

Mercy Aged & Community Care Ltd

ABN 77 191 901 062

Financial Statements

For the Year Ended 30 June 2023

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Mercy Aged & Community Care Ltd

For the Year Ended 30 June 2023

CONTENTS	<u>Page</u>
Financial Statements	
Directory	1
Directors' Report	2
Directors' Declaration	5
Statement of Profit or Loss and Other Comprehensive Income	6
Statement of Financial Position	7
Statement of Changes in Equity	8
Statement of Cash Flows	9
Notes to the Financial Statements	10
Auditor's Independence Declaration	40
Independent Audit Report	41

Mercy Aged & Community Care Ltd

Directory

For the Year Ended 30 June 2023

Board of Directors

Ms Virginia Bourke	Chair
Ms Jo Barker	
Mr John Corcoran AM	(Ceased 6/12/2022)
Mr Martin Day	
Ms Penelope Eden	
Ms Jane Edge	
Dr Jane Fischer	(Commenced 9/5/2023)
Adjunct Clinical Associate Professor Ian Haines	
Sr Berice Livermore RSM	
Mr Timothy O'Leary	
Adjunct Professor Susan Pascoe AM	
Adjunct Professor Francis Sullivan AO	

Secretary

Ms Alison Moran

Registered Office

Level 2, 12 Shelley Street, Richmond, Victoria 3121

Principal Place of Business

Level 2, 12 Shelley Street, Richmond, Victoria 3121

Auditor

Grant Thornton Audit Pty Ltd

Mercy Aged & Community Care Ltd

Directors' Report

For the Year Ended 30 June 2023

Your Directors submit the financial report of Mercy Aged & Community Care Ltd (the "Company") for the financial year ended 30 June 2023.

The names of Directors throughout the financial year and at the date of this report are:

Ms Virginia Bourke	Chair
Ms Jo Barker	
Mr John Corcoran AM	(Ceased 6/12/2022)
Mr Martin Day	
Ms Penelope Eden	
Ms Jane Edge	
Dr Jane Fischer	(Commenced 9/5/2023)
Adjunct Clinical Associate Professor Ian Haines	
Sr Berice Livermore RSM	
Mr Timothy O'Leary	
Adjunct Professor Susan Pascoe AM	
Adjunct Professor Francis Sullivan AO	

Company Objectives

The predominant objects for which the Company is established are providing health, aged care and welfare services including:

- a. aged care homes;
- b. retirement villages and low cost housing for the elderly;
- c. home and community care;
- d. palliative care; and
- e. other health, aged and welfare services as determined by the Company from time to time.

The Company will:

- a. operate at all times as part of the mission of the Catholic Church, conforming to its law and teachings;
- b. reflect in its policies and practices the ideals and values exemplified by Jesus Christ;
- c. uphold and nurture the tradition of service to 'the poor, sick and uneducated' begun by Venerable Catherine McAuley in the name of God's mercy; and
- d. promote the theological framework of Mercy Ministry Companions.

Principal Activities

Mercy Aged & Community Care Ltd is a Catholic community benefit organisation, originally founded by the Institute of Sisters of Mercy of Australia and Papua New Guinea to provide health, aged care and home care services. These services are delivered through facilities across Australia and directly to people's homes. On 3 December 2021 Mercy Ministry Companions Ltd became the sole member of Mercy Health Australia, the parent company of Mercy Aged and Community Care Ltd. Mercy Ministry Companions is a company established by the Institute of Sisters of Mercy of Australia and Papua New Guinea, to which canonical and legal responsibility for the ministries of the Institute of Sisters of Mercy of Australia and Papua New Guinea was passed on that date.

Mercy Aged & Community Care Ltd

Directors' Report

For the Year Ended 30 June 2023

Operating Result

The loss of Mercy Aged & Community Care Ltd after providing for income tax amounted to \$32,063,000 (2022: \$59,050,000).

Members of the Board

The names, qualifications, effective date changes, eligibility and attendance of the Directors throughout the year are:

Director	Effective date of any changes	Meetings held (eligible to attend)	Meetings attended
Ms Virginia Bourke, BA, LL.B Hons, MA, FAICD		10	10
Ms Jo Barker, B Comm, ACA, GAICD		10	6
Mr John Corcoran AM, BEc, LLB	Ceased 6/12/2022	5	5
Mr Martin Day, Associate Dip Valuations and Real Estate Management, MBA, FAICD, GAIST Adv		10	9
Ms Penelope Eden, LLB, Cert. Nursing		10	8
Ms Jane Edge, MBA (Exec)		10	8
Dr Jane Fischer MBBS (Hons), FACHPM, GAICD	Commenced 9/5/2023	2	2
Adjunct Clinical Associate Professor Ian Haines, MBBS Hons, FRACP, FACHPM		10	10
Sr Berice Livermore RSM, RN, MN, Bachelor of Health Administration, Dip of Theology		10	10
Mr Timothy O'Leary, BA Hons, Grad Dip Applied Philosophy		10	9
Adjunct Professor Susan Pascoe AM, BA, Dip Ed, Grad Dip Special Ed, M Ed Admin (Hons), FAICD, FIPAA, FACE		10	9
Adjunct Professor Francis Sullivan AO, BA, Dip Ed, MA		10	7

Mercy Aged & Community Care Ltd

Directors' Report

For the Year Ended 30 June 2023

After Reporting Period Events

On 31st August 2023, subsequent to year end, Mercy Aged and Community Care Ltd. executed an additional debt funding arrangement with CDF of \$22,000,000 for the construction of a residential Aged Care Facility. Mercy Health Property is the guarantor of this borrowing facility. The carrying amount of assets pledged as security for this borrowing is \$22,625,000.

No other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of Mercy Aged & Community Care Ltd, the results of those operations, or the state of affairs of the Mercy Aged & Community Care Ltd in future financial years.

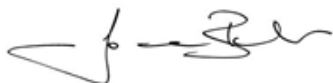
Membership

The Company has one class of membership, and as at 30 June 2023, 1 member. Should the Company be wound up, each current member or former member (who was a member during the year prior to commencement of the winding up) must contribute \$5 to the Company's obligations.

Signed in accordance with a resolution of the Company.



Ms Virginia Bourke
Chair



Ms Jo Barker
Director

Dated the 10th day of October 2023
Melbourne, Victoria

Mercy Aged & Community Care Ltd

Directors' Declaration

For the Year Ended 30 June 2023


The Directors of the Company declare that:

1. The financial statements, comprising the statement of profit or loss and other comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity, and accompanying notes, are in accordance with the Australian Charities and Not-for-Profits Commission Act 2012 and:
 - (a) Comply with Australian Accounting Standards – Simplified Disclosures and the Australian Charities and Not-for-Profits Commission Regulation 2022; and
 - (b) Give a true and fair view of the entity's financial position as at 30 June 2023 and of its performance for the year ended on that date.
2. In the Directors' opinion, there are reasonable grounds to believe that the entity will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the Directors by:



Ms Virginia Bourke
Chair



Ms Jo Barker
Director

Dated the 10th day of October 2023
Melbourne, Victoria

Mercy Aged & Community Care Ltd

Statement of Profit or Loss and Other Comprehensive Income

For the Year Ended 30 June 2023

	Note	2023 \$'000	2022 \$'000
Revenue from Continuing Operations	3.1	364,302	340,380
Expenses			
Employee Benefits		(245,001)	(233,997)
Fee For Service Medical Officers		(3,344)	(7,264)
Supplies & Consumables		(33,842)	(28,131)
Transport, Communication & Office Costs		(17,474)	(14,923)
Other		(25,530)	(16,936)
Surplus before Interest, Tax, Depreciation, Amortisation & Impairment		39,111	39,129
Interest Revenue	3.1	11,153	4,519
Depreciation, Amortisation and Impairment excluding Bed Licences	3.3	(19,670)	(20,511)
Bed Licence Amortisation and Impairment	3.3	(28,714)	(45,249)
Finance Costs	3.3	(31,779)	(21,309)
Operating Deficit		(29,899)	(43,421)
COVID-19 Revenue	3.2	8,042	3,418
COVID-19 Costs	3.2	(10,206)	(19,047)
Deficit before Income Tax Expense		(32,063)	(59,050)
Income Tax Expense	3.3	-	-
Deficit for the Year		(32,063)	(59,050)
Other Comprehensive Income			
Items that May be Reclassified to Profit or Loss:			
Changes to the Fair Value of Financial Assets		2,295	(4,979)
Total Other Comprehensive Income/(Loss)		2,295	(4,979)
Total Comprehensive Loss For The Year		(29,768)	(64,029)

The above Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

Mercy Aged & Community Care Ltd

Statement of Financial Position

As at Year Ended 30 June 2023

	Note	2023 \$'000	2022 \$'000
ASSETS			
Current Assets			
Cash and Cash Equivalents	5.2	195,624	209,423
Trade and Other Receivables	4.4	107,704	100,818
Total Current Assets		303,328	310,241
Non Current Assets			
Other Financial Assets	4.7	86,967	82,082
Intangible Assets	4.6	20,873	49,597
Property, Plant and Equipment	4.1	364,550	371,836
Investment Properties	4.2	99,795	99,357
Total Non Current Assets		572,185	602,872
TOTAL ASSETS		875,513	913,113
LIABILITIES			
Current Liabilities			
Trade and Other Payables	4.5	55,164	53,855
Borrowings	5.1	181,354	187,429
Resident Liabilities	4.3	428,146	429,956
Provisions	6.1	31,453	31,735
Total Current Liabilities		696,117	702,975
Non Current Liabilities			
Trade and Other Payables	4.5	1,207	1,293
Borrowings	5.1	132,466	133,056
Provisions	6.1	5,673	5,971
Total Non Current Liabilities		139,346	140,320
TOTAL LIABILITIES		835,463	843,295
NET ASSETS		40,050	69,818
EQUITY			
Accumulated Surplus		41,413	73,116
Reserves	7.1	(1,363)	(3,298)
TOTAL EQUITY		40,050	69,818

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

Mercy Aged & Community Care Ltd

Statement of Changes in Equity

For the Year Ended 30 June 2023

	Accumulated Surplus \$'000	Financial Asset Reserve \$'000	Resident Reserves \$'000	Total \$'000
2023				
Balance as at 1 July 2022	73,116	(3,544)	246	69,818
Deficit for the Year	(32,063)	-	-	(32,063)
Other Comprehensive Income	-	2,295	-	2,295
Total Comprehensive Income/(Loss) for the Year	(32,063)	2,295	-	(29,768)
Transfer between Reserves	360	(191)	(169)	-
Balance at 30 June 2023	41,413	(1,440)	77	40,050
2022				
Balance as at 1 July 2021	125,563	1,487	198	127,248
Deficit for the Year	(59,050)	-	-	(59,050)
Other Comprehensive Loss	-	(4,979)	-	(4,979)
Total Comprehensive Loss for the Year	(59,050)	(4,979)	-	(64,029)
Acquisition of Business Under Common Control*	6,599	-	-	6,599
Transfer between Reserves	4	(52)	48	-
Balance at 30 June 2022	73,116	(3,544)	246	69,818

*Acquisition of business under common control results from a change in the legal structure of the Mercy Health Group, whereby the operations of St Brigid's Convent of Mercy Perth Ltd were transferred to Mercy Aged & Community Care Ltd on 1 April 2022 for nil consideration. For further explanation refer to Note 2 of these financial statements.

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Mercy Aged & Community Care Ltd

Statement of Cash Flows

For the Year Ended 30 June 2023

	Note	2023 \$'000	2022 \$'000
Cash Flows from Operating Activities			
Operating Grants from Government Received		211,845	203,469
Management Fees Received		27,079	27,460
Donations and Bequests Received		57	2,230
Resident and Client Fees Received		86,659	75,062
Interest Received		7,683	3,923
GST Received from the ATO		8,956	7,510
Other Income Received		13,519	13,624
Employee Benefits Paid		(245,289)	(237,233)
Payments to Suppliers		(87,994)	(94,578)
Finance Costs Paid		(6,181)	(2,407)
Net Cash Inflow/(Outflow) from Operating Activities		16,334	(940)
Cash Flows from Investing Activities			
Purchase of Property, Plant & Equipment – Residential Aged Care		(11,154)	(7,655)
Purchase of Property, Plant & Equipment		(429)	(2,410)
Proceeds from the Sale of Property, Plant & Equipment		-	47
Purchase of Investment Properties		(438)	(386)
Purchase of Financial Assets		(2,384)	(1,268)
Receipts from Related Parties		(9,779)	37,530
Net Cash (Outflow)/Inflow from Investing Activities		(24,184)	25,858
Cash Flows from Financing Activities			
Repayments of Borrowings		(10,598)	(10,759)
Repayment of Resident Trust Fund		(79)	(46)
Accommodation Bonds/Refundable Deposits Received		122,914	100,340
Accommodation Bonds/Refundable Deposit Refunds		(123,607)	(108,309)
Resident ILU Liabilities Received		8,953	9,924
Resident ILU Liabilities Refunded		(6,341)	(4,216)
Net Cash Outflow from Financing Activities		(8,758)	(13,066)
Net (Decrease)/Increase in Cash and Cash Equivalents		(16,608)	11,852
Cash and Cash Equivalents at the Beginning of the Year		207,989	196,137
Cash and Cash Equivalents at End of Year	5.2	191,381	207,989

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

Mercy Aged & Community Care Ltd

Notes to the Financial Statements

For the Year Ended 30 June 2023

NOTE 1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

New Accounting Standards and Interpretations

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The Company has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Statement of Compliance

These general purpose financial statements have been prepared in accordance with, the Australian Charities and Not-for-Profits Commission Act 2012 and Australian Accounting Standards – Simplified Disclosures, Australian Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board.

If the Company is wound up, the Constitution states that each member is required to contribute a maximum of \$5 each towards meeting any outstanding obligations of the Company. At 30 June 2023, the number of members was 1 (2021: 1).

The following is a summary of the material accounting policies adopted by the Company in the preparation of the financial statements. The accounting policies have been consistently applied, unless otherwise stated.

Basis of Preparation

The financial statements are prepared in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated.

The financial statements of Mercy Aged & Community Care Ltd for the year ended 30 June 2023 were authorised for issue in accordance with a resolution of the Directors on 10th October 2023.

Reporting Basis and Conventions

The financial statements have been prepared on an accruals basis and are based on historical costs except for the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

Accounting Estimates & Judgements

Estimates and judgements have been incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Company. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Mercy Aged & Community Care Ltd

Notes to the Financial Statements

For the Year Ended 30 June 2023

NOTE 1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Estimates and Judgements	Note
COVID-19 Related Grant Income	Note 3.2
Fair Value of Investment Properties	Note 4.2
Valuation of Bed Licences	Note 4.6
Accounting for Software as a Service Costs	Note 4.6
Allowance for Expected Credit Losses	Note 4.4
Measurement of Annual Leave and Long Service Leave Provisions	Note 6.1
Lease Terms and Borrowing Rate	Note 5.1

Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

Mercy Aged & Community Care Ltd

Notes to the Financial Statements

For the Year Ended 30 June 2023

NOTE 2: ACQUISITION UNDER COMMON CONTROL

Recognition and Measurement

On 1 April 2022 Mercy Aged & Community Care Ltd acquired the operations of St Brigid's Convent of Mercy Perth Ltd including all associated assets and liabilities, for nil consideration.

As a result of the transfer of business, \$6,599,000 was recognised in equity, in the prior year, representing the net asset position of the businesses obtained at the time of transfer.

The business has transferred from commonly controlled entities within the Mercy Health Group, of which Mercy Health Australia Ltd is the parent entity.

Assets and liabilities acquired are as follows:

	2022
	\$'000
Current Assets	
Trade and Other Receivables	16,848
Total Current Assets	16,848
Non Current Assets	
Intangible Assets	1,129
Property, Plant and Equipment	1,596
Investment Properties	474
Total Non-Current Assets	3,199
TOTAL ASSETS	20,047
Current Liabilities	
Trade and Other Payables	281
Resident Liabilities	12,258
Borrowings	10
Provisions	355
Total Current Liabilities	12,904
Non Current Liabilities	
Trade and Other Payables	
Borrowings	427
Provisions	117
Total Non-Current Liabilities	544
TOTAL LIABILITIES	13,448
NET ASSETS	6,599

Mercy Aged & Community Care Ltd

Notes to the Financial Statements

For the Year Ended 30 June 2023

NOTE 3 BUSINESS PERFORMANCE

This section provides the information that is most relevant to understanding the financial performance of the Company during the financial year and, where relevant, the accounting policies applied and the critical judgements and estimates made.

NOTE 3.1 REVENUE FROM CONTINUING OPERATIONS

Revenue Recognition

Aged care and home care

The Company recognises revenue from aged care and home care services over time as performance obligations are satisfied, which is as the services are rendered, primarily on a daily or monthly basis. Revenue arises from discretionary and non-discretionary services, as agreed in a single contract with the resident. Fees received in advance of aged care and home care services performed are recognised as contract liabilities.

Nature of aged care, home care and retirement living revenue and cash flows

Type of revenue	Description	Type of services
Government contributions	Government revenue reflects the Company's entitlement to revenue from the Australian Government based upon the specific care and accommodation needs of the individual residents. Government revenue comprises of basic subsidy amounts calculated in accordance with the Aged Care Funding Instrument ('ACFI') and the Australian National Aged Care Classification Funding Model ('AN-ACC'), accommodation supplements, funding for short-term 'respite' residents and other Government incomes. Revenue is recognised over time as services are provided. Funding claims are submitted/updated daily and Government revenue is usually payable within approximately one month of services having been performed.	Aged care and home care
Deferred management fee (DMF) revenue	DMF revenue represents a fee that is contractually deducted from the ingoing contribution. The ingoing contribution is paid back to a resident (net of DMF) upon exit from a retirement village. DMF revenue is recognised over the expected length of stay of a resident.	Retirement living

Mercy Aged & Community Care Ltd

Notes to the Financial Statements

For the Year Ended 30 June 2023

NOTE 3 BUSINESS PERFORMANCE (Continued)

NOTE 3.1 REVENUE FROM CONTINUING OPERATIONS (Continued)

Revenue Recognition (Continued)

Type of revenue	Description	Type of services
Resident/ client fees	<p>Residents are charged a basic daily fee as a contribution to the provision of care and accommodation. The quantum of resident basic daily fees is regulated by the Government and typically increases in March and September each year. Resident basic daily fee revenue is recognised over time as services are provided. Residents are invoiced on a monthly basis and revenue is usually payable within 30 days.</p> <p>Other resident revenue represents other fees charged to residents in respect of care and accommodation services provided by the Company and includes means tested care fees, Daily Accommodation Payment (DAP)/Daily Accommodation Contribution (DAC) revenue, additional services revenue and other income. Other resident revenue is recognised over time as services are provided. Residents are invoiced on a monthly basis and revenue is usually payable within 30 days.</p>	Aged care
Other operating revenue	<p>Other operating revenue comprises rental income, aged care bond retention amounts and other sundry revenue. Revenue is recognised over time as services are provided. Residents are typically invoiced on a monthly basis and revenue is usually payable within 30 days.</p>	Aged care, home care and retirement living

Donations, bequests and fundraising revenue

Donations, bequests and fundraising revenue are recognised only when the Company gains control of the funds and when the funds do not give rise to a specific performance obligation.

Interest revenue

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Other revenue

Other revenue is recognised when performance obligations are fulfilled.

The Company, as a private sector not-for-profit entity, has elected not to recognise the financial impact of any volunteer services provided.

Mercy Aged & Community Care Ltd

Notes to the Financial Statements

For the Year Ended 30 June 2023

NOTE 3 BUSINESS PERFORMANCE (Continued)

NOTE 3.1 REVENUE FROM CONTINUING OPERATIONS (Continued)

	2023	2022
	\$'000	\$'000
Aged Care, Home Care and Retirement Living Revenue – Over Time Revenue		
Government Contributions	216,351	203,469
Resident/Client Fees	87,914	81,492
Deferred Management Fees	1,904	1,584
Other Operating Revenue	56,467	50,288
	362,636	336,833
Other Revenue		
Donations, Bequests and Fundraising	57	3,498
Other Revenue	1,609	49
	1,666	3,547
Total Revenue	364,302	340,380
Interest Revenue	11,153	4,519

NOTE 3.2 COVID REVENUE AND EXPENSES

The Company has submitted claims to the Federal Government relating to expenses incurred in managing COVID-19 outbreaks during the year, and in prior years. As at 30 June 2023, the Company had incurred costs and submitted claims of \$10,206,000 (2022: \$19,047,000) and was reimbursed \$8,042,000 (2022: \$3,418,000). Claims of \$2,164,000 in 2023 and \$15,629,000 in 2022 are yet to be approved by the Department of Health and as a result, revenue relating to these claims has not been recognised.

Revenue relating to these claims will be recognised when the submission has been approved for payment by the Department of Health. As of the date of signing the accounts, amounts received post 30 June 2023 relating to these grants are \$10,491,000.

A summary of COVID-19 related costs and claims revenue recognised is shown below:

COVID-19 revenue and costs

Grants confirmed and received	8,042	3,418
Costs incurred	(10,206)	(19,047)
Net COVID-19 Costs	(2,164)	(15,629)

Accounting Estimates & Judgements: COVID-19 Related Grant Income

The Company has grant claims submitted but not yet received with the Department of Health of \$2,164,000 in 2023 and \$15,629,000 in 2022. The Company believes that its grant applications meet all the eligibility criteria based on the funding agreement requirements, and previous experience in submitting claims, however, the approval of claims is at the discretion of the Department of Health and the company does not have the unconditional right to the grant until it is approved formally by the Department of Health. Therefore, income from these grants has not been recognised until the company has the right to receive the funds, which is upon formal approval from the Department of Health.

Mercy Aged & Community Care Ltd

Notes to the Financial Statements

For the Year Ended 30 June 2023

NOTE 3 BUSINESS PERFORMANCE (Continued)

NOTE 3.3 EXPENSES

Recognition and Measurement

Depreciation

The depreciable amount of all property, plant and equipment, is depreciated on a straight-line basis over their useful lives to the Company commencing from the time the asset is held ready for use. Right of use assets and leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the underlying asset. The following table indicates the expected useful lives of non-current assets on which the depreciation charges are based.

Land – Right of Use	Up to 75 years
Buildings – Owned	Up to 40 years
Buildings – Right of Use	Up to 40 years
Motor Vehicles – Right of Use	Up to 5 years
Leasehold Improvements	1 to 40 years
Plant & Equipment	1 to 10 years
Furniture & Fittings	1 to 10 years

The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each reporting date.

The carrying amount of an asset is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains or Losses on Disposal

Gains or losses on disposals are determined by comparing proceeds with the carrying amount. These gains or losses are included in profit or loss in the determination of Total Comprehensive Income.

Software-as-a-Service (SaaS) arrangements

SaaS arrangements are service contracts providing the Company with the right to access the cloud provider's application software over the contract period. Costs incurred to configure or customise, and the ongoing fees to obtain access to the cloud provider's application software, are recognised as operating expenses when the services are received.

Some of these costs incurred are for the development of software code that enhances or modifies, or creates additional capability to, existing on-premise systems and meets the definition of and recognition criteria for an intangible asset. These costs are recognised as intangible software assets and amortised over the useful life of the software on a straight-line basis. The useful lives of these assets are reviewed at least annually at the end of each financial year, and any change accounted for prospectively as a change in accounting estimate.

Income Taxes

Mercy Aged & Community Care Ltd is a registered public benevolent institution and exempt from paying income taxes at this time.

Mercy Aged & Community Care Ltd

Notes to the Financial Statements

For the Year Ended 30 June 2023

NOTE 3 BUSINESS PERFORMANCE (Continued)

NOTE 3.3 EXPENSES (Continued)

Impairment of Assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are assessed for impairment whenever there is an indication that the asset may be impaired.

The assets concerned are tested as to whether their carrying value exceeds their recoverable amount.

Where an asset's carrying value exceeds its recoverable amount, impairment losses are recognised in profit or loss in the determination of Total Comprehensive Income.

	2023 \$'000	2022 \$'000
Depreciation		
Plant & Equipment		
Plant	1,676	1,479
Major Medical	381	287
Computers & Communication	1,300	1,868
Transport	44	51
Other Equipment	23	12
Right of Use	8,462	9,013
Furniture & Fittings	1,072	1,107
Buildings	9	9
Leasehold Improvements	6,693	6,633
Total Depreciation	19,660	20,459
Amortisation		
Intangibles	10	52
Total Amortisation	10	52
Total Depreciation and Amortisation Excluding Bed Licences	19,670	20,511
Bed Licence Amortisation and Impairment		
Amortisation of Bed Licences	25,647	24,129
Total Amortisation	25,647	24,129
Impairment of Bed Licences	3,067	21,120
Total Impairment	3,067	21,120
Total Amortisation and Impairment of Bed Licences	28,714	45,249

Following the release of the discussion paper *Improving Choice in Residential Aged Care – ACAR Discontinuation* on 30 September 2021, Bed Licences are now considered to have a finite life, ceasing on 30 June 2024. Bed licences are now measured at cost less accumulated amortisation charges and any accumulated impairment losses. See Note 4.6.

The licences are considered as part of the CGU assessment of the Company and where impairment indicators exist, a recoverable amount test is performed. Where the balance exceeds the value of the expected future benefits, the difference is charged to profit or loss. During the year an impairment loss of \$3,067,000 has been recognised (2022: \$21,120,000).

Mercy Aged & Community Care Ltd

Notes to the Financial Statements

For the Year Ended 30 June 2023

NOTE 3 BUSINESS PERFORMANCE (Continued)

NOTE 3.3 EXPENSES (Continued)

	2023 \$'000	2022 \$'000
Defined Contribution Superannuation Expense	20,880	20,915
Rental Expenses Relating to Short Term and Low Value Leases	1,331	1,445
Interest on Short Term Borrowings	1,242	929
Interest on Related Party Advances	3,564	398
Interest on RADs and Bonds	20,827	13,847
Interest on Leases	6,146	6,135
Total Finance Costs	31,779	21,309

Mercy Aged & Community Care Ltd

Notes to the Financial Statements

For the Year Ended 30 June 2023

NOTE 4 OPERATING ASSETS AND LIABILITIES

This section provides information relating to the operating assets and liabilities of the Company.

NOTE 4.1 PROPERTY, PLANT & EQUIPMENT

Recognition and Measurement

Land and Buildings – Right of Use

Land and buildings are held under a lease arrangement. These land and buildings are initially recognised at historical cost less accumulated depreciation and any impairment in value.

Land and Buildings – Owned

Land and buildings are initially recognised at historical cost less accumulated depreciation and any impairment in value.

Leasehold Improvements

Leasehold improvements are measured on a cost basis less depreciation and impairment losses. The carrying amount is reviewed annually to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Plant and Equipment and Furniture and Fittings

Plant and equipment and furniture and fittings are measured on a cost basis less depreciation and impairment losses.

The carrying amount of plant and equipment is reviewed annually to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss in the determination of Total Comprehensive Income during the financial period in which they are incurred.

	2023	2022
	\$'000	\$'000
Right of Use		
Land – Right of Use Related Parties	59,625	59,625
Building – Right of Use Related Parties	111,924	111,715
Less Accumulated Depreciation	(26,249)	(21,700)
Subtotal – Building – Right of Use Related Parties	145,300	149,640
Buildings and Motor Vehicles – Right of Use External Parties	41,194	40,450
Less Accumulated Depreciation	(16,557)	(12,946)
Subtotal – Buildings and Motor Vehicles – Right of Use External Parties	24,637	27,504
Total Right of Use	169,937	177,144

Mercy Aged & Community Care Ltd

Notes to the Financial Statements

For the Year Ended 30 June 2023

NOTE 4 OPERATING ASSETS AND LIABILITIES (Continued)

NOTE 4.1 PROPERTY, PLANT & EQUIPMENT (Continued)

	2023 \$'000	2022 \$'000
Freehold Land and Buildings		
Freehold Land	155	155
Buildings – Owned	203	203
Less Accumulated Depreciation	(113)	(104)
Subtotal – Buildings – Owned	90	99
Total Freehold Land and Buildings	245	254
Buildings – Leaseholds and Improvements		
Leaseholds & Improvements	227,149	223,932
Less Accumulated Amortisation & Impairment	(64,358)	(57,824)
Total Buildings – Leasehold and Improvements	162,791	166,108
Plant & Equipment		
Plant	21,827	19,404
Less Accumulated Depreciation & Impairment	(11,934)	(10,141)
Subtotal – Plant	9,893	9,263
Transport	278	278
Less Accumulated Depreciation & Impairment	(247)	(202)
Subtotal – Transport	31	76
Major Medical	4,244	3,315
Less Accumulated Depreciation & Impairment	(1,296)	(958)
Subtotal – Major Medical	2,948	2,357
Computers & Communication	19,034	17,058
Less Accumulated Depreciation & Impairment	(16,775)	(15,514)
Subtotal – Computers & Communication	2,259	1,544
Other Equipment	571	302
Less Accumulated Depreciation & Impairment	(194)	(171)
Subtotal – Other Equipment	377	131
Total Plant & Equipment	15,508	13,371

Mercy Aged & Community Care Ltd

Notes to the Financial Statements

For the Year Ended 30 June 2023

NOTE 4 OPERATING ASSETS AND LIABILITIES (Continued)

NOTE 4.1 PROPERTY, PLANT & EQUIPMENT (Continued)

	2023 \$'000	2022 \$'000
Furniture & Fittings		
Furniture & Fittings	19,674	19,104
Less Accumulated Depreciation & Impairment	(14,246)	(13,330)
Total Furniture & Fittings	5,428	5,774
Work in Progress	10,641	9,185
Total Property, Plant & Equipment	364,550	371,836

Reconciliations of the carrying amounts of each class of asset at the beginning and end of the current financial year are set out below:

	Right of Use \$'000	Freehold Land & Buildings \$'000	Buildings - Leasehold Improvements \$'000	Plant & Equipment \$'000	Furniture & Fittings \$'000	WIP \$'000	Total \$'000
Balance at 1 July 2022	177,144	254	166,108	13,371	5,774	9,185	371,836
Additions	-	-	44	3,559	411	7,569	11,583
Additions through finance lease	1,308	-	-	-	-	-	1,308
WIP transfers	-	-	3,926	1,752	435	(6,113)	-
Net transfers between classes	8	-	(498)	511	(21)	-	-
Disposals	(61)	-	(96)	(261)	(99)	-	(517)
Depreciation (refer note 3.3)	(8,462)	(9)	(6,693)	(3,424)	(1,072)	-	(19,660)
Balance at 30 June 2023	169,937	245	162,791	15,508	5,428	10,641	364,550

NOTE 4.2 INVESTMENT PROPERTY

Recognition and Measurement

Investment property is leased property which is held to earn rental income, or for capital appreciation, or for both.

Investment properties are carried at fair value based on periodic valuations by external independent valuers. Changes to fair value are recorded in profit or loss in the determination of Total Comprehensive Income. Fair value has been determined on the basis of fair value less costs to sell. Investment properties are not depreciated. Independent living units represent investment property.

Mercy Aged & Community Care Ltd

Notes to the Financial Statements

For the Year Ended 30 June 2023

NOTE 4 OPERATING ASSETS AND LIABILITIES (Continued)

NOTE 4.2 INVESTMENT PROPERTY (Continued)

Recognised Fair Value Measurements

This note explains the judgements and estimates made in determining the fair values of investment properties that are recognised and measured at fair value in the financial statements.

Valuation Technique

The Company obtains independent valuations for its investment properties periodically.

At the end of each reporting period the directors update their assessment of the fair value of each property, taking into account the most recent independent valuations. The directors determine a property's value within a range of reasonable fair value estimates. For investment properties this involves rental income projections based on a property's estimated net income (deferred management fee) and a capitalisation rate derived from an analysis of market evidence.

Valuation Inputs

The following significant unobservable inputs were used in the fair value measurements:

- Discount rate
- Capitalisation rate
- Market rent

Accounting Estimates & Judgements: Fair Value of Investment Property

Investment properties are measured at fair value. Judgements and estimates have been made in determining fair value. These are based on the policy disclosed in this note.

	2023	2022
	\$'000	\$'000
At Fair Value		
Investment Properties – Right of Use	<u>99,795</u>	<u>99,357</u>

Reconciliations of the carrying amount at the beginning and end of the financial year are set out below:

Balance at 1 July 2022	99,357
Additions	<u>438</u>
Balance at 30 June 2023	<u>99,795</u>

Contractual Obligations

The Company has commitments to purchase or redevelop investment property contracted at 30 June 2023 but not recognised as a liability of \$323,000 (2022: \$192,000). The Company has commitments for repairs, maintenance or enhancements contracted at 30 June 2023 but not recognised as a liability of \$nil (2022: \$ nil).

Mercy Aged & Community Care Ltd

Notes to the Financial Statements

For the Year Ended 30 June 2023

NOTE 4 OPERATING ASSETS AND LIABILITIES (Continued)

NOTE 4.3 RESIDENT LIABILITIES

Recognition and Measurement

RADs and accommodation bonds are non-interest bearing deposits made by aged care home residents to the Company upon admission. These deposits are liabilities which fall due and payable when the resident leaves the home. As there is no unconditional right to defer payment for 12 months, these liabilities are recorded as current liabilities. RAD and accommodation bond liabilities are recorded at an amount equal to the proceeds received, net of retention and any other amounts deducted from the RAD/accommodation bond in accordance with the *Aged Care Act 1997*.

Resident Liabilities are the refundable portion of ingoing contributions made in respect of Independent Living Units subject to the Retirement Villages Act. Resident liabilities are returned to tenants net of deferred management fee (if applicable) upon expiry of the lease or when they vacate the property.

RADs in which the Company is a lessor

For residential aged care accommodation arrangements where the resident has elected to pay a Refundable Accommodation Deposit (RAD) or bond (prior to July 2014), the Company receives a financing benefit, being non-cash consideration, in the form of an interest free loan. The fair value of this non-cash consideration is required, under AASB 16 and AASB 9 to be recognised as rental income (to reflect the resident's occupancy of the room) and corresponding interest expense (to record the financial liability associated with RADs and bonds at fair value) with no net impact on profit or loss. This resulted in the Company recognising rental income and interest expense of \$19,452,000 (2022: \$12,767,000) for the 2023 financial year.

This is calculated based on average RAD / accommodation bond balances, excluding any RADs/accommodation bonds awaiting refund/probate and the Maximum Permissible Interest Rate (MPIR), which is a Commonwealth Government set interest rate used to calculate the Daily Accommodation Payment (DAP) to applicable residents.

The accounting treatment for residential aged care accommodation arrangements where residents have elected to pay a DAP has not changed upon adoption of AASB 16.

	2023	2022
	\$'000	\$'000
Current		
Refundable Accommodation Deposits and Accommodation Bonds	363,951	366,611
Resident Unit Liabilities	64,195	63,345
Total Resident Liabilities	428,146	429,956

From 1 July 2007, pursuant to the Aged Care Act 1997, interest is paid on Refundable Accommodation Deposits ("RAD's") and Accommodation Bonds following departure (or death) of a resident until RAD repayment. Interest is required to be paid at two different rates, which are legislated on a quarterly basis:

- at the base interest rate for the period between the date of the refunding event and the earlier of the date the balance is refunded and the date the legislated timeframe for the refund of the balance expires;
- at the maximum permissible interest rate for the period after the end of the legislated time frame (or the time set out in the Formal Agreement) until the balance is refunded;
- Base interest for the year ended 30 June 2023 was 2.25% (2022: 2.25%). Maximum permissible interest rate for the year ended 30 June 2023 was 7.46% (2022: 4.07%).

Mercy Aged & Community Care Ltd

Notes to the Financial Statements

For the Year Ended 30 June 2023

NOTE 4 OPERATING ASSETS AND LIABILITIES (Continued)

NOTE 4.4 TRADE AND OTHER RECEIVABLES

Recognition and Measurement

Trade Receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost, less any allowance for expected credit losses. No interest is charged on trade debtors, with the exception of amounts receivable from related parties when interest is charged at short term money market rates. Trade receivables are generally due for settlement within 30 days.

The Company has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of GST, except for Receivables and Payables which are stated with the amount of GST included and except, where the amount of GST is recognised as part of the cost of acquisition of an asset or part of an item of expense or revenue. GST receivable from and payable to the Australian Taxation Office (ATO) is included in the statement of financial position. Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the ATO are classified as operating cash flows.

Contract Assets

Contract assets are recognised when the Company has transferred goods or services to the customer but where the Company is yet to establish an unconditional right to consideration. Contract assets are treated as financial assets for impairment purposes.

Accounting Estimates & Judgements: Allowance for Expected Credit Losses

The allowance for expected credit losses assessment requires a degree of estimation and judgement. It is based on the lifetime expected credit loss, grouped based on days overdue, and makes assumptions to allocate an overall expected credit loss rate for each group. These assumptions include recent sales experience and historical collection rates.

Mercy Aged & Community Care Ltd

Notes to the Financial Statements

For the Year Ended 30 June 2023

NOTE 4 OPERATING ASSETS AND LIABILITIES (Continued)

NOTE 4.4 TRADE AND OTHER RECEIVABLES (Continued)

	Note	2023 \$'000	2022 \$'000
Current			
Sundry Debtors		2,353	3,842
Refundable Accommodation Deposits & Accommodation Bonds Receivable		808	1,734
Residents Fees		9,414	9,409
GST Receivable		2,578	861
Contract Assets		6,174	2,704
Prepayments		7,376	6,925
Receivables from Related Parties	6.3	79,065	75,616
		107,768	101,091
Allowance for Expected Credit Losses		(64)	(273)
Total Receivables		107,704	100,818

NOTE 4.5 TRADE & OTHER PAYABLES

Recognition and Measurement

These amounts represent liabilities for goods and services provided prior to the end of the financial year and which are unpaid. The normal credit terms are usually net 30 days. No interest is charged on external trade and other payables while the invoice is current. Specific suppliers may choose to charge interest after that period however the Company monitors cash flow so that suppliers are paid within normal credit terms. Interest is charged on amounts payable to related parties at short term money market rates.

Contract liabilities

Contract liabilities also represent the Company's obligation to transfer goods or services to a customer and are recognised when a customer pays consideration, or when the Company recognises a receivable to reflect its unconditional right to consideration (whichever is earlier) before the Company has transferred the goods or services to the customer.

Mercy Aged & Community Care Ltd

Notes to the Financial Statements

For the Year Ended 30 June 2023

NOTE 4 OPERATING ASSETS AND LIABILITIES (Continued)

NOTE 4.5 TRADE & OTHER PAYABLES (Continued)

	2023	2022
	\$'000	\$'000
Current		
Trade Creditors	5,622	3,301
Accrued Expenses	10,092	6,880
Accrued Salaries & Wages	5,266	4,974
Funds Held in Trust	50	129
Contract Liabilities	27,191	31,697
Other Payables	6,943	6,874
Total Current	55,164	53,855
Non Current		
Accrued Expenses	1,207	1,293
Total Non Current	1,207	1,293
Total Trade and Other Payables	56,371	55,148

NOTE 4.6 INTANGIBLES

Recognition and Measurement

Customer Relationships

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Aged Care Bed Licences

Bed licences have been initially recognised at fair value upon issue from the Federal Government which is deemed to represent cost under AASB 138 Intangible Assets and AASB 1058 Income of Not-for-Profit Entities. Licences acquired through business acquisition have been recognised at fair value at the time of acquisition.

Subsequent to initial recognition, bed licences have previously been considered to have an indefinite useful life and have not been amortised. Following the release of the discussion paper *Improving Choice in Residential Aged Care – ACAR Discontinuation* on 30 September 2021, bed licences are now considered to have a finite life, ceasing on 30 June 2024. Bed licences are now measured at cost less accumulated amortisation charges and any accumulated impairment losses.

The licences are considered as part of the CGU assessment of the Company and where impairment indicators exist, a recoverable amount test is performed as further explained in impairment of assets in Note 3.3. Where the balance exceeds the value of the expected future benefits, the difference is charged to profit or loss. During the year an impairment loss of \$3,067,000 has been recognised (2022: \$21,120,000).

Mercy Aged & Community Care Ltd

Notes to the Financial Statements

For the Year Ended 30 June 2023

NOTE 4 OPERATING ASSETS AND LIABILITIES (Continued)

NOTE 4.6 INTANGIBLES (Continued)

Accounting Estimates & Judgements: Valuation of Bed Licences

Bed licences are reviewed annually to assess whether there have been any impairment indicators, and where indicators exist a recoverable amount test is performed. The recoverable amounts of cash generating units have been determined based on value in use calculations.

Current	2023	2022
	\$'000	\$'000
Bed Licences		
Balance at the Beginning of the Reporting Period	49,547	93,667
Licences acquired through Business Acquisition During the Year	-	1,129
Amortisation during the year	(25,647)	(24,129)
Impairment during the year	(3,067)	(21,120)
Balance at the End of the Reporting Period	20,833	49,547
Customer Relationships		
Balance at the Beginning of the Reporting Period	50	102
Amortisation during the year	(10)	(52)
Balance at the End of the Reporting Period	40	50
Total Intangibles	20,873	49,597

Mercy Aged & Community Care Ltd

Notes to the Financial Statements

For the Year Ended 30 June 2023

NOTE 4 OPERATING ASSETS AND LIABILITIES (Continued)

NOTE 4.7 OTHER FINANCIAL ASSETS

Investments and Other Financial Assets

Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. Such assets are subsequently measured at either amortised cost or fair value depending on their classification.

Amortised cost

The Company classifies its financial assets as at amortised cost only if both of the following criteria are met:

- The asset is held within a business model whose objective is to collect the contractual cash flows, and
- The contractual terms give rise to cash flows that are solely payments of principal and interest.

At 30 June 2023 amounts held at amortised costs were \$nil (2022: \$nil)

Fair value through other comprehensive income ("FVOCI")

FVOCI comprise:

- Equity securities which are not held for trading, and which the Company has irrevocably elected at initial recognition to recognise in this category. These are strategic investments and the Company considers this classification to be more relevant.
- Debt securities where the contractual cash flows are solely principal and interest and the objective of the Company's business model is achieved both by collecting contractual cash flows and selling financial assets.

Movements in the carrying amount are taken through OCI, except for the recognition of impairment losses and interest income which are recognised in profit or loss. On disposal of equity investments, any related balance within the FVOCI reserve is reclassified to accumulated surplus. On disposal of debt investments, any related balance within the FVOCI reserve is reclassified to profit or loss.

Fair value through profit or loss ("FVPL")

The Company classifies the following financial assets at FVPL:

- Debt investments that do not qualify for measurement at either amortised cost or FVOCI,
- Equity investments that are held for trading, and

Equity investments for which the Company has not elected to recognise fair value gains and losses through OCI.

Mercy Aged & Community Care Ltd

Notes to the Financial Statements

For the Year Ended 30 June 2023

NOTE 4 OPERATING ASSETS AND LIABILITIES (Continued)

NOTE 4.7 OTHER FINANCIAL ASSETS (Continued)

	2023 \$'000	2022 \$'000
Non Current		
Held at FVOCI	64,589	55,745
Held at FVPL	<u>22,378</u>	<u>26,337</u>
Total Non Current Financial Assets	<u>86,967</u>	<u>82,082</u>

Impairment of financial assets

The Company recognises a loss allowance for expected credit losses on financial assets which are either measured at amortised cost or fair value through other comprehensive income. The measurement of the loss allowance depends upon the Company's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain.

Where there has not been a significant increase in exposure to credit risk since initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses. The amount of expected credit loss recognised is measured on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate.

For financial assets measured at fair value through other comprehensive income, the loss allowance is recognised within other comprehensive income. In all other cases, the loss allowance is recognised in profit or loss.

Derecognition

Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership. When there is no reasonable expectation of recovering part or all of a financial asset, its carrying value is written off.

Mercy Aged & Community Care Ltd

Notes to the Financial Statements

For the Year Ended 30 June 2023

NOTE 5 CAPITAL MANAGEMENT

This section provides information relating to the Company's capital structure and its exposure to financial risk, how they affect the Company's financial position and performance, and how the risks are managed. The capital structure of the Company consists of debt and equity.

NOTE 5.1 BORROWINGS

Recognition and measurement

Financial Liabilities

Financial liabilities, including borrowings are initially measured at fair value, net of transaction costs and subsequently measured at amortised cost using the effective interest method. Interest expense is recognised on an effective yield basis.

The effective interest method calculates amortised cost and allocates interest expense over the relevant period so that estimated future cash payments are exactly discounted over the expected life of the liability.

Leases

Leases in which the Company is a lessee

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

Leases in which the Company is a lessor

Contracts with residents includes provisions for room details, fees, charges and payments. The Company has concluded that its accommodation arrangements relating to the provision of residential aged care and retirement living accommodation contains a lease, being the exclusive right to the use of an identified room/unit by a resident.

Mercy Aged & Community Care Ltd

Notes to the Financial Statements

For the Year Ended 30 June 2023

NOTE 5 CAPITAL MANAGEMENT (Continued)

NOTE 5.1 BORROWINGS (Continued)

Significant Estimate and Judgement - Lease Terms and Borrowing Rate

The Company recognised lease liabilities in relation to leases of properties and motor vehicles. These liabilities are measured at the present value of the remaining lease payments, taking into account any fixed rental increases, discounted using the lessee's incremental borrowing rate at the time of inception of the lease. The weighted average lessee's incremental borrowing rate applied to lease liabilities on 1 July 2019 was 3.9%. Judgement is also exercised, at the commencement of a lease, in determining whether there is reasonable certainty that an option to extend the lease will be exercised, or an option to terminate the lease will not be exercised, when ascertaining the periods to be included in the lease term. Factors considered may include the importance of the asset to operations, comparison of terms and conditions to prevailing market rates, existence of significant assets paid for directly by lessee and the costs and disruption to replace the asset. This judgement is reassessed if there is a significant event or significant change in circumstances. There have been no such reassessments in the current year.

Lease arrangements

The Company leases various offices, residential aged care facilities and retirement villages. Rental contracts are typically made for fixed periods of 18 months to 75 years, but may have extension options as described below.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the fixed payments (including in-substance fixed payments), less any lease incentives receivable.

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

To determine the incremental borrowing rate, the Company uses recent third-party financing as a starting point, adjusted to reflect changes in financing conditions since third party financing was received.

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

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

Mercy Aged & Community Care Ltd

Notes to the Financial Statements

For the Year Ended 30 June 2023

NOTE 5 CAPITAL MANAGEMENT (Continued)

NOTE 5.1 BORROWINGS (Continued)

	Note	2023 \$'000	2022 \$'000
Current			
Cheques Drawn Outstanding	5.2	4,243	1,434
Advances from Other Related Parties		148,264	154,594
Loans – Other Financial Institutions		22,700	25,546
Lease Liability		6,147	5,855
Total Current		181,354	187,429
Non Current			
Lease Liability		132,466	133,056
Total Non Current		132,466	133,056
Total Borrowings		313,820	320,485

The loans held with the Catholic Development Fund (“CDF”), disclosed below as Loans – Other Financial Institutions, contain a clause which allows CDF at its discretion to alter the terms of the Agreement and Repayment Schedule which creates the potential for the full loan balance to be called and be repayable at the CDF’s request. If the demand clause did not exist the borrowings would have been presented as follows based on the current repayment schedule:

Cheques Drawn Outstanding	5.2	4,243	1,434
Advances from Other Related Parties		148,264	154,594
Loans – Other Financial Institutions		2,612	2,993
Lease Liability		6,147	5,855
Total Current		161,266	164,876
Non Current			
Loans – Other Financial Institutions		20,088	22,553
Lease Liability		132,466	133,056
Total Non Current		152,554	155,609
Total Borrowings		313,820	320,485

On 31st August 2023, subsequent to year end, Mercy Aged and Community Care Ltd. executed an additional debt funding arrangement with CDF of \$22,000,000 for the construction of a residential Aged Care Facility. Mercy Health Property is the guarantor of this borrowing facility. The carrying amount of assets pledged as security for this borrowing is \$22,625,000.

Mercy Aged & Community Care Ltd

Notes to the Financial Statements

For the Year Ended 30 June 2023

NOTE 5 CAPITAL MANAGEMENT (Continued)

NOTE 5.1 BORROWINGS (Continued)

The following table sets out the maturity analysis of lease liabilities, showing the undiscounted lease payments to be made after the reporting date.

	2023 \$'000	2022 \$'000
Leases		
No later than one year	6,689	6,920
Later than one year and no later than five years	26,031	25,789
Longer than five years	641,837	648,025
Minimum future lease payments	674,557	680,734
less future finance charges	(535,944)	(541,823)
TOTAL	138,613	138,911
Included in the financial statements as:		
Current borrowings lease liabilities	6,147	5,855
Non Current borrowings lease liabilities	132,466	133,056
TOTAL	138,613	138,911

NOTE 5.2 CASH AND CASH EQUIVALENTS

Recognition and Measurement

For the purposes of the Statement of Cash Flows, cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments that are readily convertible to known amounts of cash, with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

Current

Cash on Hand	21	24
Cash at Bank	112	237
Deposits at Call	195,476	208,926
Trust Bank Accounts	15	236
Total Cash and Cash Equivalents	195,624	209,423

(a) Disclosed As:

Cash and Cash Equivalents		195,624	209,423
Cheques Drawn Outstanding	5.1	(4,243)	(1,434)
		191,381	207,989

Mercy Aged & Community Care Ltd

Notes to the Financial Statements

For the Year Ended 30 June 2023

NOTE 5 CAPITAL MANAGEMENT (Continued)

NOTE 5.3 FINANCIAL INSTRUMENTS

	Note	2023 \$'000	2022 \$'000
Financial Assets			
Cash and Cash Equivalents		195,603	209,399
Loans and Receivables		94,154	91,189
Financial Assets		86,967	82,082
Total Financial Assets		376,724	382,670
Financial Liabilities			
Payables		29,180	23,451
Borrowings		313,820	320,485
Resident Liabilities		428,146	429,956
Total Financial Liabilities		771,146	773,892
Net Financial Liabilities		(394,422)	(391,222)

NOTE 5.4 WORKING CAPITAL DEFICIENCY

The statement of financial position for the Company discloses a working capital deficiency of \$392,789,000 (2022: \$392,734,000). The financial statements have been prepared on a going concern basis as the deficiency arises because of the following items being classified as Current Liabilities:

- i. Disclosure of resident accommodation deposits and resident liabilities, for the Company amounting to \$428,146,000 (2022: \$429,956,000), as current liabilities on the basis they are repayable to residents when they leave the facility or unit, which can be at any time, (refer Note 4.3). The Company does not expect the resident liabilities balance to reduce significantly on an annual basis as the liabilities relating to residents who depart the facility/unit are generally replaced by resident accommodation deposits/liabilities received from new residents. The resident liabilities are therefore considered to form a part of the long-term funding of the facility.
- ii. Advances from Related Parties, of \$148,264,000 (2022: \$154,594,000) represent funds received as part of the Mercy central treasury function. These advances are shown as a current liability on the basis they are repayable as required by the other Mercy entities. The Company does not expect any significant reduction of these amounts on an annual basis.
- iii. Borrowings from Catholic Development Fund (CDF) for the Company of \$22,700,000 (2022: \$25,546,000) are shown as a current liability on the basis that the CDF loan agreements contain a clause which allows the CDF at its discretion to alter the terms of the agreement and the repayment schedule so that the full loan balance could become repayable at the CDF's request. If the demand clause did not exist the borrowings classified as Current Liabilities would have been borrowings of \$2,612,000 (2022: \$2,993,000).

The Company also has COVID-19 grant claims of \$19,193,000 submitted with the Department of Health relating to costs incurred in the current and prior year, where the income has not been recognised. The company believes that its grant applications meet all the eligibility criteria based on the funding agreement requirements, and previous experience in submitting claims, and claims are expected to be received in full.

Mercy Aged & Community Care Ltd

Notes to the Financial Statements

For the Year Ended 30 June 2023

NOTE 5 CAPITAL MANAGEMENT (Continued)

NOTE 5.5 COMMITMENTS

Commitments in relation to Property Plant and Equipment and Investment Property contracted at the reporting date.

	2023	2022
	\$'000	\$'000
Capital Commitments		
Land & Buildings	15,924	5,577
Plant & Equipment	1,706	2,540
Other	1,542	1,743
Total Capital Commitments	19,172	9,860
Land & Buildings		
Not Later than One Year	15,924	5,577
Subtotal Land & Buildings	15,924	5,577
Plant & Equipment		
Not Later than One Year	1,706	2,540
Subtotal Plant & Equipment	1,706	2,540
Other		
Not Later than One Year	1,542	1,743
Subtotal Other	1,542	1,743
Total Capital Commitments	19,172	9,860

NOTE 5.6 ASSETS PLEDGED AS SECURITY

Mercy Aged and Community Care Ltd. ("MACC") is the coordinating Company originally established by the Institute of Sisters of Mercy of Australia and Papua New Guinea to oversee the operations of all of the health entities established as part of their health ministry including Mercy Health Property Ltd. MACC operates a central treasury function and holds borrowings with Catholic Development Fund ("CDF") which has assets held by way of long term finance leases pledged as security. The maximum amount CDF can recover from MACC under the Deed of Guarantee is \$22,700,000 plus nil outstanding interest and other costs. On 3 December 2021 Mercy Ministry Companions Ltd became the sole member of Mercy Health Australia, the parent company of Mercy Aged and Community Care Ltd. Mercy Ministry Companions Ltd is a company established by the Institute of Sisters of Mercy of Australia and Papua New Guinea, to which canonical and legal responsibility for the ministries of the Institute of Sisters of Mercy of Australia and Papua New Guinea was passed on that date.

The Carrying amount of assets held by the Company pledged as security for CDF borrowings under the Deed of Guarantee are:

Property, Plant and Equipment	60,174	64,325
	60,174	64,325

Mercy Aged & Community Care Ltd

Notes to the Financial Statements

For the Year Ended 30 June 2023

NOTE 6 EMPLOYEE REMUNERATION AND BENEFITS

NOTE 6.1 PROVISIONS

Recognition and Measurement

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

Measurement of Short-Term and Long-Term Employee Benefits

Short-term employee benefits are those benefits that are expected to be settled within 12 months of the end of the reporting period, and are measured at their nominal values using the remuneration rate expected to apply at the time of settlement. They include wages and salaries that are expected to be settled within 12 months of the end of the reporting period.

Long-term employee benefits are those benefits that are not expected to be settled within 12 months, and are measured at the present value of the estimated future cash outflows to be made by the Company in respect of services provided by employees up to reporting date. They include annual leave and long service leave.

The present value of long-term employee benefits is calculated in accordance with AASB 119 *Employee Benefits*. Long-term employee benefits are measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date.

Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using interest rates on national high quality corporate bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

On-Costs

Employee benefit on-costs are recognised and included in employee benefit liabilities and costs when the employee benefits to which they relate are recognised as liabilities.

Superannuation

Contributions are made by the Company to various accumulation superannuation funds and are charged as expenses when incurred.

Provisions

Provisions are recognised when a legal or constructive obligation exists, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

Significant Estimate and Judgement – Measurement of Annual Leave and Long Service Leave Provisions

Annual leave and long service leave are measured at the present value of estimated future cash flows. These estimations require the use of key assumptions including discount rates, expected future pay increases and the probability of reaching and taking entitlements. These assumptions have been determined based on the policy disclosed in this note.

Mercy Aged & Community Care Ltd

Notes to the Financial Statements

For the Year Ended 30 June 2023

NOTE 6 EMPLOYEE REMUNERATION AND BENEFITS (Continued)

NOTE 6.1 PROVISIONS (Continued)

	2023	2022
	\$'000	\$'000
Current		
Employee Entitlements – Long Service Leave	12,957	12,819
Employee Entitlements – Annual Leave	18,406	18,870
Other Employee Entitlements	90	46
Total Current Provision for Employee Entitlements	31,453	31,735
Non Current		
Employee Entitlements – Long Service Leave	5,673	5,971
Total Non Current Provision for Employee Entitlements	5,673	5,971

The following assumptions were adopted in measuring present value:

The annual leave and long service leave provisions are measured at the present value of estimated future cash flows, discounted by between 5.16% and 5.76% (2022: 3.61% and 5.43%) being the interest rate applicable to various high quality corporate bonds. A 3.50% (2022: 3.50%) per annum rate of increase in employee wages and salary rates was assumed in the present value calculations.

NOTE 6.2 RESPONSIBLE PERSON RELATED DISCLOSURES

Board of Directors

The Directors of Mercy Aged & Community Care Ltd receives financial benefits in the form of salaries, fees and superannuation contributions for services provided.

Key Management Personnel

Key management personnel are persons who had authority and responsibility for planning, directing and controlling the activities of Mercy Aged & Community Care Ltd during the financial year.

The remuneration of the Company and key management personnel of Mercy Aged & Community Care Ltd during the year were as follows:

	2023	2022
	\$'000	\$'000
Directors	1,013	957
Management	5,130	6,590

Mercy Aged & Community Care Ltd

Notes to the Financial Statements

For the Year Ended 30 June 2023

NOTE 6 EMPLOYEE REMUNERATION AND BENEFITS (Continued)

NOTE 6.3 OTHER RELATED PARTY TRANSACTIONS

Mercy Aged & Community Care Ltd ("MACC") is the coordinating company originally established by the Institute of Sisters of Mercy of Australia and Papua New Guinea to oversee the operations of all of the health entities established as part of their health ministry. On 3 December 2021 Mercy Ministry Companions Ltd became the sole member of Mercy Health Australia, the parent company of Mercy Aged and Community Care Ltd. Mercy Ministry Companions Ltd is a company established by the Institute of Sisters of Mercy of Australia and Papua New Guinea, to which canonical and legal responsibility for the ministries of the Institute of Sisters of Mercy of Australia and Papua New Guinea was passed on that date.

Revenue

Other Related Parties

MACC received shared service fees from other entities within the health ministry totalling \$27,079,000 (2022: \$30,248,000).

Donation revenue received from related parties totalled \$26,000 (2022: \$680,000)

Trade and Other Receivables

Other Related Parties

At reporting date \$79,065,000 was receivable by way of an inter entity loans (2022: \$75,616,000).

Trade and Other Payables

Other Related Parties

MACC operates a central treasury function to maximise interest earnings throughout the health ministry. Short term deposits with the central treasury are characterised as advances and interest is payable on the balances at money market rates. At reporting date \$148,264,000 was advanced to MACC (2022: \$154,594,000). Interest is charged at a commercial floating rate of between 1.00% and 4.25% (2022: 0.25% and 1.0%), giving rise to interest expense of \$3,564,000 (2022: \$398,000).

Mercy Aged & Community Care Ltd

Notes to the Financial Statements

For the Year Ended 30 June 2023

NOTE 7 OTHER (Continued)

NOTE 7.1 RESERVES

	2023 \$'000	2022 \$'000
Financial Assets Reserve		
Financial Assets Reserve	(1,440)	(3,544)
Total Financial Assets Reserve	(1,440)	(3,544)

The Company has elected to recognise changes in the fair value of certain investments in financial assets in other comprehensive income. These changes are accumulated within the Financial Assets Reserve within equity. The Company transfers amounts from this reserve to accumulated surplus when the relevant securities are derecognised.

Resident Reserve	77	246
Total Resident Reserve	77	246

The resident reserve provides funding from Independent Living Unit residents for major maintenance expenditure within the retirement village.

Total Reserves	(1,363)	(3,298)
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NOTE 7.2 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

At the date of signing these financial statements, the Directors are not aware of any contingent assets or liabilities.

NOTE 7.3 AFTER REPORTING PERIOD EVENTS

On 31st August 2023, subsequent to year end, Mercy Aged and Community Care Ltd. executed an additional debt funding arrangement with CDF of \$22,000,000 for the construction of a residential Aged Care Facility. Mercy Health Property is the guarantor of this borrowing facility. The carrying amount of assets pledged as security for this borrowing is \$22,625,000.

No other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

NOTE 7.4 REMUNERATION OF AUDITORS

During the financial year the following fees were paid or payable for services provided by Grant Thornton Audit Pty Ltd, the auditor of the company.

	2023 \$'000	2022 \$'000
Audit of Financial Statements	233	189
Audit of COVID-19 Grant Submissions	88	77
	321	266

Grant Thornton Audit Pty Ltd

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Auditor's Independence Declaration

To the Directors of Mercy Aged and Community Care Limited

In accordance with the requirements of section 60-40 of the Australian Charities and Not-for-profits Commission Act 2012, as lead auditor for the audit of Mercy Aged and Community Care Limited for the year ended 30 June 2023, I declare that, to the best of my knowledge and belief, there have been no contraventions of any applicable code of professional conduct in relation to the audit.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



A C Pitts
Partner- Audit & Assurance

Melbourne, 10 October 2023

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Independent Auditor's Report

To the Members of Mercy Aged and Community Care Limited

Report on the audit of the financial report

Opinion

We have audited the financial report of Mercy Aged and Community Care Limited (the "Company") which comprises the statement of financial position as at 30 June 2023, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and the Directors' declaration.

In our opinion, the financial report of Mercy Aged and Community Care Limited has been prepared in accordance with Division 60 of the *Australian Charities and Not-for-profits Commission Act 2012*, including:

- a giving a true and fair view of the Company's financial position as at 30 June 2023 and of its financial performance for the year then ended; and
- b complying with Australian Accounting Standards *AASB 1060 General Purpose Financial Statements - Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* and Division 60 of the *Australian Charities and Not-for-profits Commission Regulation 2022*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Company in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's *APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Information Other than the Financial Report and Auditor's Report Thereon

The Directors are responsible for the other information. The other information comprises the information included in the Company's annual report for the year ended 30 June 2023, but does not include the financial report and our auditor's report thereon.

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

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the financial report

The Directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards – *AASB 1060 General Purpose Financial Statements - Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* and the ACNC Act, and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors are responsible for assessing the Company'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 Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for overseeing the Company's financial reporting process.

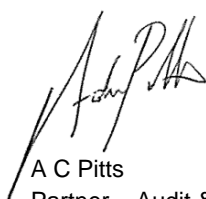
Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf. This description forms part of our auditor's report.

Grant Thornton

Grant Thornton Audit Pty Ltd
Chartered Accountants



A C Pitts
Partner – Audit & Assurance

Melbourne, 10 October 2023