

Mercy Services Limited

ABN 34 095 335 309

Financial Statements

For the Year Ended 30 June 2014

Mercy Services Limited

ABN 34 095 335 309

Contents

For the Year Ended 30 June 2014

	Page
Financial Statements	
Directors' Report	1
Auditors Independence Declaration under Section 307C of the Corporations Act 2001	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
Directors' Declaration	32
Independent Audit Report	33

Mercy Services Limited

ABN 34 095 335 309

Directors' Report

30 June 2014

The directors present their report on Mercy Services Limited for the financial year ended 30 June 2014.

1. General information

Information on directors

The names of each person who has been a director during the year and to the date of this report are:

Susan Oakey Resigned 7 April 2014
Experience Registered Nurse and Senior Health Manager
Special responsibilities Board chairperson till 7 April 2014

Judith Murphy
Experience Sister of Mercy and former School Principal
Special responsibilities Education Fund Committee chairperson

Robert Hodgson
Experience Clinical Psychologist
Interest in shares and options Housing Committee chairperson

Kay Sheridan
Experience Registered Nurse and Sister of Mercy
Special responsibilities Director

Michael Mather
Experience Chartered Accountant
Special responsibilities Finance and Audit Committee

Carol Abela Resigned 30 August 2014
Experience Lawyer
Special responsibilities Director

Mark O'Connor
Experience Chartered Accountant
Special responsibilities Finance and Audit Committee

Mary Grace Appointed 6 August 2013
Experience HR professional consultant
Special responsibilities Board chairperson from 8 April 2014

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

The company secretary and public officer is Roy Hambly.

Mercy Services Limited

ABN 34 095 335 309

Directors' Report

30 June 2014

Principal activities

The principal activity of Mercy Services Limited during the financial year was:

- To provide holistic and integrated care to frail aged, people with disabilities and their carers within the community setting.
- To offer a range of services designed to meet the needs of persons with alcohol or other drug related problems (particularly those with dependent children).

The following significant changes in the nature of the principal activities occurred during the financial year:

- The Company took control of the Mercy Nursing Home at Singleton formerly operated by Mercy Aged Care Services Limited on 30 September 2013 via a merger of these two entities.

Short term objectives

The Company's short term objectives are to:

- To ensure Mercy Services has a comprehensive and competitive suite of programs based on a person-centred service delivery model.
- To ensure that Mercy Services is a well recognised and respected brand with a secure service footprint and sound funding base.
- To optimally and effectively manage Mercy Services' human resources.

Long term objectives

The Company's long term objectives are to:

- To develop, maintain and expand strategic alliances and partnerships.
- To maintain sound governance systems overseen by a strong Board and Executive team.
- To create and maintain systems that effectively support all aspects of Mercy Services' operations.

Strategy for achieving the objectives

To achieve these objectives, the Company has adopted the following strategies:

- Development of measurable objectives in the forthcoming strategic plan.
- Continual alignment of the organisation and services with Mercy philosophy and values.

Mercy Services Limited

ABN 34 095 335 309

Directors' Report

30 June 2014

Strategy for achieving the objectives continued

How principal activities assisted in achieving the objectives

The principal activities assisted the Company in achieving its objectives by:

- Provision of Community based services for frail older people and younger people with disabilities.
- Provision of residential aged care service in the Singleton area via a 44 bed facility.
- Provision of community based counselling and support services for those with an AOD problem especially those with young children in their care.
- Provision of parenting support and advice for vulnerable families with young children and those with disabilities.

Performance measures

The following measures are used within the Company to monitor performance:

- Meeting Output Targets.
- Successfully undertaking formal Accreditation Surveys / Audits.
- Demonstrating compliance with all relevant standards.
- Formal Program evaluations where appropriate.
- Outcome measures pertinent to each program.
- Client, volunteer and staff satisfaction surveys.
- Performance appraisals of staff.
- Complaints and appreciations.

Members guarantee

Mercy Services Limited is a company limited by guarantee. In the event of, and for the purpose of winding up of the company, the amount capable of being called up from each members and any person or association who ceased to be a member in the year prior to the winding up, is limited to \$ 100 for members that are corporations and \$ 100 for all other members, subject to the provisions of the company's constitution.

At 30 June 2014 the collective liability of members was \$ 500 (2013: \$ 500).

Directors' Report
30 June 2014

Members guarantee continued

Meetings of directors


During the financial year, 11 meetings of directors were held. Attendances by each director during the year were as follows:

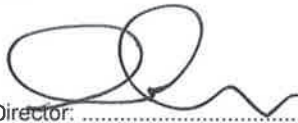
	Directors' Meetings	
	Number eligible to attend	Number attended
Susan Oakey	9	9
Judith Murphy	11	10
Robert Hodgson	11	8
Kay Sheridan	11	9
Michael Mather	11	7
Carol Abela	11	7
Mark O'Connor	11	8
Mary Grace	10	10

Auditor's independence declaration

The lead auditor's independence declaration in accordance with section 307C of the *Corporations Act 2001*, for the year ended 30 June 2014 has been received and can be found on page 5 of the financial report.

Signed in accordance with a resolution of the Board of Directors:

Director: 

Director: 

Dated 13 October 2014



**KILPATRICK
LAKE
MACKENZIE**

PTY LTD
ABN 73 097 844 945

accountants and
business advisers

Mercy Services Limited
ABN 34 095 335 309

Auditors Independence Declaration under Section 307C of the Corporations Act 2001 To the Directors of Mercy Services Limited

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2014, there have been:

- (i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

Neil Watson
Partner
Kilpatrick Lake Mackenzie

13 October 2014

Charlestown

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Legislation

Mercy Services Limited

ABN 34 095 335 309

Statement of Profit or Loss and Other Comprehensive Income

For the Year Ended 30 June 2014

		2014	2013
	Note	\$	\$
Revenue	2	9,724,615	6,743,243
Other revenue	2	1,962,164	6,920
Employee benefits expense	3	(7,466,340)	(5,352,588)
Depreciation and amortisation expense	3	(399,511)	(333,605)
Training and education expenses		-	(83,304)
Motor vehicle expenses		-	(367,203)
Utilities expenses		-	(117,807)
Equipment expenses		-	(96,773)
Program expenses		-	(326,369)
Other expenses		(1,672,804)	(336,068)
Surplus / (loss) before income tax		2,148,124	(263,554)
Income tax expense		-	-
Surplus / (loss) for the year		2,148,124	(263,554)
Other comprehensive income for the year		-	-
Total comprehensive income for the year		2,148,124	(263,554)

The accompanying notes form part of these financial statements.

Mercy Services Limited

ABN 34 095 335 309

Statement of Financial Position

As At 30 June 2014

	Note	2014 \$	2013 \$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	5	5,428,073	1,661,272
Trade and other receivables	6	103,895	158,089
Other financial assets	7	-	1,133
Other assets	8	96,136	26,197
TOTAL CURRENT ASSETS		5,628,104	1,846,691
NON-CURRENT ASSETS			
Property, plant and equipment	9	2,880,456	1,930,146
TOTAL NON-CURRENT ASSETS		2,880,456	1,930,146
TOTAL ASSETS		8,508,560	3,776,837
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	10	2,412,501	167,638
Borrowings	11	51,876	76,089
Employee benefits	12	786,482	535,995
Other financial liabilities	13	93,964	21,653
TOTAL CURRENT LIABILITIES		3,344,823	801,375
NON-CURRENT LIABILITIES			
Employee benefits	12	217,350	177,199
TOTAL NON-CURRENT LIABILITIES		217,350	177,199
TOTAL LIABILITIES		3,562,173	978,574
NET ASSETS		4,946,387	2,798,263
EQUITY			
Retained surplus		4,946,387	2,798,263
TOTAL EQUITY		4,946,387	2,798,263

The accompanying notes form part of these financial statements.

Mercy Services Limited

ABN 34 095 335 309

Statement of Changes in Equity

For the Year Ended 30 June 2014

2014

	Retained Earnings	Total
	\$	\$
Balance at 1 July 2013	2,798,263	2,798,263
Profit attributable to members of the entity	2,148,124	2,148,124
Balance at 30 June 2014	4,946,387	4,946,387

2013

	Retained Earnings	Total
	\$	\$
Balance at 1 July 2012	3,061,817	3,061,817
Profit attributable to members of the entity	(263,554)	(263,554)
Balance at 30 June 2013	2,798,263	2,798,263

The accompanying notes form part of these financial statements.

Mercy Services Limited

ABN 34 095 335 309

Statement of Cash Flows
For the Year Ended 30 June 2014

	2014	2013
Note	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	10,884,918	7,259,820
Payments to suppliers and employees	(9,314,707)	(7,194,454)
Interest received	119,535	62,419
Interest paid	(52)	-
Net cash provided by (used in) operating activities	20(b) <u>1,689,694</u>	<u>127,785</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of plant and equipment	12,694	32,242
Purchase of property, plant and equipment	(356,174)	(280,866)
Transfer from related party	2,444,800	-
Net cash used by investing activities	<u>2,101,320</u>	<u>(248,624)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase (decrease) in cash and cash equivalents held	3,791,014	(120,839)
Cash and cash equivalents at beginning of year	<u>1,585,183</u>	<u>1,706,022</u>
Cash and cash equivalents at end of financial year	20 <u><u>5,376,197</u></u>	<u><u>1,585,183</u></u>

The accompanying notes form part of these financial statements.

Mercy Services Limited

ABN 34 095 335 309

Notes to the Financial Statements

For the Year Ended 30 June 2014

The financial statements are for Mercy Services Limited as a not-for-profit individual entity.

The functional and presentation currency of Mercy Services Limited is Australian dollars.

1 Summary of Significant Accounting Policies

(a) Basis of Preparation

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards - Reduced Disclosure Requirements and the *Corporations Act 2001*.

Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless otherwise stated.

The financial statements have been prepared on an accruals basis and are based on historical costs modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

(b) Comparative Amounts

Comparatives are consistent with prior years, unless otherwise stated.

(c) Income Tax

No provision for income tax has been raised as the Company is exempt from income tax under Div 50 of the *Income Tax Assessment Act 1997*.

(d) Leases

Lease payments for operating leases, where substantially all of the risks and benefits remain with the lessor, are charged as expenses on a straight-line basis over the life of the lease term.

(e) Revenue and other income

Revenue is recognised when the amount of the revenue can be measured reliably, it is probable that economic benefits associated with the transaction will flow to the entity and specific criteria relating to the type of revenue as noted below, has been satisfied.

Revenue is measured at the fair value of the consideration received or receivable and is presented net of returns, discounts and rebates.

All revenue is stated net of the amount of goods and services tax (GST).

Mercy Services Limited

ABN 34 095 335 309

Notes to the Financial Statements

For the Year Ended 30 June 2014

1 Summary of Significant Accounting Policies continued

Grant revenue

Grant revenue is recognised in the statement of profit or loss and other comprehensive income when the entity obtains control of the grant, it is probable that the economic benefits gained from the grant will flow to the entity and the amount of the grant can be measured reliably.

When grant revenue is received whereby the entity incurs an obligation to deliver economic value directly back to the contributor, this is considered a reciprocal transaction and the grant revenue is recognised in the statement of financial position as a liability until the service has been delivered to the contributor, otherwise the grant is recognised as income on receipt.

Mercy Services Limited receives non-reciprocal contributions of assets from the government and other parties for zero or a nominal value. These assets are recognised at fair value on the date of acquisition in the statement of financial position, with a corresponding amount of income recognised in the statement of profit or loss and other comprehensive income.

Capital grants are recognised at fair value in the statement of comprehensive income when the entity obtains control of the asset to which the grant relates to and the amount can be measured reliably.

Donations

Donations and bequests are recognised as revenue when received.

Interest revenue

Interest is recognised using the effective interest method.

Rendering of services

Revenue in relation to rendering of services is recognised depends on whether the outcome of the services can be measured reliably. If this is the case then the stage of completion of the services is used to determine the appropriate level of revenue to be recognised in the period.

If the outcome cannot be reliably measured then revenue is recognised to the extent of expenses recognised that are recoverable.

Rental income

Investment property revenue is recognised on a straight-line basis over a period of the lease term so as to reflect a constant periodic rate of return on the net investment.

(f) Goods and Services Tax (GST)

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO).

Receivables and payable are stated inclusive of GST.

The net amount of GST recoverable from, or payable to, the ATO is included as part of receivables or payables in the statement of financial position.

Mercy Services Limited

ABN 34 095 335 309

Notes to the Financial Statements

For the Year Ended 30 June 2014

1 Summary of Significant Accounting Policies continued

(f) Goods and Services Tax (GST) continued

Cash flows in the statement of cash flows are included 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 taxation authority is classified as operating cash flows.

(g) Property, Plant and Equipment

Classes of property, plant and equipment are measured using the cost model as specified below.

The asset is carried at its cost less any accumulated depreciation and any impairment losses. Costs include purchase price, other directly attributable costs and the initial estimate of the costs of dismantling and restoring the asset, where applicable.

Land and buildings

Land and buildings are measured using the cost model.

Freehold land and buildings that have been contributed at no cost, or for nominal cost are valued and recognised at the fair value of the asset at the date it is acquired.

Plant and equipment

Plant and equipment are measured using the cost model.

Plant and equipment that have been contributed at no cost, or for nominal cost are valued and recognised at the fair value of the asset at the date it is acquired.

Depreciation

The depreciable amount of all property, plant and equipment, except for freehold land is depreciated on a reducing balance method from the date that management determine that the asset is available for use.

Assets held under a finance lease and leasehold improvements are depreciated over the shorter of the term of the lease and the assets useful life.

The estimated useful lives used for each class of depreciable asset are shown below:

Fixed asset class	Useful life
Plant and Equipment	3-12 years
Furniture, Fixtures and Fittings	3-12 years
Motor Vehicles	6-10 years
Leasehold improvements	15 years
Machinery	6-60 years

At the end of each annual reporting period, the depreciation method, useful life and residual value of each asset is reviewed. Any revisions are accounted for prospectively as a change in estimate.

Mercy Services Limited

ABN 34 095 335 309

Notes to the Financial Statements

For the Year Ended 30 June 2014

1 Summary of Significant Accounting Policies continued

(h) Financial instruments

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. For financial assets, this is the equivalent to the date that the Company commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transactions costs, except where the instrument is classified 'at fair value through profit or loss' in which case transaction costs are expensed to profit or loss immediately.

Classification and subsequent measurement

Financial instruments are subsequently measured at either fair value, amortised cost using the effective interest rate method, or cost. *Fair value* represents the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Amortised cost is calculated as:

- (a) the amount at which the financial asset or financial liability is measured at initial recognition;
- (b) less principal repayments;
- (c) plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognised and the maturity amount calculated using the *effective interest method*; and
- (d) less any reduction for impairment.

The *effective interest method* is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

The classification of financial instruments depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and at the end of each reporting period for held-to-maturity assets.

The Company does not designate any interest as being subject to the requirements of accounting standards specifically applicable to financial instruments.

(i) Financial assets at fair value through profit or loss

Financial assets are classified at 'fair value through profit or loss' when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

Mercy Services Limited

ABN 34 095 335 309

Notes to the Financial Statements

For the Year Ended 30 June 2014

1 Summary of Significant Accounting Policies continued

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

Loans and receivables are included in current assets, except for those which are not expected to mature within 12 months after the end of the reporting year.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Company's intention to hold these investments to maturity. They are subsequently measured at amortised cost.

Held-to-maturity investments are included in non-current assets, except for those which are expected to be realised within 12 months after the end of the reporting period, which will be classified as current assets.

If during the period the Company sold or reclassified more than an insignificant amount of the held-to-maturity investments before maturity, the entire held-to-maturity investments category would be tainted and reclassified as available-for-sale.

(iv) Financial liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost. Fees payable on the establishment of loan facilities are recognised as transaction costs of the loan.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Impairment of financial assets

At the end of the reporting period the Company assesses whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets at amortised cost

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial assets original effective interest rate.

Impairment on loans and receivables is reduced through the use of an allowance accounts, all other impairment losses on financial assets at amortised cost are taken directly to the asset.

(i) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the statement of financial position.

Mercy Services Limited

ABN 34 095 335 309

Notes to the Financial Statements

For the Year Ended 30 June 2014

1 Summary of Significant Accounting Policies continued

(j) Employee benefits

Provision is made for the Company's liability for employee benefits arising from services rendered by employees to the end of the reporting period. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled .

Employee benefits expected to be settled more than twelve months after the end of the reporting period have been measured at the present value of the estimated future cash outflows to be made for those benefits. In determining the liability, consideration is given to employee wage increases and the probability that the employee may satisfy vesting requirements. Cashflows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cashflows. Changes in the measurement of the liability are recognised in profit or loss.

Employee benefits are presented as current liabilities in the statement of financial position if the Company does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date regardless of the classification of the liability for measurement purposes under AASB 119.

(k) Trade and other payables

Trade and other payables represent the liability outstanding at the end of the reporting period for goods and services received by the Company during the reporting period which remain unpaid. The balance is recognised as a current liability with the amounts normally paid within 30 days of recognition of the liability.

(l) Accommodation bonds

Accommodation bonds are payable by residents in respect of accommodation services provide by the company. This is negotiated with the resident before entry to the facility in line with government requirements. Retentions are paid to the company from these bonds based on predetermined limits established by the Department of Health. These limits take into account both the value of accommodation bond and the period of occupancy. Australian accounting standards require accommodation bonds repayable to residents to be classified as current liabilities.

(m) Independent living units

The occupiers (lenders) of some of the Units pay a loan price (based on the value of the property at the date of sale) which is repayable by the Company upon them leaving the organisation's care. Management fees are paid by the occupiers to the Company on a fortnightly basis. The remaining balance of these payments is refunded to the lender. Realised gains on the valuation of these units are kept by the Company. Australian accounting standards require these lender payments to be classified as current liabilities.

(n) Critical accounting estimates and judgments

The directors make estimates and judgements during the preparation of these financial statements regarding assumptions about current and future events affecting transactions and balances.

These estimates and judgements are based on the best information available at the time of preparing the financial statements, however as additional information is known then the actual results may differ from the estimates.

The significant estimates and judgements made have been described below.

Mercy Services Limited

ABN 34 095 335 309

Notes to the Financial Statements

For the Year Ended 30 June 2014

1 Summary of Significant Accounting Policies continued

(n) Critical accounting estimates and judgments continued

Key judgments - provision for impairment of receivables

The value of the provision for impairment of receivables is estimated by considering the ageing of receivables, communication with the debtors and prior history.

Key estimates - provisions

As described in the accounting policies, provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period. These estimates are made taking into account a range of possible outcomes.

Key estimates - property, plant and equipment residual values and useful lives

These assets are written down to their estimated residual value over their anticipated useful lives using the straight-line basis. Management reviews residual values annually considering market conditions and disposal values.

(o) Economic dependence

Mercy Services Limited is dependent on government departments for the majority of its revenue used to operate the business. At the date of this report the directors have no reason to believe the government departments will not continue to support Mercy Services Limited.

(p) Adoption of new and revised accounting standards

During the current year, the following standards became mandatory and have been adopted retrospectively by the Company:

- AASB 13 *Fair Value Measurement*
- AASB 119 *Employee Benefits*

The accounting policies have been updated to reflect changes in the recognition and measurement of assets, liabilities, income and expenses and the impact of adoption of these standards is discussed below.

AASB 13 *Fair Value Measurement* does not change what and when assets or liabilities are recorded at fair value. It provides guidance on how to measure assets and liabilities at fair value, including the concept of highest and best use for non-financial assets. AASB 13 has not changed the fair value measurement basis for any assets or liabilities held at fair value, however additional disclosures on the methodology and fair value hierarchy have been included in the financial statements.

AASB 119 *Employee benefits* changes the basis for determining the income or expense relating to defined benefit plans and introduces revised definitions for short-term employee benefits and termination benefits.

The Company reviewed the annual leave liability to determine the level of annual leave which is expected to be paid more than 12 months after the end of the reporting period. Whilst this has been considered to be a long-term employee benefits for the purpose of measuring the leave under AASB 119, the effect of discounting was not considered to be material and therefore has not been performed.

Mercy Services Limited

ABN 34 095 335 309

Notes to the Financial Statements

For the Year Ended 30 June 2014

2 Revenue and Other Income

Revenue from continuing operations

	2014	2013
	\$	\$
Operating revenue		
Operating grants	7,730,430	5,946,429
Provision of services	1,607,291	518,955
Rental income	22,126	18,875
Donations	135,275	107,455
Interest received	119,535	62,419
Other income	101,121	89,110
Dividend income	8,837	-
Total revenue	9,724,615	6,743,243

Other income

Donation - Mercy Aged Care Services Limited	19	1,951,958	-
Net gain on disposal of property, plant and equipment		10,206	6,920
Total other income		1,962,164	6,920

3 Result for the Year

(a) Expenses

Depreciation and Amortisation			
Depreciation - buildings		6,035	-
Depreciation - motor vehicles		199,915	192,629
Depreciation - furniture and fixtures		69,089	19,378
Depreciation - improvements		56,486	57,925
Depreciation - machinery		9,376	3,398
Depreciation - computer equipment		31,980	60,275
Depreciation - plant and machinery		26,630	-
Total Depreciation and Amortisation		399,511	333,605
Employee costs		7,466,340	5,352,588

(b) Revenue and other income

One-off government capital grants		172,094	15,055
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Mercy Services Limited

ABN 34 095 335 309

Notes to the Financial Statements

For the Year Ended 30 June 2014

4 Operating Segments

Identification of reportable segments

The Company has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

The Company is managed primarily on the basis of service offerings as the diversification of Mercy Services Limited's operations inherently have notably different risk profiles and performance assessment criteria. Operating segments are therefore determined on the same basis.

(a) Inter-segment transactions

An internally determined transfer price is set for all inter-entity sales. This price is reviewed annually by the board.

Segments were created on the merger of Mercy Services Limited and Mercy Aged Care Services Limited on 30 September 2013 to distinguish the operations of the Nursing Home at Singleton and the Services division in Newcastle and Lake Macquarie. Inter-segment transactions disclosed related to those between 1 October 2013 and 30 June 2014

Segment transactions relate to the following:

- (i) The Nursing Home receives laundry income from the Services division for laundering of linen; and
- (ii) The Nursing Home incurs a book-keeping charge from the Services division for the administration of its financial affairs.
- (iii) The Services division received a donation of \$1,951,958 from Mercy Aged Care Services Limited (former operator of the Nursing Home) on 30 September 2013. This has been included in the segment revenue for Services. No corresponding expense has been recognised in the Nursing Home segment as the results for the Nursing Home are only after Mercy Services Limited has controlled the operations from 1 October 2013.

Inter-segment loans payable and receivable are initially recognised at the consideration received/to be received net of transaction costs.

Mercy Services Limited
ABN 34 095 335 309

Notes to the Financial Statements
For the Year Ended 30 June 2014

4 Operating Segments continued

(b) Segment performance

	Services		Nursing Home		Elimination		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
	\$	\$	\$	\$	\$	\$	\$	\$
REVENUE								
Operating grants	6,198,024	5,946,429	1,532,406	-	-	-	7,730,430	5,946,429
Provision of services	893,175	518,955	783,416	-	(69,300)	-	1,607,291	518,955
Rental income	22,126	18,875	-	-	-	-	22,126	18,875
Donations	2,050,074	107,455	37,159	-	-	-	2,087,233	107,455
Interest	48,183	62,419	71,352	-	-	-	119,535	62,419
Other income	114,193	89,110	5,565	-	(9,800)	-	109,958	89,110
Net gain on disposal of property, plant and equipment	9,006	6,920	1,200	-	-	-	10,206	6,920
Total segment revenue	9,334,781	6,750,163	2,431,098	-	(79,100)	-	11,686,779	6,750,163
Depreciation and amortisation expense	(311,330)	(333,605)	(88,181)	-	-	-	(399,511)	(333,605)
Employee benefits expense	(5,532,117)	(5,352,588)	(1,934,223)	-	-	-	(7,466,340)	(5,352,588)
Training and education expenses	(72,312)	(83,304)	-	-	-	-	(72,312)	(83,304)
Motor vehicle expenses	(383,428)	(367,203)	(4,533)	-	-	-	(387,961)	(367,203)
Utilities expenses	(89,802)	(117,807)	(81,041)	-	-	-	(170,843)	(117,807)
Equipment expenses	(139,818)	(96,773)	(54,569)	-	-	-	(194,387)	(96,773)
Program expenses	(331,990)	(326,368)	-	-	69,300	-	(262,690)	(326,368)
Administration expenses	(332,404)	(336,069)	(78,465)	-	9,800	-	(401,069)	(336,069)
Laundry expenses	-	-	(12,342)	-	-	-	(12,342)	-
Domestic operating expenses	-	-	(124,924)	-	-	-	(124,924)	-
Personal care resident expenses	-	-	(46,276)	-	-	-	(46,276)	-
Total segment expenses	(7,193,201)	(7,013,717)	(2,424,554)	-	79,100	-	(9,538,655)	(7,013,717)
Surplus / (loss) for the year	2,141,580	(263,554)	6,544	-	-	-	2,148,124	(263,554)

Mercy Services Limited
ABN 34 095 335 309

Notes to the Financial Statements
For the Year Ended 30 June 2014

4 Operating Segments continued

(c) Segment assets

	Services		Nursing Home		Elimination		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
	\$	\$	\$	\$	\$	\$	\$	\$
Cash and cash equivalents	2,278,613	1,661,272	3,149,460	-	-	-	5,428,073	1,661,272
Trade and other receivables	62,298	158,089	41,597	-	-	-	103,895	158,089
Other financial assets	-	1,133	-	-	-	-	-	1,133
Other assets	88,444	26,197	7,692	-	-	-	96,136	26,197
Property, plant and equipment	1,796,716	1,930,146	1,083,740	-	-	-	2,880,456	1,930,146
Total segment assets	4,226,071	3,776,837	4,282,489	-	-	-	8,508,560	3,776,837

(d) Segment liabilities

	Services		Nursing Home		Elimination		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
	\$	\$	\$	\$	\$	\$	\$	\$
Trade and other payables	339,808	167,638	2,072,693	-	-	-	2,412,501	167,638
Borrowings	51,876	76,089	-	-	-	-	51,876	76,089
Employee benefits - current	563,314	535,995	223,168	-	-	-	786,482	535,995
Other financial liabilities	93,964	21,653	-	-	-	-	93,964	21,653
Employee benefits - non current	189,927	177,199	27,423	-	-	-	217,350	177,199
Total segment liabilities	1,238,889	978,574	2,323,284	-	-	-	3,562,173	978,574

Mercy Services Limited

ABN 34 095 335 309

Notes to the Financial Statements

For the Year Ended 30 June 2014

5 Cash and cash equivalents

	2014	2013
	\$	\$
Cash at bank and in hand	1,136,355	123,728
Short-term bank deposits	4,291,718	1,537,544
	5,428,073	1,661,272

6 Trade and other receivables

CURRENT		
Trade receivables	132,719	122,547
Provision for impairment	(35,526)	(7,544)
	97,193	115,003
Related party receivables	-	41,465
Other receivables	6,702	1,621
Total current trade and other receivables	103,895	158,089

The carrying value of trade receivables is considered a reasonable approximation of fair value due to the short-term nature of the balances.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable in the financial statements.

7 Other financial assets

CURRENT		
Available for sale financial assets	-	1,133

8 Other non-financial assets

CURRENT		
Prepayments	28,104	12,576
Accrued income	68,032	13,621
	96,136	26,197

Mercy Services Limited

ABN 34 095 335 309

Notes to the Financial Statements

For the Year Ended 30 June 2014

9 Property, plant and equipment

	2014	2013
	\$	\$
Buildings		
At cost	386,634	-
Accumulated depreciation	(35,890)	-
Total buildings	350,744	-
Plant and equipment		
At cost	832,767	-
Accumulated depreciation	(626,533)	-
Total plant and equipment	206,234	-
Furniture, fixtures and fittings		
At cost	1,462,894	380,220
Accumulated depreciation	(865,193)	(278,745)
Total furniture, fixtures and fittings	597,701	101,475
Motor vehicles		
At cost	2,022,304	1,877,223
Accumulated depreciation	(1,014,188)	(837,165)
Total motor vehicles	1,008,116	1,040,058
Computer equipment		
At cost	377,615	353,722
Accumulated depreciation	(283,697)	(251,149)
Total computer equipment	93,918	102,573
Improvements		
At cost	848,713	848,713
Accumulated depreciation	(260,816)	(204,330)
Total improvements	587,897	644,383
Machinery		
At cost	72,633	69,068
Accumulated depreciation	(36,787)	(27,411)
Total machinery	35,846	41,657
Total property, plant and equipment	2,880,456	1,930,146

Notes to the Financial Statements
For the Year Ended 30 June 2014

9 Property, plant and equipment continued

(a) Movements in Carrying Amounts

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year:

	Buildings	Plant and Equipment	Furniture, Fixtures and Fittings	Motor Vehicles	Computer Equipment	Improvements	Machinery	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Year ended 30 June 2014								
Balance at the beginning of year	-	-	101,475	1,040,058	102,573	644,383	41,657	1,930,146
Additions	79,528	3,630	97,568	155,229	16,654	-	3,565	356,174
Additions through donated assets	277,251	229,234	467,814	15,165	6,671	-	-	996,135
Disposals - written down value	-	-	(67)	(2,421)	-	-	-	(2,488)
Depreciation expense	(6,035)	(26,630)	(69,089)	(199,915)	(31,980)	(56,486)	(9,376)	(399,511)
Balance at the end of the year	350,744	206,234	597,701	1,008,116	93,918	587,897	35,846	2,880,456

Mercy Services Limited

ABN 34 095 335 309

Notes to the Financial Statements

For the Year Ended 30 June 2014

10 Trade and other payables

	2014	2013
	\$	\$
CURRENT		
Trade payables	312,128	49,298
Deposits	(a) 437,187	-
GST payable	(3,271)	1,361
Employee benefits	155,712	81,653
Accrued expenses	61,758	34,974
Accommodation bonds	(b) 1,448,455	-
Other payables	532	352
	2,412,501	167,638

Australian accounting standards require accommodation bonds repayable to residents and independent living unit payments to be classified as current liabilities. The Company continues to maintain sufficient funds required by the Company's Liquidity Management Strategy to meet its obligations in relation to accommodation bond refunds.

(a) Independent living units

On 30 September 2013, the Company took control of the independent living units formerly under control by Mercy Aged Care Services (Singleton) Limited. This balance represents the amounts payable to the occupiers of these units.

(b) Accommodation bonds

On 30 September 2013, the Company took control of the accommodation bonds held by Mercy Aged Care Services (Singleton) Limited. This balance represents the amounts payable to residents of the nursing home.

11 Borrowings

CURRENT

Secured liabilities:

Bank overdraft

Total current borrowings

51,876	76,089
51,876	76,089

Mercy Services Limited

ABN 34 095 335 309

Notes to the Financial Statements

For the Year Ended 30 June 2014

12 Employee Benefits

	2014	2013
	\$	\$
Current liabilities		
Annual leave	511,831	355,796
Long service leave	274,651	180,199
	<u>786,482</u>	<u>535,995</u>
Non-current liabilities		
Long service leave	217,350	177,199

13 Income in Advance

Government grants	93,964	21,653
-------------------	--------	--------

14 Capital Commitments

The Company has entered into a contractual agreement with Form 1 Protection for the installation of fire sprinklers at the nursing home for \$205,460. The remaining commitments owed under this agreement at 30 June 2014 is \$137,460 which is to be paid within the next 12 months.

15 Financial Risk Management

The Company is exposed to a variety of financial risks through its use of financial instruments.

This note discloses the Company's objectives, policies and processes for managing and measuring these risks.

The Company's overall risk management plan seeks to minimise potential adverse effects due to the unpredictability of financial markets.

The Company does not speculate in financial assets.

The most significant financial risks to which the Company is exposed to are described below:

Specific risks

- Market risk - currency risk, cash flow interest rate risk and price risk
- Credit risk
- Liquidity risk

Financial instruments used

The principal categories of financial instrument used by the Company are:

- Trade receivables
- Cash at bank

Mercy Services Limited

ABN 34 095 335 309

Notes to the Financial Statements

For the Year Ended 30 June 2014

15 Financial Risk Management continued

- Bank overdraft
- Trade and other payables

Objectives, policies and processes

Risk management is carried out by the Company's Board of Directors. The General Manager has primary responsibility for the development of relevant policies and procedures to mitigate the risk exposure of the Company, these policies and procedures are then approved by the Board of Directors.

Reports are presented at each Board meeting regarding the implementation of these policies and any risk exposure which the General Manager believes the Board should be aware of.

Specific information regarding the mitigation of each financial risk to which Company is exposed is provided below.

Net fair values

Fair value estimation

Fair values are those amounts at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Fair values derived may be based on information that is estimated or subject to judgment, where changes in assumptions may have a material impact on the amounts estimated. Areas of judgment and the assumptions have been detailed below. Where possible, valuation information used to calculate fair value is extracted from the market, with more reliable information available from markets that are actively traded. In this regard, fair values for listed securities are obtained from quoted market bid prices. Where securities are unlisted and no market quotes are available, fair value is obtained using discounted cash flow analysis and other valuation techniques commonly used by market participants.

16 Members' Guarantee

The Company is incorporated under the *Corporations Act 2001* and is a Company limited by guarantee. If the Company is wound up, the constitution states that each member is required to contribute a maximum of \$ 100 each towards meeting any outstandings and obligations of the Company. At 30 June 2014 the number of members was 5 (2013: 5).

17 Key Management Personnel Disclosures

The total remuneration paid to key management personnel of the Company is \$ 511,081 (2013: \$ 418,252).

18 Contingencies

In the opinion of the Directors, the Company did not have any contingencies at 30 June 2014 (30 June 2013: None).

Mercy Services Limited

ABN 34 095 335 309

Notes to the Financial Statements

For the Year Ended 30 June 2014

19 Related Parties

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

Related Parties

The Company's main related parties are as follows:

- The Company's main related parties are as follows:
- Institute Sisters of Mercy of Australia and Papua New Guinea
- Mercy Aged Care Services (Singleton)
- Cutcher & Neale (entity controlled by director Mark O'Connor)

(a) Transactions with related parties

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

Cutcher & Neale charges were at a reduced rate approved by the Board of Directors.

	Income	Expenses	Other transactions
Institute Sisters of Mercy of Australia and Papua New Guinea			
Nursing services	82,858	-	-
Electricity recoupment	138	-	-
Wages recoupment	81,423	-	-
Community Aged Care Package and Domestic Assistance services	5,922	-	-
Management fees	7,353	-	-
Home maintenance service	847	-	-
Stipends	-	21,118	-
Merchandise	-	107	-
Tour costs	-	630	-
Insurance	-	33,263	-
Water usage	-	1,158	-
Training	-	1,690	-

Mercy Services Limited

ABN 34 095 335 309

Notes to the Financial Statements

For the Year Ended 30 June 2014

(a) Transactions with related parties continued

	Income	Expenses	Other transactions
Mercy Aged Care Services Singleton			
Administration services	3,350	-	-
Donation - Merger	-	-	1,951,958
Linen services	-	23,100	-
Cutcher & Neale			
Management accounting assistance	-	8,000	-

The Board of Mercy Services Limited and Mercy Aged Care Services Limited in consultation with the Institute Leadership Team executed the merger between the companies on 30 September 2013. The net assets of Mercy Aged Care Services Limited totalling \$1,951,958 were gifted to Mercy Services Limited on this date.

20 Cash Flow Information

(a) Reconciliation of cash

	2014	2013
	\$	\$
Cash at the end of the financial year as shown in the statement of cash flows is reconciled to items in the statement of financial position as follows:		
Cash and cash equivalents	5,428,073	1,661,272
Bank overdrafts	(51,876)	(76,089)
	<u>5,376,197</u>	<u>1,585,183</u>

Mercy Services Limited

ABN 34 095 335 309

Notes to the Financial Statements

For the Year Ended 30 June 2014

20 Cash Flow Information continued

(b) Reconciliation of result for the year to cashflows from operating activities

	2014	2013
	\$	\$
Loss for the year	2,148,124	(263,554)
Cash flows excluded from profit attributable to operating activities		
Non-cash flows in profit:		
- depreciation	399,511	333,605
- net gain on disposal of property, plant and equipment	(10,206)	(6,920)
- donated assets from related party	(1,951,958)	-
Changes in assets and liabilities:		
- decrease / (increase) in trade and other receivables	94,008	(52,877)
- (increase) / decrease in other assets	(61,684)	15,321
- increase / (decrease) in trade and other payables	938,099	52,065
- increase / (decrease) in other liabilities	72,311	(43,821)
- increase / (decrease) in provisions	61,489	93,966
Cashflow from operations	<u>1,689,694</u>	<u>127,785</u>

Mercy Services Limited

ABN 34 095 335 309

Notes to the Financial Statements

For the Year Ended 30 June 2014

21 Permitted Uses Statement

NAPS ID: 1402

The following table represents disclosures required by the Commonwealth Department of Health & Ageing in conjunction with their Annual Prudential Compliance Statement 2013-14.

Bond Money Received	Total Value	Expenditure on Permitted Uses Since 1 October 2011	Total Value
Accommodation Bonds		Total on Capital Expenditure	-
Accommodation bonds received between the period of 01/07/13 and 30/06/14	\$1,410,000	Total investments made in financial products during 2013-14	
Allowable deductions from accommodation bonds between the period of 01/07/13 and 30/06/14 (retention, interest on outstanding bonds, extra service)	\$32,550	1. Deposits made with authorised deposit-taking institutions	\$1,410,000
Allowable deductions from accommodation bond balances received between the period of 01/07/13 and 30/06/14 (retention, interest on outstanding bonds, extra service)	-	2. Other financial products	-
		Loans made for capital works or investments	-
		Refunds of bonds and Entry Contributions	\$294,629
		Debt repayments - for incurred debt on:	
Returned funds From (sale / disposal / redemption) of financial products		1. Capital expenditure	-
		2. Accommodation bonds refunds	-
		3. Repayment of pre 01/10/11 debt for providing aged care to care recipients	-
		Reasonable business losses between 01/07/13 and 30/06/14 (first 12 months of operating a service)	-
		Use of transition arrangements (bonds only)	-

Mercy Services Limited

ABN 34 095 335 309

Notes to the Financial Statements

For the Year Ended 30 June 2014

22 Events Occurring After the Reporting Date

The financial report was authorised for issue on 13 October 2014 by the Board of Directors.

No 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.

23 Company Details

The registered and principal address of the company is:

Mercy Services Limited

32 Union Street

Tighes Hill NSW 2297


Mercy Services Limited
ABN 34 095 335 309

Directors' Declaration

The directors of the Company declare that:

1. The financial statements and notes, as set out on pages 7 to 31, are in accordance with the *Corporations Act 2001* and:
 - a. comply with Accounting Standards - Reduced Disclosure Requirements; and
 - b. give a true and fair view of the financial position as at 30 June 2014 and of the performance for the year ended on that date of the Company.
2. In the directors' opinion, there are reasonable grounds to believe that the Company 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.

Director 

Director 

Dated 13 October 2014



**KILPATRICK
LAKE
MACKENZIE**

PTY LTD
ABN 73 097 844 945

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Liability limited by a
scheme approved under
Professional Standards
Legislation

Mercy Services Limited
ABN 34 095 335 309

Independent Audit Report to the members of Mercy Services Limited

Report on the Financial Report

We have audited the accompanying financial report of Mercy Services Limited, which comprises the statement of financial position as at 30 June 2014, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards - Reduced Disclosure Requirements and the *Corporations Act 2001* 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.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of the financial report that gives a true and fair view 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 Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Mercy Services Limited, would be in the same terms if given to the directors as at the time of this auditor's report.



**KILPATRICK
LAKE
MACKENZIE**

PTY LTD

ABN 73 097 844 945

accountants and
business advisers

Mercy Services Limited

ABN 34 095 335 309

Independent Audit Report to the members of Mercy Services Limited

Opinion

In our opinion the financial report of Mercy Services Limited is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Company's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards - Reduced Disclosure Requirements and the *Corporations Regulations 2001*.

Kilpatrick Lake Mackenzie

Neil Watson
Partner

Charlestown

13 October 2014

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