MercyCare Limited

(ABN: 31 098 197 490)

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED

30 June 2022

CONTENTS

DIRECTORS' REPORT
for the year ended 30 June 2022

Directors
The names of the directors in office at any time during or since the end of the year are:

Mary Woodford (Chair)
Michael Kenyon (Deputy Chair)
Michael Heath
Lyn Jones (Appointed 28 October 2021)
Bryan Pyne
Margie Tannock (Appointed 28 October 2021)
Patrick Walsh (Appointed 25 January 2022)
Peter Mott (Appointed 17 May 2022)
Darren Cutri (Resigned 10 August 2021)
Glennda Scully (Resigned 28 October 2021)
Janice Stewart (Resigned 28 October 2021)

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

Meetings held/attended while in office

Name	Number of meetings held whilst a member	Number of meetings attended whilst a member
Mary Woodford (Chair)	6	6
Michael Kenyon (Deputy Chair)	6	5
Michael Heath	6	5
Lyn Jones	4	3
Bryan Pyne	6	5
Margie Tannock	6	5
Patrick Walsh	3	3
Peter Mott	1	1
Darren Cutri	2	2
Glennda Scully	2	2
Janice Stewart	2	1

Review of operations
The Group's operations for the financial year resulted in a total deficit of ($6,212,262) (2021: surplus $4,228,215). The result includes a non-cash amortisation charge against the Residential Aged Care Bed Licences of $4,233,333 (2021: Nil), a $278,898 unrealised loss on revaluation of the Deferred Management Fee liability related to Mercy Village residents (2021: $2m gain) and a loss of $1,721,403 (2021: $3,354,846 Gain) on the Group's investment portfolio reported for the period. Increased volatility within equity markets as a result of monetary tightening to reduce inflation and concerns around the Russia-Ukraine situation were the primary drivers of the negative impact to the Group's investment portfolio during the financial year. The JobKeeper payment which supported businesses affected by Covid-19 ceased in June 2021 and was not available to MercyCare during the financial year (2021: $7,695,380).

Impact of COVID-19

We have continued to see a significant COVID-19 impact on our business and financial performance as described below:

- The Group maintained strict infection control protocols across our operations and workplaces to ensure the well-being of our staff and contractors. Additional risk mitigation strategies were also implemented to ensure the continuity of operational service delivery throughout the Group.
- Continued reliance on agency services due to workforce availability and increased turnover has impacted results during the financial year. It is expected that the COVID-19 Aged Care Support Program will assist with the recovery of eligible expenditure incurred on managing direct impacts of COVID-19.
- The Pandemic has also impacted service utilisation across aged care due to staff shortages and clients opting to suspend services during peak outbreak periods. This was an industry wide challenge during the financial year.

Impact of changes resulting from new Residential Aged Care ("RAC") funding rules
Funding for RAC's will migrate from the current ACFI regime to the AN-ACC regime on 1 October 2022. Management continues to monitor and plan for the change, including assessment of revenue impacts, change in care requirements for residents and labour force requirements. No material adverse impacts to MercyCare's overall financial position are currently expected in the next 12 months as a result of the change based on preliminary analysis conducted internally, however management will continue to review over the next 12 months.

Principal activities
During the year ended 30 June 2022, the Group was involved in the provision of a variety of services including:

- Residential aged care
- Community and home support
- Family & community services
- Early learning services
- Retirement living
- Disability

Likely developments and expected results of operations
It is expected that the operations of the Group will continue in line with that of the current reporting period.

Subsequent events
On 2 August 2022, the Australian Government passed the Aged Care and Other Legislation Amendment (Royal Commission Response) Bill 2022 (the "Bill"). The Bill implements nine measures to improve aged care and responds to 17 recommendations of the Royal Commission into Aged Care Quality and Safety. The Bill establishes the Australian National Aged Care Classification ("AN-ACC") funding model, a new Code of Conduct and banning orders, and extends the Serious Incident Response Scheme to all in-home care providers. It also extends the functions of the Independent Health and Aged Care Pricing Authority, which will lead to better price-setting for aged care.

Other measures enshrine transparency and accountability of approved providers and improve quality of care and safety for older Australians receiving aged care services. A second piece of aged care legislation, the Aged Care Amendment (Implementing Care Reform) Bill 2022, was introduced on 27 July and is before the House of Representatives.

Other than those mentioned above, no matters or circumstances have risen since the end of the reporting period which significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

Environmental regulations
The Group's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory.

Dividends, shares, options and other interests
MercyCare Limited's constitution does not permit dividends to be paid and thus no dividends were paid or are recommended to be paid. Similarly, MercyCare Limited is a public company limited by guarantee and does not issue shares, options or other interests in the company. As a consequence, no shares, options or other interests were granted during or since the end of the year and no options were outstanding at the date of this report.

Indemnification and insurance of directors and officers
Directors' and Officers' Liability Insurance is held to cover a director for certain liabilities arising whilst acting as a director of the company. The wording of the policy prohibits disclosure of the nature of these liabilities and the amount of the premium.

Indemnification of auditors
To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young Australia, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

Legal proceedings
As part of the acquisition of the Belrose Care business, contingent consideration was agreed. The valuation of the cash payments payable to the ACK Proprietary Limited ("ACK") was contingent on the growth in refundable accommodation deposits across the two-year period ended 27 September 2018 as follows:

a) No additional cash payments was payable where the growth in refundable accommodation deposits is less than $2,000,000; and
b) An additional cash payment equal to 50 per cent of the growth in refundable accommodation deposits greater than $2,000,000, capped at a maximum amount payable of $6,000,000.

The Group has received advice from its external legal counsel that it is not probable that the action will succeed. The Group does not believe that the matter will be successful in a court of law and hence there has been no estimate made of potential costs or damages.

DIRECTORS' REPORT
for the year ended 30 June 2022

Auditor's Independence Declaration
A copy of the auditor's independence declaration as required by Subdivision 60-C of the *Australian Charities and Not-for-profits Commission Act 2012* is set out on page 7.

Signed in accordance with a resolution of the board of directors.

Director

6 October 2022

Director

DIRECTORS' DECLARATION
for the year ended 30 June 2022

In accordance with a resolution of the directors of MercyCare Limited ("the Group"), I state that in the opinion of the directors:

(a) the financial statements and notes of the Group are in accordance with the *Australian Charities and Not-for-Profits Commission Act 2012*, including:

   1. giving a true and fair view of the Group's financial position as at 30 June 2022 and of its performance for the year ended on that date; and

   2. complying with Australian Accounting Standards AASB 1060 – General Purpose Financial Statements - Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities and the Australian Charities and Not-for-Profits Commission Regulation 2013; and

(b) there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

On behalf of the Board of Directors,

Director M Woodford

Director

6 October 2022

Ernst & Young
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Auditor's independence declaration to the members of MercyCare Limited

In relation to our audit of the financial report of MercyCare Limited for the financial year ended 30 June 2022, and in accordance with the requirements of Subdivision 60-C of the *Australian Charities and Not-for-profits Commission Act 2012*, to the best of my knowledge and belief, there have been:

a. No contraventions of the auditor independence requirements of any applicable code of professional conduct; and

b. No non-audit services provided that contravene any applicable code of professional conduct.

Ernst & Young

Ernst & Young

J K Newton

J K Newton
Partner
6 October 2022

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 30 June 2022

Consolidated	Notes	2022 $	2021 $
Revenue	2.1	112,162,118	107,225,424
Other income	2.1	5,178,034	18,008,719
Profit on sale of non-current assets		43,639	-
Employee benefit expenses		(83,285,597)	(79,323,339)
Domestic expenses		(2,630,264)	(2,379,195)
General and administration expenses		(8,167,684)	(8,716,864)
Motor vehicle expenses		(722,012)	(610,764)
Occupancy expenses		(2,675,039)	(2,613,869)
Program expenses		(7,116,433)	(6,411,207)
Repairs and maintenance expense		(2,387,473)	(2,646,994)
Depreciation expense		(4,925,318)	(4,823,322)
Amortisation expense	3.3	(4,245,907)	(169,984)
Deferred Management fees		(278,898)	-
Reversal of impairment expense	3.1	-	1,270,000
Impairment expense	3.1, 3.3	-	(10,915,197)
Loss on disposal of property, plant and equipment		-	(22,309)
Operating surplus/(deficit)		**949,166**	**7,871,099**
Finance costs	2.2	(7,117,895)	(3,478,992)
Surplus/(deficit) before tax from continuing operations		**(6,168,729)**	**4,392,107**
Income tax expense	2.3	-	-
Surplus/(deficit) after tax from continuing operations		**(6,168,729)**	**4,392,107**
Deficit after tax for the year from discontinued operations	2.4	(43,533)	(163,892)
Other comprehensive income			
Unrealised gain on cash flow hedge reserve	5.6	-	-
Other comprehensive income for the year, net of tax		-	-
Total comprehensive surplus/(deficit)		**(6,212,262)**	**4,228,215**

This consolidated statement should be read in conjunction with the accompanying notes to the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 30 June 2022

Consolidated	Notes	2022 $	2021 $
ASSETS			
Current assets			
Cash and cash equivalents	4.1	25,390,427	27,619,926
Trade and other receivables	4.2	2,585,035	2,239,327
Prepayments	4.3	463,434	498,644
Financial assets at fair value through profit or loss	5.1	32,606,285	34,454,688
Assets Held For Sale	2.5	72,215	-
Total current assets		**61,117,396**	**64,812,585**
Non-current assets			
Prepayments	4.3	200,197	241,054
Property, plant and equipment	3.1	105,092,840	101,138,135
Investment properties	3.2	82,066,625	80,065,000
Intangible assets	3.3	18,633,327	22,967,112
Right-of-use assets	4.6	9,590,763	10,585,537
Total non-current assets		**215,583,752**	**214,996,838**
TOTAL ASSETS		**276,701,148**	**279,809,423**
LIABILITIES			
Current liabilities			
Trade and other payables	4.4	14,737,231	15,635,815
Provisions	4.5	8,331,517	8,178,874
Lease liabilities	4.6	509,536	704,942
Interest-bearing loans and borrowings	5.2	355,562	254,733
Other financial liabilities	5.3	130,382,515	125,757,970
Total current liabilities		**154,316,361**	**150,532,334**
Non-current liabilities			
Provisions	4.5	731,623	826,531
Lease liabilities	4.6	10,222,511	10,807,643
Interest-bearing loans and borrowings	5.2	16,000,000	16,000,000
Total non-current liabilities		**26,954,134**	**27,634,174**
TOTAL LIABILITIES		**181,270,495**	**178,166,508**
NET ASSETS		**95,430,653**	**101,642,915**
EQUITY			
Retained surplus		95,430,653	101,642,915
Cash flow hedge reserve	5.6	-	-
TOTAL EQUITY		**95,430,653**	**101,642,915**

This consolidated statement should be read in conjunction with the accompanying notes to the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 30 June 2022

Consolidated	Accumulated surplus $	Total equity $
At 1 July 2020	**97,414,700**	**97,414,700**
Surplus for the period	4,228,215	4,228,215
Other comprehensive income	-	-
At 30 June 2021	**101,642,915**	**101,642,915**
At 1 July 2021	**101,642,915**	**101,642,915**
Deficit for the period	(6,212,262)	(6,212,262)
Other comprehensive income	-	-
At 30 June 2022	**95,430,653**	**95,430,653**

This consolidated statement should be read in conjunction with the accompanying notes to the financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 30 June 2022

Consolidated	Notes	2022 $	2021 $
Operating activities			
Receipts from customers, inclusive of GST		41,267,672	38,267,229
Receipts of government contributions and subsidies		73,248,495	81,890,546
Payments to suppliers and employees, inclusive of GST		(106,609,077)	(101,804,953)
Receipts from fundraising activities and donations		3,362	114,848
Interest received		43,388	52,176
Interest paid		(1,163,227)	(1,214,881)
Net cash flows from operating activities		**6,790,613**	**17,304,965**
Investing activities			
Payment for the acquisition of property, plant and equipment		(10,971,598)	(11,375,633)
Payment for managed investment portfolio		-	(4,000,000)
Proceeds from withdrawal against managed investment portfolio		-	-
Proceeds from disposal of assets		2,603,220	3,019,262
Net cash flows used in investing activities		**(8,368,378)**	**(12,356,371)**
Financing activities			
Payment of principal portion of lease liabilities		(713,412)	(563,476)
Repayment of refundable accommodation deposits		(19,190,842)	(14,030,633)
Receipt of refundable accommodation deposits		19,252,520	17,622,797
Net cash flows from/(used in) financing activities		**(651,734)**	**3,028,688**
Net increase/(decrease) in cash and cash equivalents		**(2,229,499)**	**7,977,282**
Cash and cash equivalents at 1 July 2021		27,619,926	19,642,644
Cash and cash equivalents at 30 June 2022	4.1	**25,390,427**	**27,619,926**

This consolidated statement should be read in conjunction with the accompanying notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS
SECTION ONE: ABOUT THIS REPORT

Corporate information:

MercyCare Limited ("the Parent") and its subsidiaries listed in Note 6.1 of the financial statements (collectively, "the Group") is a not-for-profit Group limited by guarantee, incorporated and domiciled in Australia. The registered office is located at Ord Street, West Perth, Western Australia.

The nature and principal activities of the Group were the provision of residential aged care, community aged care, retirement living, disability support, child day care and fostering services.

The financial statements were authorised for issued in accordance with a resolution of the Board of Directors on 6 October 2022.

Statement of compliance:

The financial report is a general-purpose financial report, which was prepared in accordance with the requirements of the *Australian Charities and Not-for-Profit Commission Act 2012*, Australian Accounting Standards – Simplified Disclosures and other authoritative pronouncements of the Australian Accounting Standards Board. The Group is a not-for-profit, private sector Group which is not publicly accountable. Therefore, the consolidated financial statements for the Group are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards – Simplified Disclosure Requirements ("AASB – SDRs").

The accounting policies are consistent with those disclosed in the Financial Report 2022, except for the impact of all new and amended standards and interpretations. The adoption of these standards and interpretations did not result in significant changes to the Group's accounting policies, other than as disclosed below.

Basis of preparation:

The financial report was prepared on a historical cost basis, except for investment properties, financial assets at fair value through profit or loss and interest rate derivatives, which are measured at fair value.

The Board of Directors of Mercy Care Limited, has resolved that, whilst the issue of control is not entirely clear, Mercy Human Services Limited, Mercy Community Services Limited and Mercy Hospital Mount Lawley Limited, share common goals and outcomes. The Board decided that, in the interests of providing full and open information to members, the financial statements would be prepared on a consolidated basis.

Currency:

The functional and presentation currency of the Group is Australian dollars.

Basis of consolidation:

The financial statements comprise the financial results of the Group and its subsidiaries as at 30 June each year. Subsidiaries are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date at which the Group ceases to have control.

The financial statements of subsidiaries are prepared for the same reporting period as the Parent, using consistent accounting policies. All intercompany balances and transactions, including unrealised profits and losses arising from intra-group transactions, were eliminated in full.

Comparative information:

The consolidated financial statements provide comparative information in respect of the previous period. The re-classification of items in the financial statements of the previous period was made in accordance with the classification of items in the financial statements of the current period.

Impact of COVID-19

The Group has considered the potential impact of the COVID-19 pandemic in the significant accounting judgements, estimates and assumptions. However, as these are subject to increased uncertainty the actual outcomes may differ from the estimates.

Going concern:

The financial statements were prepared on a going concern basis; notwithstanding, the Group has a net current asset deficiency position of $93,198,965 as at 30 June 2022 (2021: $85,719,749) based on the following considerations.

The net current asset deficiency arises due to the classification of refundable accommodation deposits, accommodation bonds and independent living unit entry contributions as a current liability in compliance with AASB 101 *Presentation of Financial Statements* due to the absence of an unconditional right to defer settlement of those liabilities for at least twelve months following balance date.

However:

1. In practice, refundable accommodation deposits and accommodation bonds that are repaid to an outgoing resident are replaced by another refundable accommodation deposit by an incoming resident within a short time-frame.
2. In practice, as resident loans less applicable deferred facilities fees for outgoing residents are paid at the time of settlement for incoming residents, the cash inflow will always exceed the cash outflow to the departing resident.
3. The Group has positive operating cash flows.

Current versus non-current classification:

The Group presents assets and liabilities in the statement of financial position based on a current and non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period; or,
- Cash or cash equivalent, unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or,
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

NOTES TO THE FINANCIAL STATEMENTS
SECTION ONE: ABOUT THIS REPORT

Key estimates and judgements:

In applying the Group's accounting policies, management continually evaluates judgements, estimates and assumptions based on experience and other factors, including expectations of future events that may have an impact on the Group.

All judgements, estimates and assumptions made are believed to be reasonable based on the most current set of circumstances known to management. Actual results may differ from those judgements, estimates and assumptions.

Significant judgements, estimates and assumption made by management in the preparation of these financials are found in the following notes:

NOTES TO THE FINANCIAL STATEMENTS
SECTION TWO: CURRENT PERFORMANCE

2.1 REVENUE AND OTHER INCOME

Consolidated	2022 $	2021 $
Revenue		
Government contributions	74,645,099	72,722,586
Service user fees	37,517,019	34,502,838
	112,162,118	**107,225,424**
Other income		
Interest income	57,081	50,474
Investment income	1,739,687	980,066
Donations	3,362	114,848
JobKeeper subsidy	-	7,695,380
Deferred management fee	-	1,980,462
Revaluation gain on re-measurement to fair value	-	3,354,846
Income on RADs and Bonds	2,378,539	2,264,111
Other	999,365	1,568,532
	5,178,034	**18,008,719**

Revenue by reportable segment

	2022 $	2021 $	2022 $	2021 $
Revenue	**Government contributions**	**Government contributions**	**Service user fees**	**Service user fees**
Residential aged care	28,569,127	27,948,008	9,843,181	9,573,685
Early learning services	79,766	1,463,979	25,655,351	22,886,200
Community and home support	24,014,619	21,643,023	851,059	960,999
Family and community services	19,919,421	19,517,374	564,523	507,543
Disability	2,062,166	2,150,202		-
Retirement village	-	-	602,906	574,411
	74,645,099	**72,722,586**	**37,517,020**	**34,502,838**

Recognition and measurement

Revenue from contracts with customers is recognised when control of the goods or services is transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services, and when the performance obligations for each different activity have been met. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duties. The specific recognition criteria below must also be met before revenue is recognised:

- **Government contributions**

  The Group's programs are supported by contributions from the Commonwealth. Revenue will be recognised over time as services are delivered with any balance unearned recognised on the balance sheet to the extent of future delivery of contracted services. Management calculates the provision for unspent grants with regards to the service delivery of contracted services across the period. Pursuant to the terms of the grant arrangement, the Government may request a refund for unspent grants where there has been an under provision of service. A provision for unspent grants is carried as a liability on the balance sheet.

- **Rendering of services**

  Revenue from the provision of services is recognised on the date of delivery of those services to the recipient. Fees charged for care or services provided to clients are recognised when the service is provided.

- **Interest income**

  Interest income is recognised on an accrual basis using the effective interest rate method ("EIR"). The EIR is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a short period, where appropriate, to the net carrying amount of the financial asset.

- **JobKeeper subsidy**

  The Group recognises revenue in respect of JobKeeper on the earlier of the receipt of cash from the Government or when the eligibility criteria attached to the JobKeeper subsidy payment is met. JobKeeper subsidy recognised in FY22 is $Nil (2021: $7,695,380).

- **Donations**

  Donations collected are recognised as income when the Group gains control, economic benefits are probable and the amount of the donation may be measured reliably.

- **Investment income**

  Investment income is recognised when the right to receive the payment is established.

- **Income on RADs and Bonds**

  The Entity recognises revenue is respect of the interest free loan financing benefit received on RADs and Bonds.

Key judgement: Deferred management fee

Deferred management fees are recognised on a straight-line basis across the expected tenure of the resident of an independent living unit. Deferred management fees are calculated on a percentage of the fair value of the retirement village. Triennially, fair values are determined based on an independent market valuation performed by an accredited external independent. In preceding reporting periods, fair values are determined using a desktop valuation based on prior year property valuations conducted by Property Valuation & Advisory (WA), an accredited valuer. The turnover of existing residents has been estimated by using historical turnover information. A 3.36% (2021: 0.77%) discount rate is used based on the Commonwealth Government Securities five-year bond rate. The five-year bond rate most closely reflects the estimated average remaining length of stay. No risk premium is applied to the discount rate as the deferred management fees are subtracted from the entry contributions already paid by the residents.

2.2 FINANCE COSTS

Consolidated	2022 $	2021 $
Interest expense on secured interest-bearing loans	443,582	464,830
Net loss on financial assets at fair value through profit and loss	3,588,089	-
Interest charge on RADs and Bonds	2,366,639	2,264,111
Interest expense on lease liability (Note 4.6)	719,585	750,051
	7,117,895	**3,478,992**

2.3 INCOME TAX EXPENSE

No provision for income taxes was recognised by the Group, which is exempt from income tax under Division 40 of the *Income Tax Assessment Act 1997.*

2.4 DISCONTINUED OPERATIONS

On 5 May 2014, the hospital business and its business assets were sold to St. John of God Health Care Inc. Thereafter, the operations of the hospital business was classified as a discontinued operation. The results of the hospital business for the current and prior years are presented below:

Consolidated	2022 $	2021 $
Deficit after tax from discontinued operations	**(43,533)**	**(163,892)**

The net cash flows incurred by the hospital business are as follows:

Consolidated	2022 $	2021 $
Operating	(43,533)	(163,892)
Net cash outflow	**(43,533)**	**(163,892)**

Recognition and measurement:

A disposal group qualifies as a discontinued operation if it is a component of a Group that either has been disposed of, or classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations;
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical operations; or
- Is a subsidiary acquired exclusively with a view to resale.

Discontinued operations are excluded from the results for continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of profit or loss and comprehensive income.

2.5 NON-CURRENT ASSETS HELD FOR SALE

The Group classifies non-current assets as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable, and the asset is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Property, plant and equipment are not depreciated or amortised once classified as held for sale. Assets and liabilities classified as held for sale are presented separately as current items in the statement of financial position.

At 30 June 2022, the balance of $72,215 (2021: $Nil) for assets held for sale relates to the sale of Merriwa Early Learning Centre.

.Consolidated	2022	2021
	$	$
Deficit after tax from assets held for sale	**(42,434)**	-

The net cash flows incurred by Merriwa Early Learning Centre are as follows:

Consolidated	2022	2021
	$	$
Operating	**(42,434)**	-
Net cash outflow	**(42,434)**	-

The Statement of Financial Position of Merriwa Early Learning Centre for the current year are presented below:

Assets	2022	2021
	$	$
Trade Receivables	**12,675**	-
Prepayments	**438**	-
Fair Value of Assets	**19,245**	-
Goodwill	**87,878**	-
Right of use asset	**13,753**	-
	133,989	-
Liabilities		
Trade Creditors	2,172	-
Salaries and wages payable	18,533	-
Annual leave provision	13,670	-
Long Service leave provision	4,061	-
Unearned income	3,855	-
Other Payables	1,121	-
Lease Liability	18,362	-
	61,774	-
Total Assets Held for Sale	**72,215**	-

NOTES TO THE FINANCIAL STATEMENTS
SECTION THREE: GROWTH ASSETS

3.1 PROPERTY, PLANT AND EQUIPMENT

Consolidated	Land and buildings	Computer equipment	Plant and equipment	Work-in-progress	Motor vehicles	Total
	$	$	$	$	$	$
Cost or valuation						
At 1 July 2021	**110,524,240**	**5,702,482**	**5,089,859**	**3,618,413**	**3,187,153**	**128,122,147**
Additions	3,630,803	-	575,546	3,325,588	2,684,249	10,216,186
Disposals	-	-	-	(225,871)	(2,333,710)	(2,559,581)
Assets Transferred to Held for Sale	(17,070)	-	(2,175)	-	-	(19,245)
At 30 June 2022	**114,137,973**	**5,702,482**	**5,663,230**	**6,718,130**	**3,537,692**	**135,759,507**
Depreciation and impairment						
At 1 July 2021	**(18,071,086)**	**(4,952,587)**	**(3,276,103)**	**-**	**(684,236)**	**(26,984,012)**
Depreciation charge for the year	(2,776,460)	(298,867)	(506,332)	-	(349,262)	(3,930,921)
Disposals	-	-	-	-	248,266	248,266
Impairment Reversal	-	-	-	-	-	-
At 30 June 2022	**(20,847,546)**	**(5,251,454)**	**(3,782,435)**	**-**	**(785,232)**	**(30,666,667)**
Net book value						
At 1 July 2021	**92,453,154**	**749,895**	**1,813,756**	**3,618,413**	**2,502,917**	**101,138,135**
At 30 June 2022	**93,290,427**	**451,028**	**1,880,795**	**6,718,130**	**2,752,460**	**105,092,840**

Key judgement: Impairment of freehold land and buildings and right of use assets

The Group exercises its judgement in considering the active market prices of transactions for properties of similar nature, location and condition to determine the fair value of freehold land and buildings.

Recognition and measurement

Work-in-progress is stated at cost, net of accumulated impairment losses, if any. Plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses. Such costs include the cost of replacing part of the plant and equipment. When a major inspection is performed, the cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are expensed to profit or loss as incurred.

Freehold land and buildings are measured at cost less accumulated depreciation and impairment losses recognised after the date of revaluation.

Valuations are usually performed triennially or where a significant movement is identified to ensure that the carrying amount of the asset does not differ materially from its fair value. The fair value of freehold land and buildings were determined using the income and market comparable methods.

For the year ended 30 June 2022, desktop valuations were performed based on prior year property valuations conducted by Property Valuation & Advisory (WA), an accredited valuer. Their valuations were based on proprietary databases of active market prices of transactions for properties of similar nature, location, and condition. As a result of the valuation, a net impairment reversal of $Nil (2021: $514,588) was recognised in profit or loss.

Depreciation and de-recognition

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

- **Buildings:** 4 to 40 years
- **Computer equipment:** 3 to 7 years
- **Plant and equipment:** 3 to 10 years
- **Furniture and fittings:** 5 to 15 years
- **Motor vehicles:** 0 to 8 years

An item of property, plant and equipment is de-recognised on disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on the disposal of an asset, calculated as the difference between the net disposal proceeds and the carrying amount of the asset, is recognised in profit or loss.

Assets under construction

Property, plant and equipment under construction is included within 'capital work in progress'. Capital expenditure incurred in the course of development activities is carried at cost, less any recognised impairment loss. Cost includes construction costs, professional fees, internal wage expenses directly attributable to the development activities and, for qualifying assets borrowing costs capitalised in accordance with the Group's accounting policy (refer Note 3.1). Upon completion, the asset is reclassified as land and buildings, plant and equipment, or fixtures and fittings as applicable. During the year, the Group completed refurbishments. Such projects are short-term in nature. On completion, the cost of the asset is classified within plant and equipment or fixtures and fittings.

Key judgement: Useful life of depreciable assets

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year and adjusted prospectively based on the expected utility of the assets.

Key judgement: Capitalisation of configuration and customisation costs for cloud computing arrangements

The Group's accounting policy in respect of SaaS arrangements are as follows:

- Where the underlying service arrangement includes an intangible asset, costs incurred to configure or customise the underlying software of the cloud computing arrangement are generally considered to be directly attributable costs of preparing the asset for its intended use and are capitalised.
- Where the underlying SaaS arrangement is a service agreement, the Entity assesses if customisation or configuration costs result in the creation of a resource which is identifiable, and whether the Entity has the power to obtain the future economic benefits flowing from the underlying resource, and ability to restrict the access of others to those benefits. In such circumstances, costs are recognised as a separate intangible software asset and amortised over the useful life of the software on a straight-line basis. In all other circumstances, costs are recognised as an expense when the supplier provides the services.

3.2 INVESTMENT PROPERTIES

Consolidated	2022 $	2021 $
Opening balance at 1 July	80,065,000	73,413,000
Gain/(loss) from fair value re-measurement	2,001,625	6,652,000
Closing balance at 30 June	**82,066,625**	**80,065,000**

Investment properties relates to the Mercy Village retirement centre, which comprises of 118 independent living units ("ILUs").

The Group owns 112 ILUs. The remaining 6 ILUs are owned by the Sisters of Mercy Order, which will freely vest to the Group on 30 June 2082 or earlier, if requested by the Sisters of Mercy Order.

At 30 June 2022, the fair values of the ILUs were determined by way of an internal desktop valuation. This was informed by the 2021 external valuation performed by Property Valuation & Advisory (WA), an accredited independent valuer.

As a result of the valuation, the re-measurement of the Mercy Village retirement centre to fair value resulted in a gain of $2,001,625 (2021: $6,652,000). The fair value re-measurement resulted in an identical adjustment to the carrying amount of the independent living unit entry contributions; accordingly, the net impact of the changes in fair value of the Mercy Village retirement centre and the independent living unit entry contributions in profit or loss is nil.

The Group has no restrictions on the realisability of its investment properties and no contractual obligations to purchase, construct or develop investment properties or for repairs, maintenance and enhancements.

Recognition and measurement

Investment properties are initially measured at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date.

Fair values are determined based on a triennial valuation performed by an accredited external independent valuer applying a valuation model recommended by the International Valuation Standards Committee. A market desktop appraisal is performed by an accredited independent valuer for the intervening years.

Key judgement: Investment properties:

The Group exercises its judgement in considering the active market prices of transactions for properties of similar nature, location and condition to determine the fair value of freehold land and buildings.

NOTES TO THE FINANCIAL STATEMENTS
SECTION THREE: GROWTH ASSETS

3.3 INTANGIBLE ASSETS

Consolidated	Bed Licences	Customer List	Goodwill	Total
	$	$	$	$
Cost				
At 30 June 2021	12,700,000	509,953	41,656,200	54,866,153
Additions	-	-	-	-
Assets Transferred to held for sale	-	-	(87,878)	(87,878)
At 30 June 2022	**12,700,000**	**509,953**	**41,568,322**	**54,778,275**
Amortisation and impairment				
At 1 July 2021	-	**(497,378)**	**(31,401,662)**	**(31,899,040)**
Amortisation	(4,233,333)	(12,575)	-	(4,245,908)
Impairment charge	-	-	-	-
At 30 June 2022	**(4,233,333)**	**(509,953)**	**(31,401,662)**	**(36,144,948)**
Net book value				
At 1 July 2021	12,700,000	12,575	10,254,538	22,967,113
At 30 June 2022	**8,466,667**	**-**	**10,166,660**	**18,633,327**

Bed licenses

Bed licenses acquired as part of a business combination are measured at fair value on the date of acquisition. Bed licenses are subsequently measured at cost less any accumulated impairment losses.

In 2017 MercyCare recognised bed licenses ($12,700,000) on acquisition of Belrose Care. From 1 July 2024 Residential Aged Care bed licence allocations are being deregulated by the Federal Government and the intangible will carry no value after that date. As a result of this decision, straight-line amortisation of the bed licences has been adopted. Therefore, as at 30 June 2022 amortisation of $4,233,333 (2021: $Nil) has been recognised in the profit or loss against bed licences relating to the residential aged care ("RAC") cash-generating unit ("CGU").

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the identifiable net assets acquired. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not subject to amortisation and tested annually for impairment or more frequently if events or changes in circumstances indicate that that goodwill may be impaired. An impairment loss is recognised for the amount by which the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset is the higher of its value in use and fair value less costs of disposal.

For the year ended 30 June 2022, no impairment expense (2021: $10,159,785) was recognised in profit or loss against Goodwill relating to the Residential Aged Care ("RAC") cash-generating unit ("CGU"). Early Learning Services ("ELS") also carries Goodwill ($5,649,253m), which remained unimpaired as at 30 June 2022.

Customer list

Customer lists acquired as part of a business combination are measured at fair value at the date of acquisition. Following initial recognition, customer lists are carried at cost less any accumulated amortisation and accumulated impairment losses.

Customer Lists have a finite life; therefore, customer lists are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The Group has assessed the useful life as three years in consideration to the expected turnover of customers, which best reflects the consumption of future economic benefits.

Therefore, as at 30 June 2022 amortisation of $12,575 (2021: $169,984) has been recognised in the profit or loss against customer list.

Impairment testing of intangible assets

For the purpose of assessing for impairment, intangible assets are allocated to CGUs, which are the lowest levels of the group monitored for internal management purposes. Management assessed that the Group is comprised of two CGUs, being (1) Residential Aged Care ("RAC") and (2) Early Learning Services ("ELS"). Intangible assets are allocated to those CGUs that are expected to benefit from the acquisition against which bed licenses, goodwill or customer lists arose.

The value in use calculations are based on discounted cash flow models. The cash flows are derived from the budget for the next five years, including the period impacted by the COVID-19 pandemic, and do not include restructuring activities that the Group is not yet committed to or significant future investments intended to enhance the performance of the assets of the CGUs being tested. The recoverable amount is sensitive to the discount rate used for the discounted cash flow model, future expected cash in-flows and the terminal value growth rate used for extrapolation purposes. Significant assumptions used in the impairment model testing are inherently subjective and in times of economic uncertainty caused by the COVID-19 pandemic, the degree of subjectivity is higher than it might otherwise be.

Impairment losses from continuing operations are recognised in profit or loss. No impairment expense has been recognised in FY22.

Key judgement: Impairment of non-current assets

The key assumptions used in assessing the recoverable amount of the Residential Aged Care ("RAC") and Early Learning Services ("ELS") CGUs include:

(a) Post-tax discount rate;

(b) Growth rate;

(c) Growth rate in refundable accommodation deposits (RAC only); and

(d) Terminal value growth rate.

4.1 CASH AND CASH EQUIVALENTS

Consolidated	2022 $	2021 $
Cash at bank and on hand	8,031,891	7,209,085
Cash on short term deposit	13,100,000	16,449,877
Restricted cash	4,258,536	3,960,964
	25,390,427	**27,619,926**

Recognition and measurement

Cash and cash equivalents in the consolidated statement of financial position comprise cash at bank and short-term deposits with an original maturity of four months or less.

Restricted cash relates to the refundable accommodation deposits which may only be used for specific purposes, as set out in section 57.17A of the *Aged Care Act 1997*. Restricted cash also includes donated funds, which may only be used for the purposes specified by the donor at the time of the donation.

Cash flows included in the consolidated statement of cash flows are on a gross basis. The GST component of cash flows arising from investing and financing activities, which are recoverable from, or payable to, the Australian taxation Office, are classified as financing cash flows.

Restricted Cash

The Group holds bank guarantees of $428,993 (2021: $428,993) as deposits for leased properties.

4.2 TRADE AND OTHER RECEIVABLES

Consolidated	2022 $	2021 $
Trade receivables	812,456	727,307
Allowance for expected credit losses	(82,352)	(20,307)
Other receivables	1,570,308	1,049,932
Accrued income	263,088	474,552
Accrued interest	21,536	7,843
	2,585,036	**2,239,327**

Recognition and measurement

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost, less an allowance for expected credit losses.

Trade receivables are non-interest bearing with settlement terms of between 14 to 40 days.

Fair value

Due to the short-term nature of these receivables, the carrying amount is assumed to approximate their fair value.

Allowance for expected credit losses

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. For trade receivables, the Group applies a simplified approach in calculating ECLs. The Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Bad debts are written-off when identified. Subsequent recoveries of bad debts previously written-off are credited against general and administration expenses in consolidated statement of profit or loss and other comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS
SECTION FOUR: OPERATING ASSETS AND LIABILITIES

4.3 PREPAYMENTS

Consolidated	2022 $	2021 $
Prepayments	**663,631**	**739,698**
Current	463,434	498,644
Non-current	200,197	241,054

4.4 TRADE AND OTHER PAYABLES

Consolidated	2022 $	2021 $
Trade creditors	1,699,268	2,055,458
Salaries and wages payable	2,308,151	2,295,137
Unearned income	9,194,285	10,246,121
Other payables	1,535,527	1,039,099
	14,737,231	**15,635,815**

Recognition and measurement

Liabilities for trade and other payables are initially recognised at fair value when goods and services are receipted, whether or not billed to the Group, prior to the end of the reporting period.

Trade and other payables are subsequently measured at amortised cost. Amounts are non-interest bearing with settlement terms of 30 days, on average.

Fair value

Due to the short-term nature of these payables, the carrying amount is assumed to approximate their fair value.

Unearned income

The liability for unearned income is the unutilised amount of grants received on the condition that specified services are delivered or conditions are fulfilled. Ordinarily, the services are provided, or the conditions are satisfied within twelve months on the receipt of the grant contributions.

Where the amount received is in respect of services to be provided over a period that exceeds twelve months after the reporting date or the conditions will only be satisfied more than twelve months after the reporting date, the liability is discounted and presented as non-current in the consolidated statement of financial position.

The movement in unearned income is as follows:

Consolidated	Total $
At 1 July 2021	**10,246,121**
Arising	(33,716,864)
Utilised	32,665,028
At 30 June 2022	**9,194,285**
Current	9,194,285
Non-current	-

Key judgements: Unearned income

Management requires judgement to determine key assumptions used in evaluating whether performance criteria attached to a service arrangement were satisfied and the likelihood that the Commonwealth would request a refund, partially or in full, for unspent grant contributions.

NOTES TO THE FINANCIAL STATEMENTS
SECTION FOUR: OPERATING ASSETS AND LIABILITIES

4.5 PROVISIONS

Consolidated	Annual leave $	Long service leave $	Medical malpractice $	Other $	Total $
At 1 July 2021	**4,946,827**	**3,926,640**	**128,426**	**3,512**	**9,005,405**
Arising	3,684,043	19,858	-	-	3,703,901
Utilised or reversed	(3,457,456)	(169,163)	(16,222)	(3,331)	(3,646,172)
At 30 June 2022	**5,177,474**	**3,773,275**	**112,204**	**181**	**9,063,134**
Current	5,177,474	3,041,839	112,204	-	8,331,517
Non-current	-	731,442	-	181	731,623

Recognition and measurement

Provisions are recognised when the Group has a present obligation, legal or constructive, as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate may be made of the amount of the obligation.

When the Group expects some or all of the provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense related to any provision is recognised in profit or loss net of any reimbursement.

Employee entitlements

Provision is made for employee benefits accumulated as a result of employee rendering services up to the end of the reporting period. These benefits include wages, salaries, annual leave and long-service leave.

Liabilities in respect of employees' services rendered that are not expected to be wholly settled within one year after the end of the reporting period in which the employees render the related services are recognised as long-term employee benefits.

These liabilities are measured at the present value of the estimated future cash outflow to be made to the employees using the projected unit cost method. Liabilities expected to be wholly settled within one year after the end of the reporting period in which the employees render the related services are classified as short-term benefits and measured at the amount due to be paid.

Key judgments: Provision for long-service leave

Long service leave is measured at the present value of the benefits accumulated up to the end of the reporting period. The liability is discounted using an appropriate discount rate. Management requires judgement to determine key assumptions used in the calculation of future increases in salaries and wages, future on-cost rates and future settlement dates of employees' departures.

Key assumptions when entered into the calculation of the provision for long service leave included:

- Discount rate of 3.61%-5.26% per cent (2021:0.18%-2.66% per cent)
- Expected future increases in salaries and wages of 2.5% per cent (2021: 2.5% per cent).

Medical malpractice

Provision is made for the expected deductibles arising under the combined liability insurance policy for medical malpractice claims against the Group.

The measurement of these liabilities is informed by the judgement of external legal counsel as to whether the likelihood that a claim against the Group would be successful and the quantum of expected legal costs and damages, if any.

NOTES TO THE FINANCIAL STATEMENTS
SECTION FOUR: OPERATING ASSETS AND LIABILITIES

4.6 LEASES

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period:

Consolidated	2022 $	2021 $
Opening balance at 1 July	10,585,537	11,514,165
Additions	-	-
Depreciation	(994,396)	(982,204)
Asset Held for Sale	(13,753)	-
Variable lease payments reassessment	13,375	53,576
Closing Balance at 30 June	**9,590,763**	**10,585,537**
Current	-	-
Non-current	9,560,763	10,585,537

Set out below are the carrying amounts of lease liabilities recognised and the movements during the period:

Consolidated	2022 $	2021 $
Opening balance at 1 July	11,512,585	12,028,824
Additions	-	-
Accretion of interest	719,585	750,051
Variable lease payments reassessment	(48,763)	47,237
Payments	(1,432,998)	(1,313,527)
Asset Held for Sale	(18,362)	-
Closing Balance at 30 June	**10,732,047**	**11,512,585**
Current	509,536	704,942
Non-current	10,222,511	10,807,643

Recognition and measurement

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

i) Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

- Land and buildings 4 to 21 years.

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are also subject to impairment. Refer to the Impairment of freehold land and buildings and right of use assets at Note 3.1

ii) Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

iii) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of residential housing for migrants (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Key judgments: Lease term

The Group has several lease contracts that include extension options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew.

Key judgments: Incremental borrowing rate

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain Group-specific estimates.

Maturity analysis

Presented below is a maturity analysis of future lease payments:

	2022	2021
	$	$
Not later than 1 year	1,263,059	1,416,688
Later than 1 year and not later than 5 years	4,604,010	4,984,619
Later than 5 years	10,784,299	11,396,504
	16,651,368	17,797,811

The amount of expense relating to short-term leases and leases of low-value assets recognised in profit or loss during the year ended 30 June 2022 was $189,403 (2021: $364,610)

5.1 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Consolidated	2022 $	2021 $
Opening balance at 1 July	34,454,688	26,119,776
Contributions	-	4,000,000
Withdrawals	-	-
Gain/(loss) on measurement to fair value	(3,588,089)	3,354,846
Investment income	1,739,686	980,066
Closing balance at 30 June	**32,606,285**	**34,454,688**

Recognition and measurement

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held-for-trading if their acquisition is for the purpose of selling or repurchasing in the near term.

Financial assets at fair value through profit or loss are initially recognised and subsequently re-measured in the consolidated statement of financial position at fair value.

Negative net changes in fair value are presented as finance costs and positive net changes in fair value are presented as income in profit or loss.

5.2 INTEREST-BEARING LOANS AND BORROWINGS

Consolidated	2022 $	2021 $
Bank overdrafts	355,562	254,733
Secured interest-bearing loan	16,000,000	16,000,000
Closing balance at 30 June	**16,355,562**	**16,254,733**
Current	355,562	254,733
Non-current	16,000,000	16,000,000

The Group has a $30,000,0000 (2021: $40,000,000) cash advance facility agreement with the Commonwealth Bank of Australia. The facility agreement was reduced by $10,000,000 in Feb 2022. The interest rate on the facility agreement is equal to the 30-day Bank Bill Swap Bid Rate ("BBSY"), plus a margin of 1.00 per cent. The cash advance facility matures in May 2024. The undrawn amount as at 30 June 2022 is $14,000,000.

The cash advance facility is secured by way of a registered first mortgage held by the Commonwealth Bank of Australia over land and buildings of Mercy Human Services Limited.

During the current and prior years, there were no defaults or breaches against the secured interest-bearing loan.

Recognition and measurement

At initial recognition, interest-bearing loans are recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included as a finance cost in profit or loss.

Fair value

The carrying amount of interest-bearing loans is materially the same as their fair value.

5.3 OTHER FINANCIAL LIABILITIES

Consolidated	2022	2021
	$	$
Refundable accommodation deposits	59,160,933	59,099,255
Independent living unit entry contributions	71,213,452	66,638,627
Other client bonds	8,130	20,088
	130,382,515	**125,757,970**

Refundable accommodation deposits

A refundable accommodation deposit ("RAD") is a non-interest bearing deposit paid or payable to an approved provider by a resident for the provision for accommodation in a residential aged care facility. Bond deposits may be reduced by an annual retention charged in accordance with the *Aged Care Act 1997*. Prior to 1 July 2014, lump-sum refundable accommodation deposits were referred to as accommodation bonds.

RADs are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method. Due to the short-term nature of RADs, their carrying amount is assumed to approximate their fair value.

Prior to 1 July 2014, accommodation bonds were not payable by residents paying a high care accommodation payment. From 1 July 2014, under the Living Longer Better reforms, residents may elect to pay a lump-sum refundable accommodation deposits, a daily accommodation payment ("DAP") or a combination of both.

Accommodation bond balances are reduced by an annual retention fee charged in accordance with the *Aged Care Act 1997*. However, retention fees are not applicable to refundable accommodation deposits recognised subsequent to 1 July 2014.

RAD refunds payable to a departing resident or their estate are guaranteed by the Federal Government. In addition, the Group is required to have sufficient liquidity to ensure expected RAD refunds may be settled as and when they fall due in the following 12 months. The Group is also required to implement and maintain a liquidity management strategy.

There is no unconditional right to defer the settlement of a RAD refund payable to the departing resident or their estate for more than 12 months; therefore, RADs are recorded as current liabilities.

Independent living unit entry contributions

Entry contributions relate to independent living units ("ILUs") related to the Mercy Village retirement centre. ILUs contributions are non-interest bearing and are recognised at fair value through profit or loss, with resulting fair value adjustments recognised in profit or loss. The fair value is the amount payable on demand and is measured as the market value of the occupied ILU, less deferred management fees accrued to balance date.

Entry contributions presented on the face of the consolidated statement of financial position are inclusive of the residents' share of increases or decreases in the market value of the ILU to balance date and net of accrued deferred management fees owed by the residents. Deferred management fees are deducted against the entry contribution on repayment following the residents' departure. Entry contributions are settled after a resident vacates the property and on the terms and conditions governed by the *Retirement Village Act 1992*.

The composition of independent living unit entry contributions is as follows:

Consolidated	2022	2021
	$	$
Gross independent living unit entry conditions	82,066,625	80,065,000
Deferred management fee receivable	(10,853,174)	(13,426,373)
	71,213,451	**66,638,627**

Refer to Note 3.2 "Investment properties" for commentary on the movement in the fair value of the Mercy Village retirement centre.

5.4 COMMITMENTS

	2022	2021
	$	$
Capital expenditure commitments		
Contractual commitments for construction activities		
Within one year	16,840,556	**1,358,599**
After one year but more than five years	10,528,103	-
More than five years	-	-
	27,368,659	**1,358,599**
Operating lease expenditure commitments		
Minimum lease repayments:		
Within one year	64,310	24,108
After one year but more than five years	-	-
More than five years	-	-
	64,310	**24,108**
Total commitments	**27,432,969**	**1,382,707**

5.5 CONTINGENCIES

Contingent liabilities relate to actual or potential claims of the Group that have arisen in the ordinary course of business, the outcome of which cannot be foreseen at present and for which no amounts are provided for in the consolidated statement of financial position. In addition to the contingencies, Bank Guarantees relating to restricted cash are held as per note 4.1 Cash and Cash Equivalents.

Contingencies include:

Claims for medical malpractice

In addition to claims already provided for as described in Note 4.5, the Group is exposed to the risk of additional claims for medical malpractice attributed to the operations of Mercy Hospital Mount Lawley Inc. prior to its disposal in May 2014. It is not possible to quantify the amounts involved.

Acquisition of grant-funded assets

Under the terms of Commonwealth capital grants provided to the Group, the Commonwealth is entitled to a refund or share in the proceeds arising from the sale of a grant-funded asset. It is not possible to quantify the amounts involved.

Contingent consideration

As part of the acquisition of the Belrose Care business, contingent consideration was agreed. The valuation of the cash payments payable to the ACK Proprietary Limited ("ACK") was contingent on the growth in refundable accommodation deposits across the two-year period ended 27 September 2018 as follows:

(a) No additional cash payments was payable where the growth in refundable accommodation deposits is less than $2,000,000; and

(b) An additional cash payment equal to 50 per cent of the growth in refundable accommodation deposits greater than $2,000,000, capped at a maximum amount payable of $6,000,000.

The Group has received advice from its external legal counsel that it is not probable that the action will succeed. The Group does not believe that the matter will be successful in a court of law and hence there has been no estimate made of potential costs or damages.

5.6 CASH FLOW HEDGE RESERVE

Nature and purpose
The cashflow hedge reserve is used to record the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be in an effective hedge relationship. During the current and prior period the Company did not hold any financial instruments that qualified for hedge accounting.

NOTES TO THE FINANCIAL STATEMENTS
SECTION SIX: OTHER ITEMS

6.1 MEMBERS OF THE GROUP

The consolidated financial statements of the Group include MercyCare Limited, the ultimate parent Group ("the Parent"), and the following subsidiaries:

Name	% Equity interest 2022	2021
Mercy Human Services Limited	100	100
Mercy Community Services Limited	100	100
Mercy Hospital Mount Lawley Limited	100	100

6.2 RELATED PARTY DISCLOSURES

(a) Subsidiaries

The consolidated financial statements includes the financial statements of MercyCare Limited and the subsidiaries listed in Note 6.1 of the financial statements.

(b) Ultimate parent

MercyCare Limited is the ultimate parent.

(c) Key management personnel

Key management personnel of the Group include the Board of Directors, the Chief Executive Officer and Executive Directors. For the year ended 30 June 2022, $1,781,994 (2021: $1,807,439) was recognised as an expense in respect of key management personnel remuneration.

6.3 AUDITOR'S REMUNERATION

The auditor of MercyCare Limited is Ernst & Young (EY) Australia.

	2022 $
Fees to Ernst & Young (Australia)	
Audit of Financial Statements	103.400
Other assurance services	34,500
Fees to other auditors	
Other assurance services	92,138
Tax advice and tax compliance services	-
	230,038

6.4 EVENTS AFTER THE BALANCE SHEET DATE

On 2 August 2022, the Australian Government passed the Aged Care and Other Legislation Amendment (Royal Commission Response) Bill 2022 (the "Bill"). The Bill implements nine measures to improve aged care and responds to 17 recommendations of the Royal Commission into Aged Care Quality and Safety. The Bill establishes the Australian National Aged Care Classification ("AN-ACC") funding model, a new Code of Conduct and banning orders, and extends the Serious Incident Response Scheme to all in-home care providers. It also extends the functions of the Independent Health and Aged Care Pricing Authority, which will lead to better price-setting for aged care.

Other measures enshrine transparency and accountability of approved providers and improve quality of care and safety for older Australians receiving aged care services. A second piece of aged care legislation, the Aged Care Amendment (Implementing Care Reform) Bill 2022, was introduced on 27 July and is before the House of Representatives.

Other than those mentioned above, no matters or circumstances have risen since the end of the reporting period which significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

6.5 TREATMENT OF GST

Revenue, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office ("ATO"), in which case the GST is recognised as part of the revenue or the expense item or as part of the cost of acquisition of the asset, as applicable, or when 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 within other receivable in the statement of financial position.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the ATO.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the ATO are presented as operating cash flows included in receipts from customers or payments to suppliers.

6.6 STANDARDS ISSUED BUT NOT YET EFFECTIVE

Other Australian Accounting Standards and Interpretations relevant to the Group that have recently been issued or amended but are not yet effective, have not been adopted by the Group for the period ended 30 June 2022 are outlined below: The Group does not intend to early adopt any of these

AASB 2021-6 Amendments to AASs – Disclosure of Accounting Policies: Tier 2 and Other Australian Accounting Standards - Effective for annual reporting periods beginning on or after 1 January 2023

To be consistent with the amendments made by AASB 2021-2 to accounting policy disclosures, the AASB amended specific Australian Accounting Standards to improve the usefulness of accounting policy disclosures:

- AASB1049 *Whole of Government and General Government Sector Financial Reporting* and AASB 1054 *Australian Additional Disclosures* were amended to refer to material accounting policy information rather than significant accounting policies
- AASB 1060 was similarly amended, highlighting that information about the measurement bases for financial instruments is expected to be material

MercyCare will apply this standard from 1 July 2023.

AASB 2021-2 Amendments to AASB 108 – Definition of Accounting Estimates Effective for annual reporting periods beginning on or after 1 January 2023

An accounting policy may require items in the financial statements to be measured using information that is either directly observable, or estimated. Accounting estimates use inputs and measurement techniques that require judgements and assumptions based on the latest available, reliable information.

The amendments to AASB 108 clarify the definition of an accounting estimate, making it easier to differentiate it from an accounting policy. The distinction is necessary as their treatment and disclosure requirements are different. Critically, a change in an accounting estimate is applied prospectively whereas a change in an accounting policy is generally applied retrospectively.

The new definition provides that 'Accounting estimates are monetary amounts in financial statements that are subject to measurement uncertainty.' The amendments explain that a change in an input or a measurement technique used to develop an accounting estimate is considered a change in an accounting estimate unless it is correcting a prior period error.

- For example, a change in a valuation technique used to measure the fair value of an investment property from market approach to income approach would be treated as a change in estimate rather than a change in accounting policy.
- In contrast, a change in an underlying measurement objective, such as changing the measurement basis of investment property from cost to fair value, would be treated as a change in accounting policy.

The amendments did not change the existing treatment for a situation where it is difficult to distinguish a change in an accounting policy from a change in an accounting estimate. In such a case, the change is accounted for as a change in an accounting estimate.

The amendments are applied prospectively. Earlier application is permitted.

MercyCare will apply this standard from 1 July 2023.

AASB 2020-1 Amendments to AASs – Classification of Liabilities as Current or Non-current - Effective for annual reporting periods beginning on or after 1 January 2023

A liability is classified as current if the entity has no right at the end of the reporting period to defer settlement for at least 12 months after the reporting period. The AASB recently issued amendments to AASB 101 to clarify the requirements for classifying liabilities as current or non-current, specifically:

- The amendments specify that the conditions which exist at the end of the reporting period are those which will be used to determine if a right to defer settlement of a liability exists.
- Management intention or expectation does not affect the classification of liabilities.
- In cases where an instrument with a conversion option is classified as a liability, the transfer of equity instruments would constitute settlement of the liability for the purpose of classifying it as current or non-current.

A consequence of the first amendment is that a liability would be classified as current if its repayment conditions failed their test at reporting date, despite those conditions only becoming effective in the 12 months after the end of the reporting period.

In response to this possible outcome, the AASB has proposed further amendments:

- Specifying that conditions with which an entity must comply after the reporting period do not affect the classification at the reporting date
- Adding presentation and disclosure requirements for non-current liabilities subject to conditions in the next 12 months
- Clarifying specific situations in which an entity does not have a right to defer settlement for at least 12 months after the reporting date
- Deferring the effective date of the original amendments to no earlier than 1 January 2024

These amendments are applied retrospectively.

Earlier application is permitted.

MercyCare will apply this standard from 1 July 2023

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Independent auditor's report to the members of MercyCare Limited

Report on the financial report

Opinion

We have audited the financial report of MercyCare Limited (the Registered Entity) and its controlled entities (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2022, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Australian Charities and Not-for-Profits Commission Act 2012*, including:

a. Giving a true and fair view of the consolidated financial position of the Group as at 30 June 2022 and of its consolidated financial performance for the year ended on that date; and

b. Complying with Australian Accounting Standards – Simplified Disclosures and the *Australian Charities and Not-for-profits Commission Regulation 2013*.

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 Group 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 is the directors' report accompanying the financial 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 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.

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Responsibilities of the directors for the financial report

The directors of the Group are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards – Simplified Disclosures and the *Australian Charities and Not-for-profits Commission Act 2012* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the 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.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- 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.
- 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- 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 Group'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 Group to cease to continue as a going concern.
- 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 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.

Ernst & Young

Ernst & Young

J K Newton

J K Newton
Partner
Perth
6 October 2022