections.

Indemnification and insurance of officer and auditors

Indemnification

Since the end of the previous financial year, OC Connections has not indemnified or made a relevant agreement for indemnifying against a liability any person who is or has been an officer or auditor of OC Connections, other than deeds of indemnity to the extent permissible under the Corporations Act in the usual form.

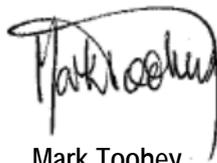
Insurance

Directors' and officers' liabilities in respect of OC Connections are covered by a policy issued by the Victorian Managed Insurance Authority.

Signed in accordance with a resolution of the Directors:



Peter Willcocks
Director



Mark Toohey
Director

Melbourne,
2 October 2018

Statement of Financial Position

as at 30 June 2018

	Note	2018 \$	2017 \$
Current assets			
Cash and cash equivalents	7	5,887,223	4,968,937
Trade and other receivables	8	520,559	544,897
Assets held for sale	11(b)	849,715	1,299,262
Other assets	9	-	690,000
Total current assets		7,257,497	7,503,096
Non-current assets			
Property, plant and equipment	11(a)	14,316,956	11,772,256
Total non-current assets		14,316,956	11,772,256
TOTAL ASSETS		21,574,453	19,275,352
Current liabilities			
Trade and other payables	12	1,178,428	664,936
Interest-bearing loans and borrowings	15	928,083	941,802
Employee benefits	13	2,131,508	1,851,661
Deferred income	14	146,383	452,040
Total current liabilities		4,384,402	3,910,439
Non-current liabilities			
Interest-bearing loans and borrowings	15	71,205	108,160
Employee benefits	13	115,077	166,974
Total non-current liabilities		186,282	275,134
TOTAL LIABILITIES		4,570,684	4,185,573
NET ASSETS		17,003,769	15,089,779
Members' funds			
Share capital	3(a)(iii)	-	-
Accumulated funds		16,801,244	14,997,995
Reserves	16	202,525	91,784
TOTAL MEMBERS' FUNDS		17,003,769	15,089,779

This Statement of Financial Position is to be read in conjunction with the notes to the financial statements on pages 10 to 25.

Statement of Surplus or Deficit and Other Comprehensive Income

for the year ended 30 June 2018

	Note	2018 \$	2017 \$
Revenue	4(a)	15,886,168	14,890,520
Other income	4(b)	1,963,457	286,715
		17,849,625	15,177,235
Employee expenses	5	(12,658,108)	(11,156,985)
Direct service/ program expenses		(473,961)	(438,001)
Motor vehicle expenses		(208,131)	(195,043)
Repairs and maintenance expenses		(157,810)	(91,072)
Property rent and occupancy expenses		(668,938)	(590,998)
Depreciation expense	11(a)	(572,815)	(464,508)
Administration and other expenses		(1,264,189)	(1,182,835)
Results from operating activities		1,845,673	1,057,793
Finance income	6	93,667	86,279
Finance costs	6	(25,350)	(43,038)
Net finance income		68,317	43,241
Surplus before income tax		1,913,990	1,101,034
Income tax expense	3(i)	-	-
Surplus for the year		1,913,990	1,101,034
Other comprehensive income			
Other comprehensive income for the year net of income tax		-	-
Total comprehensive income for the year		1,913,990	1,101,034

This Statement of Surplus or Deficit and Other Comprehensive Income is to be read in conjunction with the notes to the financial statements on pages 10 to 25.

Statement of Changes in Equity

for the year ended 30 June 2018

	Accumulated funds \$	Special purpose reserve \$	Total members' funds \$
Balance as at 1 July 2016	13,893,948	94,797	13,988,745
Total comprehensive income for the year			
Surplus for the year	1,101,034	-	1,101,034
Other comprehensive income	-	-	-
Total comprehensive income for the year	<u>1,101,034</u>	<u>-</u>	<u>1,101,034</u>
Transfer to special purpose reserve	-	-	-
Transfer from special purpose reserve	3,013	(3,013)	-
Transactions with members, recorded directly in equity	-	-	-
Closing balance at 30 June 2017	<u>14,997,995</u>	<u>91,784</u>	<u>15,089,779</u>

Balance as at 1 July 2017	14,997,995	91,784	15,089,779
Total comprehensive income for the year			
Surplus for the year	1,913,990	-	1,913,990
Other comprehensive income	-	-	-
Total comprehensive income for the year	<u>1,913,990</u>	<u>-</u>	<u>1,913,990</u>
Transfer to special purpose reserve	(118,362)	118,362	-
Transfer from special purpose reserve	7,621	(7,621)	-
Transactions with members, recorded directly in equity	-	-	-
Closing balance at 30 June 2018	<u>16,801,244</u>	<u>202,525</u>	<u>17,003,769</u>

This Statement of Changes in Equity is to be read in conjunction with the notes to the financial statements on pages 10 to 25.

Statement of Cash Flows

for the year ended 30 June 2018

	Note	2018 \$	2017 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers and government bodies		16,713,300	16,460,114
Proceeds from donations and bequests	4b	95,297	69,171
Cash payments to suppliers and employees		(15,635,373)	(14,487,750)
Net cash from operating activities		1,173,224	2,041,535
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and investment income received	6	93,667	86,279
Acquisition of property, plant and equipment	11(a)	(272,581)	(482,935)
Proceeds from sale of property, plant and equipment		-	6,231
Payments to DHHS for development project		-	(690,000)
Net cash from/(used in) investing activities		(178,914)	(1,080,425)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from / (repayments) corporate cards		(13,718)	(8,261)
Interest paid	6	(25,350)	(35,665)
Finance lease proceeds / (repayments) including interest		(36,956)	(42,992)
Net cash from financing activities		(76,024)	(86,918)
Net increase in cash and cash equivalents		918,286	874,192
Cash and cash equivalents at beginning of period		4,968,937	4,094,745
Cash and cash equivalents at end of period	7	5,887,223	4,968,937

This Statement of Cash Flows is to be read in conjunction with the notes to the financial statements on pages 10 to 25.

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NOTE 1: REPORTING ENTITY

OC Connections Limited ("OC Connections") is a not-for-profit corporation domiciled in Australia. The address of the Company's registered office is 773 Warrigal Road, Oakleigh, Victoria 3166.

OC Connections also trades under the name OCC Enterprises (ABN: 58080042827) and the results of OCC Enterprises are included in the financial report.

OC Connections is endorsed as a Deductible Gift Recipient (DGR).

NOTE 2: BASIS OF PREPARATION

(a) Statement of compliance

During the financial year, the directors have determined the Company to be a reporting entity and, therefore, the Company changed from preparing special purpose financial statements to general purpose financial statements.

The change in the basis of preparation of these financial statements resulted in an increase in the level of disclosures as required by the Australian Accounting Standards (AASBs) – Reduced Disclosure Requirements (RDR). There is no impact on the recognition or measurement of amounts included in the financial statements.

The Tier 2 general purpose financial statements which have been prepared in accordance with Australian Accounting Standards – Reduced Disclosure Requirements (AASBs – RDRs) (including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the Australian Charities and Not-for-profit Commission Act 2012, Australian Charities and Not-for-profit Commission Regulation 2013.

The financial report was authorised for issue by the Board of Directors on 2 October 2018.

(b) Functional and presentation currency

The financial statements have been presented in Australian Dollars which is OC Connections' functional currency.

(c) Basis of measurement

The financial statements have been prepared on the historical costs basis.

(d) Use of estimates and judgements

The preparation of financial statements in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Financial instruments

(i) Non-derivative financial assets

OC Connections initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets are recognised initially on the trade date at which OC Connections becomes a party to the contractual provisions of the instrument.

OC Connections derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by OC Connections is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the Statement of Financial Position when, and only when, OC Connections has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

OC Connections has the following non-derivative financial assets: loans and receivables.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise trade and other receivables.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less.

(ii) Non-derivative financial liabilities

OC Connections initially recognises debt securities issued on the date that they are originated. All other financial liabilities are recognised initially on the trade date, which is the date that OC Connections becomes a party to the contractual provisions of the instrument.

OC Connections derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

OC Connections classified non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs.

Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest rate method.

Other financial liabilities comprise loans and borrowings, finance lease liabilities and trade and other payables.

(iii) Share capital

OC Connections does not have any share capital.

NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Property, plant and equipment

Recognition and measurement

Items of property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Where parts of an item of plant and equipment have different useful lives, they are accounted for as separate items of plant and equipment.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of the property, plant and equipment, and is recognised net within other income/other expenses in the Statement of Surplus or Deficit.

Subsequent Costs

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to OC Connections, and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day to day servicing of property, plant and equipment are recognised in the Statement of Surplus or Deficit as incurred.

Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognised in the Statement of Surplus or Deficit on a straight line basis over the estimated useful lives of each component of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that OC Connections will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives in the current and comparative periods are as follows:

	2018
Buildings	10 - 40 years
Furniture and equipment	4 - 10 years
Motor vehicles	5 - 8 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Leased assets

Leases in terms of which OC Connections assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Other leases are operating leases and are not recognised in OC Connections Statement of Financial Position.

(d) Lease payments

Payments made under operating leases are recognised in the Statement of Surplus or Deficit on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Determining whether an arrangement contains a lease

At inception of an arrangement, OC Connections determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfillment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to OC Connections the right to control the use of the underlying asset.

At inception or upon reassessment of the arrangement, OC Connections separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If OC Connections concludes for a finance lease that it is impracticable to separate the payments reliably, an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using OC Connections incremental borrowing rate.

(e) Finance income and finance costs

Finance income comprises interest income on funds invested and cash and cash equivalents and distributions received. Interest income is recognised as it accrues in the Statement of Surplus or Deficit, using the effective interest method. Distribution income is recognised when received. Finance costs comprise interest expense on borrowings and impairment losses recognised on financial assets (other than trade receivables).

(f) Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which OC Connections pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in the Statement of Surplus or Deficit in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

(f) Employee benefits (*continued*)

Other long-term service benefits

OC Connections' net obligation in respect of long term employee benefits other than defined contribution plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on Australian Corporate Bonds that have maturity dates approximating the terms of OC Connections' obligations and that are denominated in the same currency in which the benefits are expected to be paid.

Short-term service benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(g) Revenue

Goods sold – OCC Enterprises activities

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

Services

Revenue from services rendered is recognised in the Statement of Surplus or Deficit when the service is rendered.

Donations and fundraising

Donations and revenue generated from fundraising activities are recognised in the Statement of Surplus or Deficit when received.

Bequest income

Bequests from deceased estates are recognised in the Statement of Surplus or Deficit when received.

Government grants and subsidies

Revenue from government grants and subsidies received for specific purposes is recognised only to the extent that monies have been expended in accordance with the funding agreement. Where the terms of that agreement stipulate that any unexpended funds may be required to be returned to the funding body, the unexpended funds are carried forward as "deferred income". Grants that compensate OC Connections' for the cost of an asset are recognised in the Statement of Surplus or Deficit on receipt of those funds.

NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Impairment

(i) Non-derivative financial assets

A financial asset not carried at fair value through the Statement of Surplus or Deficit is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to OC Connections on terms that OC Connections would not consider otherwise, or indications that a debtor will enter bankruptcy.

OC Connections considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified.

Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment OC Connections uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in the Statement of Surplus or Deficit and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised. When a subsequent event (e.g. repayment by a debtor) causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the Statement of Surplus or Deficit.

(ii) Non-financial assets

The carrying amounts of OC Connections' non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. Where the future economic benefits of an asset are not dependent on the asset's ability to generate net cash inflows and where OC Connections would, if deprived of the asset, replace its remaining future economic benefit, value in use is determined as the asset's depreciated replacement cost. Depreciated replacement cost is defined as the current replacement cost of an asset less accumulated depreciation calculated on the basis of such cost to reflect the already consumed or expired future economic benefits of the asset. The current replacement cost of an asset is its cost measured by reference to the lowest cost at which the gross future economic benefits of the asset could currently be obtained in the normal course of business. For the purpose of impairment testing, assets are grouped together in the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or group of assets (the "cash-generating unit").

NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(ii) **Non-financial assets** (continued)

An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in respect of cash-generating units are allocated to the assets in the unit (group of assets) on a pro rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indicators that the loss has decreased and no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(i) **Income tax**

OC Connections is endorsed by the Australian Taxation Office (ATO) as an Income Tax Exempt Charitable Entity under subdivision 50-B of the Income Tax Assessment Act 1997. No income tax is payable by OC Connections as Section 23 of the Income Tax Assessment Act 1997 exempts charitable institutions from income tax.

(j) **Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

Cash flows are included in the Statement of Cash Flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(k) **New standards and interpretations not yet adopted**

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2016, and have not been applied in preparing these financial statements.

New or amended standards	Possible impact on financial statements
AASB 9 <i>Financial Instruments</i>	AASB 9, published in July 2014, replaced the existing guidance in AASB 139 <i>Financial Instruments: Recognition and Measurement</i> . AASB 9 includes revised guidance on the classification and measurement of financial instruments. AASB 9 is effective for OC Connections' 2019 financial statements. OC Connections does not plan to adopt this standard early and the extent of the impact has not been determined.
AASB 15 <i>Revenue from Contracts with Customers</i>	AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including AASB 18 <i>Revenue</i> , AASB 111 <i>Construction Contracts</i> and Interpretation 13 <i>Customer Loyalty Programmes</i> . AASB 15 is effective for OC Connections' 2019 financial statements. OC Connections' does not plan to adopt this standard early and the extent of the impact has not been determined.

NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) New standards and interpretations not yet adopted *(continued)*

AASB 16 Leases	AASB 16 removes the lease classification test for lessees and requires all leases (including operating leases) to be brought onto the balance sheet. The definition of a lease is also amended and is now the new on/off balance sheet test for lessees. AASB 16 is effective for annual reporting periods beginning 1 January 2019, with early adoption permitted where AASB 15 Revenue from Contracts with Customers is adopted at the same time. OC Connections does not plan to adopt this standard early and the extent of the impact has not been determined.
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(l) Determination of fair values

A number of OC Connections' policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

Notes to the Financial Statements
for the year ended 30 June 2018

	2018	2017
	\$	\$
NOTE 4a: REVENUE		
Government grants and subsidies		
Federal	1,346,071	1,350,159
State	9,950,308	10,499,291
Sales income	923,925	796,741
Revenue from rendering of services - NDIA	1,931,571	51,659
Revenue from rendering of services - other	1,734,293	2,192,670
	15,886,168	14,890,520
NOTE 4b: OTHER INCOME		
Members' contributions	990	180
Donations and bequests	95,297	69,171
Fundraising activities	146,821	190,562
Rental income from property	19,273	25,206
Net gain on sale of property, plant and equipment	-	1,596
Net gain on contract with DHHS (refer to note 1 below)	1,686,608	-
Other	14,468	-
	1,963,457	286,715

Note 1

During the financial year ending 30 June 2018, the contract between OC Connections and the Department of Health and Human Services (DHHS) to provide new individualised supported accommodation to the 29 residents who were formerly at 1-9 Allen Street, Oakleigh was finalised. As a result of all transactions which were part of the contract, there was an overall net gain recognised through the statement of surplus or deficit of \$1,676,608 (2017: \$0). The new land and buildings acquired via this transaction are recorded as additions in Note 11.

	2018	2017
	\$	\$
NOTE 5: EMPLOYEE EXPENSES		
Wages and salaries	9,989,437	9,034,349
Superannuation	1,030,885	847,578
Employee entitlement expenses	1,213,143	1,063,802
Other salary related costs	424,643	211,256
	12,658,108	11,156,985
NOTE 6: FINANCE INCOME AND COSTS		
Interest from investment accounts	41,793	48,146
Interest and distributions from other investments	51,874	38,133
Finance income	93,667	86,279
Finance expense on finance leases	(12,704)	(7,373)
Interest expense on external bank	(12,646)	(35,665)
Finance costs	(25,350)	(43,038)
Net finance income	68,317	43,241
NOTE 7: CASH AND CASH EQUIVALENTS		
Bank balances	5,874,173	4,955,987
Cash and cash equivalents	13,050	12,950
	5,887,223	4,968,937

Notes to the Financial Statements
for the year ended 30 June 2018

	2018 \$	2017 \$
NOTE 8: TRADE AND OTHER RECEIVABLES		
Trade receivables	434,276	333,490
Provision for doubtful debts	(17,701)	(7,959)
Other receivables and prepayments	103,984	219,366
	520,559	544,897

Trade receivables are shown net of an impairment allowance of \$17,701 (2017: \$7,959) recognised in the current year, which arises from an estimate being made that the collection of the amount recoverable is no longer probable.

	2018 \$	2017 \$
NOTE 9: OTHER ASSETS		
Development Asset	-	690,000

The development asset represented monies paid to DHHS in respect of the agreement to provide new individualised supported accommodation. The contract was finalised during FY18.

NOTE 10: FINANCIAL INSTRUMENTS

	Held-to- maturity	Loans and receivables	Fair value through profit	Other financial assets
2017				
Assets				
Cash and cash equivalents	-	4,968,937	-	-
Trade and other receivables	-	544,987	-	-
Interest-bearing loans and borrowings	-	-	-	-
Current assets	-	5,513,924	-	-
Liabilities				
Trade and other payables	-	-	-	664,936
Interest-bearing loans and borrowings	941,802	-	-	-
Current liabilities	941,802	-	-	664,936
Interest-bearing loans and borrowings	108,160	-	-	-
Non-current liabilities	108,160	-	-	-
2018				
Assets				
Cash and cash equivalents	-	5,887,223	-	-
Trade and other receivables	-	520,059	-	-
Interest-bearing loans and borrowings	-	-	-	-
Current assets	-	6,407,282	-	-
Liabilities				
Trade and other payables	-	-	-	1,601,997
Interest-bearing loans and borrowings	928,083	-	-	-
Current liabilities	928,083	-	-	1,601,997
Interest-bearing loans and borrowings	71,205	-	-	-
Non-current liabilities	71,205	-	-	-

Notes to the Financial Statements
for the year ended 30 June 2018

NOTE 11: PROPERTY, PLANT AND EQUIPMENT

(a) Reconciliation

Reconciliation of the carrying amounts of each class of property, plant and equipment at the beginning and end of the current period are set out below.

	Land	Buildings	Furniture & Equipment	Motor Vehicles	Work in Progress	Total
	\$	\$	\$	\$	\$	\$
Cost						
Balance at 1 July 2016	5,766,801	9,515,752	2,588,976	728,838	-	18,600,367
Additions	-	-	141,071	218,409	123,455	482,935
Transfers – Note 11(b)	(761,785)	(2,138,897)	-	-	-	(2,900,682)
Transfers from WIP	-	-	-	-	-	-
Disposals	-	(9,364)	(89,927)	-	-	(99,291)
Balance at 30 June 2017	5,005,016	7,367,491	2,640,120	947,247	123,455	16,083,329
Balance at 1 July 2017	5,005,016	7,367,491	2,640,120	947,247	123,455	16,083,329
Additions	2,363,636	1,355,512	1,332	-	271,249	3,991,729
Transfers – Note 11(b)	(453,219)	(397,782)	-	-	-	(851,001)
Transfers from WIP	-	114,118	200,929	-	(315,047)	-
Disposals	-	-	(85,411)	-	-	(85,411)
Balance at 30 June 2018	6,915,433	8,439,339	2,756,970	947,247	79,657	19,138,646
Accumulated depreciation						
Balance at 1 July 2016	-	3,313,795	1,813,647	415,199	-	5,542,641
Depreciation expense	-	195,811	188,840	79,856	-	464,507
Transfers – Note 11(b)	-	(1,601,420)	-	-	-	(1,601,420)
Disposals	-	(9,363)	(85,292)	-	-	(94,655)
Balance at 30 June 2017	-	1,898,823	1,917,195	495,055	-	4,311,073
Balance at 1 July 2017	-	1,898,823	1,917,195	495,055	-	4,311,073
Depreciation expense	-	278,228	181,866	112,721	-	572,815
Transfers – Note 11(b)	-	(1,286)	-	-	-	(1,286)
Disposals	-	-	(60,912)	-	-	(60,912)
Balance at 30 June 2018	-	2,175,765	2,038,149	607,776	-	4,821,690
Carrying amounts						
At 30 June 2017	5,005,016	5,468,668	722,925	452,192	123,455	11,772,256
At 30 June 2018	6,915,433	6,263,574	718,821	339,471	79,657	14,316,956

Refer to note 18 for details of deeds of charges over the above land and buildings.

Refer to note 15 for details of assets pledged as security in respect of finance facilities.

OC Connections commissioned Mark Murray FAPI, Director of O'Brien's Valuers & Property Consultants to assess the market value of the properties owned by OC Connections. The accumulated market value of the properties held by OC Connections at 30 June 2018 was \$30,660,000, which has not been recognised in the financial statements of OC Connections. In the opinion of the Directors, the carrying value of property, plant and equipment is appropriate at 30 June 2018.

Notes to the Financial Statements
for the year ended 30 June 2018

	2018 \$	2017 \$
NOTE 11: PROPERTY, PLANT AND EQUIPMENT <i>(continued)</i>		
(b) Assets held for sale		
Land and Buildings	849,715	1,299,262
	849,715	1,299,262

At 30 June 2018, being land and buildings at 781 Warrigal Road, Oakleigh, Victoria. At 30 June 2017, being land and buildings at 1-9 Allen Street, Oakleigh and 52 View Street, Clayton.

	2018 \$	2017 \$
NOTE 12: TRADE AND OTHER PAYABLES		
Current		
Trade payables	223,514	181,183
Other creditors and accruals	954,914	483,753
	1,178,428	664,936

NOTE 13: EMPLOYEE BENEFITS		
Current		
Liability for annual leave	681,216	599,867
Liability for long service leave	1,040,829	872,452
Salaries and wages accrued	409,463	379,342
	2,131,508	1,851,661
Non-current		
Liability for long service leave	115,077	166,974
	115,077	166,974

NOTE 14: DEFERRED INCOME		
Current		
Grants received in advance - operating	75,918	177,740
Grants received in advance - capital	56,371	72,571
Grants received in advance - other	1,430	184,064
Deposit received in advance	-	-
Rent received in advance	12,664	17,665
	146,383	452,040

In accordance with Note 3(g), reciprocal government grants received at year end have been deferred until such time as OC Connections satisfies the requirements of the Government funding.

Notes to the Financial Statements
for the year ended 30 June 2018

	2018 \$	2017 \$
NOTE 15: INTEREST-BEARING LOANS AND BORROWINGS		
Current		
Finance lease liabilities	41,683	41,684
External bank loan	886,400	886,400
Corporate credit cards	-	13,718
	928,083	941,802
Non-current		
Finance lease liabilities	71,205	108,160
	71,205	108,160

Finance lease liabilities

Finance lease liabilities of the Company are payable as follows:

	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
	2018 \$	2018 \$	2018 \$	2017 \$	2017 \$	2017 \$
Less than one year	37,601	4,082	41,683	41,684	5,766	35,918
Between one and five years	68,347	2,858	71,205	112,887	6,938	105,949
More than five years	-	-	-	-	-	-
	105,948	6,940	112,888	154,571	12,704	141,867

Other financing arrangements

OC Connections has access to the following lines of credit:

Financing facilities:

	2018 \$	2017 \$
Bank overdraft secured	-	250,000
Encashment facility	150,000	150,000
External bank loan	886,400	886,400
Corporate credit cards	100,000	200,000
	1,486,400	1,486,400

Facilities utilised at reporting date:

Bank overdraft secured	-	-
Encashment facility	-	-
External bank loan	886,400	886,400
Corporate credit cards	-	13,718
	886,400	900,118

Facilities not utilised at reporting date:

Bank overdraft secured	-	250,000
Encashment facility	150,000	150,000
External bank loan	-	-
Corporate credit cards	100,000	186,282
	600,000	586,282

NOTE 15: INTEREST-BEARING LOANS AND BORROWINGS *(continued)*

Note:

(a) Encashment facility

The encashment facility is the amount OC Connections had available to draw cheques to a maximum of \$150,000 in 2018. The facility was not utilised in the current year.

(b) Corporate credit cards

These cards are used in OC Connections' day-to-day operations.

(c) External bank loan

During the year ended 30 June 2016, OC Connections drew down an \$886,400 loan to fund the purchase of a residential property at 781 Warrigal Road, Oakleigh.

The term of the loan is 3 years maturing on 30 May 2021 with interest only repayments of 2% p.a. This loan is secured over the properties, 781 Warrigal Road, Oakleigh and 8 Dealing Drive, Oakleigh South. Refer to Note 21 for further details of repayment of the loan subsequent to year end.

	2018 \$	2017 \$
NOTE 16: RESERVES		
Special purpose reserve	202,525	91,784

The Special purpose reserve comprises tied donations and net fundraising income transferred from the net operating surplus and set aside for the purpose of expenditure on items specifically related to benefiting participants and following the OC Connections documented approval and reporting process for such expenditure.

NOTE 17: EXPENDITURE COMMITMENTS

(a) Operating lease commitments

Future minimum rentals payable under non-cancellable operating leases are as follows:

Within one year	90,520	54,372
After one year but not more than five years	4,462	19,731
After more than five years	-	-
	94,982	74,103

During the financial year ended 30 June 2018, \$149,833 (2017: \$134,223) was recognised as an expense in the Statement of Surplus or Deficit in respect to operating leases.

(b) Capital commitments

OC Connections had no contracted capital commitments at 30 June 2018 (2017: nil).

NOTE 18: CONTINGENCIES

Details of contingent liabilities where the probability of future payments is not considered remote are set out below, as well as details of contingent liabilities which, although considered remote, the Board of Directors consider should be disclosed.

The Board of Directors is of the opinion that provisions are not required in respect of these matters at 30 June 2018, as it is not probable that a future sacrifice of economic benefits will be required, or the amount is not capable of measurement.

(a) Loans from Singleton Equity Housing and Director of Housing

In prior financial years, OC Connections received interest free loans from both of the above organisations. The loans are only repayable in the event that the OC Connections sells 23 Atkinson Street, Chadstone, recorded at cost in property, plant and equipment as \$839,259. This property is an integral part of OC Connections' operations and, as a result, the Board has no intention to dispose of the property and it is not probable that a future sacrifice of economic benefits will be required. The formula used to calculate the loan repayable amount (in the event of sale) is based on the sale price of the property and uses a valuation made by the Valuer-General.

(b) Property Deed of Charge with the Department of Health and Human Services

In return for financial support provided for previous redevelopment works, the Department of Health and Human Services holds the following deeds of charges over properties owned by OC Connections:

- 28 Delia Street, South Oakleigh, entitling it to 56.84% (2017: 56.84%) of any proceeds from the sale of those properties; and
- 13 George Street, Ashwood, entitling it to 54.90% (2017: 54.90%) of any proceeds from the sale of those properties.

The Delia and George Street properties are an integral part of OC Connections' operations and, as a result, the Board has no intention to dispose of the properties without the agreement of DHHS, and it is not probable that a future sacrifice of economic benefits will be required.

NOTE 19: RELATED PARTIES

Key Management Personnel

The key management personnel compensation was \$925,455 for the year ended 30 June 2018 (2017: \$1,174,287).

NOTE 20: ECONOMIC DEPENDENCY

OC Connections receives a substantial proportion of its operating revenue from the Victorian State Government and the Federal Government, and is therefore dependent on that income to sustain operations.

NOTE 21: EVENTS SUBSEQUENT TO REPORTING DATE

Subsequent to 30 June 2018, OC Connections sold 781 Warrigal Road, Oakleigh, Victoria. This property was settled on 17 September 2018 for the sale price of \$1,030,000. At 30 June 2018, this property was classified as an asset held for sale. Consequently, the loan of \$886,400 secured against the property was repaid in full on 17 September 2018.

Directors' Declaration

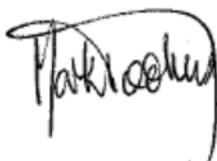
In the opinion of the directors of OC Connections Limited (the Company):

- (a) the Company is not publicly accountable;
- (b) the financial statements and notes that are set out on pages 3 to 25 are in accordance with the Australian Charities and Not-for-profits Commission Act 2012, the Australian Charities and Not-for-profits Commission Regulation 2013:
 - (i) giving a true and fair view of the Company's financial position as at 30 June 2018 and of its performance, for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards – Reduced Disclosure Regime and the Australian Charities and Not-for-profits Commission Regulation 2013 ; and
- (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors:



Peter Willcocks
Director



Mark Toohey
Director

Place: Melbourne
2 October 2018



Independent Auditor's Report

To the members of OC Connections Limited

Report on the audit of the Financial Report

Opinion

We have audited the **Financial Report**, of the OC Connections Limited (the Company).

In our opinion, the accompanying **Financial Report** of the Company is in accordance with Division 60 of the *Australian Charities and Not-for-profits Commission (ACNC) Act 2012*.

- i. giving a true and fair view of the Company's financial position as at 30 June 2018, and of its financial performance and its cash flows for the year ended on that date; and
- ii. complying with *Australian Accounting Standards – Reduced Disclosure Requirements* and Division 60 of the *Australian Charities and Not-for-profits Commission Regulation 2013*.

The **Financial Report** comprises:

- i. Statement of financial position as at 30 June 2018.
- ii. Statement of profit or loss and other comprehensive income, Statement of changes in equity, and Statement of cash flows for the year then ended.
- iii. Notes including a summary of significant accounting policies.
- iv. Directors' declaration of the Company.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Company in accordance with the auditor independence requirements of the *ACNC Act 2012* and the ethical requirements of the Accounting Professional and Ethical Standards Board's *APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.



Other information

Other Information is financial and non-financial information in OC Connections Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

The Other Information we obtained prior to the date of this Auditor's Report was the Directors' Report.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- i. Preparing the Financial Report that gives a true and fair view in accordance with Australian Accounting Standards - Reduced Disclosures Requirements and the ACNC.
- ii. Implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.
- iii. Assessing the Company's ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- i. to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- ii. 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 *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Financial Report.

As part of an audit in accordance with *Australian Auditing Standards*, we exercise professional judgement and maintain professional scepticism throughout the audit.



We also:

- i. Identify and assess the risks of material misstatement of the Financial Report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ii. Obtain an understanding of internal control relevant to the Audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the registered Company's internal control.
- iii. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- iv. Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the registered Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our Auditor's Report to the related disclosures in the Financial Report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our Auditor's Report. However, future events or conditions may cause the registered Company to cease to continue as a going concern.
- v. Evaluate the overall presentation, structure and content of the Financial Report, including the disclosures, and whether the Financial Report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Directors of the registered Company regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG

Amanda Bond
Partner

Melbourne

2 October 2018



Auditor's Independence Declaration under subdivision 60-C section 60-40 of Australian Charities and Not-for-profits Commission Act 2012

To: the directors of OC Connections Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2018 there have been:

- i. no contraventions of the auditor independence requirements as set out in the Australian Charities and Not-for-profits Commission Act 2012 in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

Amanda Bond
Partner

Melbourne
2 October 2018



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