McKenzie Aged Care Group

NAPS ID: 1387

Annual Report
30 June 2023

Contents

The facilities/services covered by these general purpose financial statements are:

NAPS ID	RACS ID	Facility/Service
5363	3627	Sutton Park Assisted Aged Care
2329	3583	Charlesbrook
5340	564	Raffles Assisted Aged Care
5529	5399	Bribie Cove
5637	5511N	Sandbrook Assisted Aged Care
6175	699	Heritage Lodge Assisted Aged Care
5645	5510	Glasshouse Views
2101	3343	The Ashley
5933	3749	Rosebrook
5915	3790	Lynbrook Park
6454	5596N	Buderim Views Assisted Aged Care
5974	5600	Seabrook
6560	5640	The Terraces Assisted Aged Care
6492	3877	Newmans on the Park
6825	5384	Capella Bay Aged Care
7347	5809	Seaton Place Aged Care
8009	5318	The Ormsby Aged Care

In addition, these general purpose financial statements include the operations of Bribie Cove Retirement Village and Glasshouse Views Retirement Village.

The Directors of McKenzie Aged Care Pty Ltd present their report together with the combined financial statements of the Group comprising McKenzie Aged Care Pty Ltd and combined entities ("the Group"), for the financial year ended 30 June 2023 and the auditor's report thereon.

1. Group Structure

Until 17 February 2023, the McKenzie Aged Care Group was a partnership consisting of three equal partners being:

- Jolimont Lodge Pty Ltd ATF The Powell Family Trust
- Autumn Sun Pty Ltd ATF The Hutchison Family Trust
- Bay St 2 Pty Ltd ATF Bay Street No 2 Trust

The partners controlled the beneficial interest of the Group assets and the results from operations while the legal interests of the Group were held by three Trustee companies being:

- McKenzie Aged Care Group Pty Ltd
- Cabool Retirement Villages Pty Ltd
- Residential Processing Services Pty Ltd

On 17 February 2023, the Group was acquired by RSL Care RDNS Limited ("the Parent"). The acquisition resulted in the beneficial interests of the Group being transferred to the Parent, along with the shares in McKenzie Aged Care Group Pty Ltd and Cabool Retirement Villages Pty Ltd. Certain assets legally owned by Residential Processing Services Pty Ltd and Cabool Retirement Villages Pty Ltd were also transferred to the Parent.

On 17 February 2023 a new Board of Directors was appointed to each of McKenzie Aged Care Group Pty Ltd and Cabool Retirement Villages Pty Ltd.

The Directors have considered the needs of users of these financial statements and have determined that the Group, comprising the assets, liabilities and results of operations of the facilities and services outlined on page 2, and presented by the following interests represents a reporting entity for the year ended 30 June 2023:

- Legal and beneficial interest in McKenzie Aged Care Group Pty Ltd;
- Legal and beneficial interest in Cabool Retirement Villages Pty Ltd;
- Legal and beneficial interest in Residential Processing Services Pty Ltd until 17 February 2023; and
- Results of operations from the assets beneficially transferred to the Parent on 17 February 2023, to the extent they related to the facilities and services included in the historical Group and operated on behalf of the Parent.

2. Review of operations

The combined loss of the Group for the financial year amounted to $201,552,000 (2022: loss of $35,427,000). The restructuring transaction described above resulted in a net loss of $129,007,000 being generated by the Group. Excluding this loss, the deficit after tax was $72,545,000 (2022: $34,911,000). The Group also recognised $27,374,000 (2022: $20,531,000) of amortisation of bed license intangibles due to the Government's decision to discontinue aged care bed licences from 1 July 2024.

3. Significant changes in the state of affairs

As described in Section 1 Group Structure above, on 17 February 2023 the ownership structure of the Group changed. From this date, real property assets previously owned by Residential Processing Services Pty Ltd and Cabool Retirement Villages Pty Ltd were transferred to the Parent. From 17 February 2023, these assets were leased back by the Group from the Parent. There were no other significant changes in the state of affairs of the Group during the financial year.

4. Principal activities

The principal activities of the Group during the financial year consisted of providing aged care accommodation and related services in residential aged care homes and operating retirement villages. The Group offers a package of quality aged care accommodation and high standards of care in a homely environment.

5. Events subsequent to reporting date

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

6. Going concern

This financial report has been prepared on a going concern basis which contemplates continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

The combined statement of financial position discloses total current assets of $18,828,000 (2022: $96,665,000) and total current liabilities of $625,648,000 (2022: $521,568,000), giving rise to a net current liability position of $606,820,000 at 30 June 2023, as well as a net liability position $484,234,000. The group incurred a loss of $201,552,000 for the year and generated net cash outflows from operating activities of $20,474,000).

The net current liability position largely arises because retirement village resident loans and refundable accommodation deposits (RADs), totalling $501,700,000 (2022: $488,603,000), are classified in full as a current liability, whereas the assets to which the loans and RADs relate (land, buildings and retirement village assets), are classified as non-current assets. Retirement village resident loans and RADs are classified as a current liability because the Group does not have an unconditional right to defer settlement of resident loans or RADs for at least 12 months after the reporting period. In practice, the rate at which residents vacate their retirement village units and their aged care accommodation can be estimated. Given that the resident profile is generally consistent with prior periods, these prior periods provide a reliable estimate of future payment trends. As noted in the combined statement of cash flows from financing activities $155,039,000 (2022: $122,258,000) of resident loans and RADs were refunded during the year. These refunded loans were replaced by incoming contributions (including RADs) of $169,528,000 (2022: $159,003,000).

In addition, the Group has a liquidity management strategy in place that requires available liquidity to be equal to or in excess of 5% (2022: 2%) of the total RADs liability, to ensure that refunds can be paid as and when they fall due. The current minimum liquidity level set by the liquidity management strategy is $25,000,000 (2022: $10,000,000). This is 5% (2022: 2%) of the RADs liability of $479,218,000 (2022: $466,516,000) at year end. Liquidity is monitored and cash flow forecasts are prepared on at least a monthly basis to ensure that the Group adheres to the liquidity management strategy.

After considering all available current information, the Directors have concluded that there are reasonable grounds to believe that the Group will be able to pay its debts as and when they fall due and payable and the basis of preparation of the financial report on the going concern basis is appropriate.

6. Going concern (continued)

In reaching this assessment the Directors have considered a letter of support dated 26 October 2023 received from RSL Care RDNS Limited confirming its ongoing financial support to the Group and confirming any outstanding liabilities owing will not be called upon for at least 12 months The Directors have relied on this confirmation of parental support and believe the parent will be able to make good on its support.

7. Economic dependency

The Group is dependent on government funding under the *Aged Care Act 1997 (C'th)* for the operation of its residential care homes

8. Rounding off

Amounts in the combined financial statements and Directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

This report is made accordance with a resolution of the Directors:

Mr Pat McIntosh AM CSC
Chairman
Melbourne
26 October 2023

McKenzie Aged Care Group

Combined statement of financial position

As at 30 June 2023

in thousands of dollars	Note	30 June 2023	30 June 2022 Restated*
Assets			
Current assets			
Cash and cash equivalents	9	10,747	84,958
Trade and other receivables	10	8,081	9,534
Total current assets		18,828	94,492
Non-current assets			
Property, plant and equipment	11	105,042	293,159
Right of use assets	16(a)(i)	79,097	1,921
Investment properties	13	-	31,444
Intangible assets	12	108,333	135,708
Total non-current assets		292,472	462,232
Total assets		311,300	556,724
Liabilities			
Current liabilities			
Trade and other payables	14	113,205	7,111
Loans and borrowings	15(a)	-	2,586
Lease liabilities	16(a)(iv)	5,165	351
Other financial liabilities	18	501,700	488,603
Employee benefits provisions	17	5,578	20,744
Total current liabilities		625,648	519,395
Non-current liabilities			
Loans and borrowings	15(a)	-	93,203
Other financial liabilities	18	93,752	91,829
Lease liabilities	16(a)(iv)	73,727	1,805
Make good provision		2,407	-
Employee benefits provisions	17	-	2,389
Total non-current liabilities		169,886	189,226
Total liabilities		795,534	708,621
Net asset (deficiency)		(484,234)	(151,897)
Equity			
Partners' capital	22	-	-
Contributed equity	23	-	-
Reserves	24	(169,693)	(31,545)
Accumulated losses		(314,541)	(120,352)
Total (deficiency) in equity		(484,234)	(151,897)

The notes on pages 10 to 40 are an integral part of these combined financial statements.

* Refer to note 2(f) Prior year restatement.

McKenzie Aged Care Group

Combined statement of profit or loss and other comprehensive income

For the year ended 30 June 2023

in thousands of dollars	Note	2023	2022 Restated*
Revenue	6	211,880	191,379
Other income	7	379	3,380
Fair value increase in investment properties		3,993	2,169
Consumables used in continuing activities		(36,317)	(31,537)
Employee benefits expenses		(144,417)	(137,434)
Depreciation and amortisation expense	8(ii)	(43,197)	(36,698)
Consultants and contractors expense		(27,786)	(11,077)
Loss on disposal of assets		(129,007)	-
Other expenses		(10,479)	(7,355)
Results from operating activities		(174,951)	(27,173)
Finance income	8(i)(a)	1,449	218
Finance expenses	8(i)(b)	(28,050)	(8,472)
Net finance (expense)		(26,601)	(8,254)
(Loss) for the year		(201,552)	(35,427)
Other comprehensive income for the year, net of income tax			
Items that are or may be reclassified to profit or loss			
Cash flow hedges – change in fair value	24(b)	-	516
Other comprehensive income		-	516
Total comprehensive (loss) for the year		(201,552)	(34,911)

The notes on pages 10 to 40 are an integral part of these combined financial statements.

* Refer to note 2(f) Prior year restatement.

McKenzie Aged Care Group

Combined statement of changes in equity

For the year ended 30 June 2023

in thousands of dollars	Note	Partners's capital	Accumulated losses	Distribution reserve	Revaluation reserve	Hedge reserve	Total equity
Balance at 1 July 2021 – as previously reported		-	(88,782)	(34,186)	20,250	(516)	(103,234)
Impact of restatement	2(f)	-	(1,666)	-	-	-	(1,666)
Restated balance at 1 July 2021		-	(90,448)	(34,186)	20,250	(516)	(104,900)
Total comprehensive income/(loss) for the year							
Loss for the year – as previously reported		-	(34,395)	-	-	-	(34,395)
Impact of restatement	2(f)	-	(1,032)	-	-	-	(1,032)
Restated loss for the year		-	(35,427)	-	-	-	(35,427)
Other comprehensive income for the year							
Cash flow hedges – change in fair value	24(b)	-	-	-	-	516	516
Total other comprehensive income		-	-	-	-	516	516
Restated total comprehensive (loss)/income for the year		-	(35,427)	-	-	516	(34,911)
Transactions with owners, recorded directly in equity:							
Distribution to owners							
Partners' drawings	24(c)	-	-	(12,086)	-	-	(12,086)
Total distributions to owners		-	-	(12,086)	-	-	(12,086)
Amortisation of bed licence revaluation reserve transferred directly to retained earnings	24(a)	-	5,523	-	(5,523)	-	-
Restated balance at 30 June 2022		-	(120,352)	(46,272)	14,727	-	(151,897)
Total comprehensive income/(loss) for the year							
Profit/(loss) for the year		-	(201,552)	-	-	-	(201,552)
Other comprehensive income for the year							
Total other comprehensive loss		-	(201,552)	-	-	-	(201,552)
Transactions with owners, recorded directly in equity:							
Distribution to owners							
Business disposal transaction	24(c)	-	-	(129,185)	-	-	(129,185)
Partners' drawings	24(c)	-	-	(1,600)	-	-	(1,600)
Total distributions to owners		-	-	(130,785)	-	-	(130,785)
Amortisation of bed licence revaluation reserve transferred directly to retained earnings	24(a)	-	7,363	-	(7,363)	-	-
Balance at 30 June 2023		-	(314,541)	(177,057)	7,364	-	(484,234)

The notes on pages 10 to 40 are an integral part of these combined financial statements.

McKenzie Aged Care Group

Combined statement of cash flows

For the year ended 30 June 2023

**in thousands of dollars*	Note	2023	2022 Restated*
Cash flows from operating activities			
Cash receipts from Government and residents		196,790	187,838
Government grants received		320	3,380
Interest received	8(a)	1,449	218
Payments to suppliers and employees		(217,421)	(185,246)
Interest paid		(1,612)	(6,733)
Net cash flows from operating activities		(20,474)	(543)
Cash flows from investing activities			
Acquisition of property, plant and equipment		(7,875)	(6,654)
Proceeds from sale of fixed assets		-	12,150
Net cash from / (used in) investing activities		(7,875)	5,496
Cash flows from financing activities			
Proceeds from collection of resident bonds / refundable accommodation deposits (RADs) and resident loans		169,528	159,003
Repayment of resident bonds/refundable accommodation deposits (RADs) and resident loans		(155,039)	(122,258)
Net payments of loans and borrowings		(13,818)	(33,535)
Net proceeds from financing of aged care properties sold		-	89,288
Repayment of lease liabilities		(2,414)	(400)
Partners' drawings		(44,119)	(12,086)
Net cash from / (used in) financing activities		(45,862)	80,012
Net increase / (decrease) in cash and cash equivalents		(74,211)	84,965
Cash and cash equivalents at the beginning of the financial year		84,958	(7)
Cash and cash equivalents at the end of the financial year	9	10,747	84,958

The notes on pages 10 to 40 are an integral part of these combined financial statements.

* Refer to note 2(f) Prior year restatement.

1. Reporting entity

McKenzie Aged Care Group has determined that it is a reporting entity for the purposes of the preparation of this combined financial report which has been prepared to meet the Group's reporting obligations under the *Aged Care Act 1997 (C'th)*. The composition of the reporting entity has been determined with reference to the information needs of the primary users of these financial statements. The combined entity is considered to be an economic entity for reporting purposes, comprising the assets, liabilities and results of operations of the facilities and services outlined on page 2, historically known as the McKenzie Aged Care Group Partnership (together referred to as the "Group"). The structure of the combined Group has been impacted by material transactions occurring on 17 Februrary 2023 as outlined in note 5. A summary of entities comprising the combined entity is included in note 5.

The registered office and principal place of business of McKenzie Aged Care Group is Level 3, 44 Musk Avenue, Kelvin Grove, QLD 4059. The combined financial statements of McKenzie Aged Care Group as at and for the year ended 30 June 2023 comprise the McKenzie Aged Care Group Partnership and its controlled entities from 1 July 2022 to 17 February 2023, then the operations and net asset position of McKenzie Aged Care Group Pty Ltd and Cabool Retirement Villages Pty Ltd from that date (together referred to as the "Group"). All entities in the Group are domiciled in Australia.

The Group is a for-profit entity and is primarily involved in aged care services and the operation of two retirement villages.

2. Basis of preparation

(a) Statement of compliance

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and other authoritative pronouncements issued by the Australian Accounting Standards Board (AASB), and comply with other requirements of the law.

The Group does not have public accountability as defined in AASB 1053 *Application of Tiers of Australian Accounting Standards* and is therefore eligible to apply the "Tier 2" reporting framework under Australian Accounting Standards. The combined financial statements comply with the recognition and measurement requirements of Australian Accounting Standards, the presentation requirements in those Standards as modified by AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for Profit Tier 2 Entities* ("AASB 1060") and the disclosure requirements in AASB 1060. Accordingly, the financial statements comply with Australian Accounting Standards – Simplified Disclosures.

The combined financial statements were authorised for issue by the Directors on 26 October 2023.

(b) Basis of measurement

The combined financial statements have been prepared on the historical cost basis except for the following material items in the combined statement of financial position:

- Investment properties are measured at fair value
- Derivatives – interest rate swaps are measured at fair value

The methods used to measure fair value are discussed further in note 4.

(c) Functional and presentation currency

These combined financial statements are presented in Australian dollars, which is the Group's functional currency. All financial information presented in Australian dollars has been rounded to the nearest thousand unless otherwise stated.

2. Basis of preparation (continued)

(d) Use of estimates and judgements

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

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

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the combined financial statements are included in the following notes:

- Intangible assets and goodwill – Notes 3(d), 3(f)(ii) and 12
- Investment properties – Notes 3(e), 4(b) and 13
- Employee benefits provisions – Notes 3(g) and 17
- Useful lives of plant and equipment – Notes 3(c)(iii) and 11
- Valuation of finance liability relating to sale and leaseback transaction – Note 18

(e) Going concern

This financial report has been prepared on a going concern basis which contemplates continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

The combined statement of financial position discloses total current assets of $18,828,000 (2022: $96,665,000) and total current liabilities of $625,648,000 (2022: $521,568,000), giving rise to a net current liability position of $606,820,000 at 30 June 2023, as well as a net liability position $484,234,000. The group incurred a loss of $201,552,000 for the year and generated net cash outflows from operating activities of $20,474,000).

The net current liability position largely arises because retirement village resident loans and refundable accommodation deposits (RADs), totalling $501,700,000 (2022: $488,603,000), are classified in full as a current liability, whereas the assets to which the loans and RADs relate (land, buildings and retirement village assets), are classified as non-current assets. Retirement village resident loans and RADs are classified as a current liability because the Group does not have an unconditional right to defer settlement of resident loans or RADs for at least 12 months after the reporting period. In practice, the rate at which residents vacate their retirement village units and their aged care accommodation can be estimated. Given that the resident profile is generally consistent with prior periods, these prior periods provide a reliable estimate of future payment trends. As noted in the combined statement of cash flows from financing activities $155,039,000 (2022: $122,258,000) of resident loans and RADs were refunded during the year. These refunded loans were replaced by incoming contributions (including RADs) of $169,528,000 (2022: $159,003,000).

In addition, the Group has a liquidity management strategy in place that requires available liquidity to be equal to or in excess of 5% (2022: 2%) of the total RADs liability, to ensure that refunds can be paid as and when they fall due. The current minimum liquidity level set by the Liquidity Management Strategy is $25,000,000 (2022: $10,000,000). This is 5% (2022: 2%) of the RADs liability of $479,218,000 (2022: $466,516,000) at year end. Liquidity is monitored and cash flow forecasts are prepared on at least a monthly basis to ensure that the Group adheres to the Liquidity Management Strategy.

After considering all available current information, the Directors have concluded that there are reasonable grounds to believe that the Group will be able to pay its debts as and when they fall due and payable and the basis of preparation of the financial report on the going concern basis is appropriate..

In reaching this assessment the Directors have considered a letter of support dated 26 October 2023 received from RSL Care RDNS Limited confirming its ongoing financial support to the Group and confirming any outstanding liabilities owing will not be called upon for at least 12 months. The Directors have relied on this confirmation of parental support and believe the parent will be able to make good on its support.

2. Basis of preparation (continued)

(f) Prior year restatement

During the year the Group identified the following errors in the prior year financial statements:

(a) The carrying value of the financial liability that arose on the sale and leaseback of three homes to a third party during the year ended 30 June 2022 (see note 11) was understated. This understatement resulted in an understatement of interest expense in the prior year. The Statement of Cashflows for the year ended 30 June 2022 was also restated to recognise the payment of additional interest costs arising from the restatement of the financial liability arising on the sale and leaseback of three homes to a third party.

(b) The fair value of the retirement village assets (classified as Investment Property) has been understated since the acquisiton of the Embracia assets in 2015. This understatement resulted in the Goodwill recognised on the acquisition of the Embracia assets to be overstated. Fair value remeasurements have been reclassified from Other Income to reflect the true nature of the fair value adjustments.

(c) In the cashflow statement, net cash inflows and outflows relating to resident bonds, refundable accommodation deposits (RADs) and resident loans were reclassified from operating activities to financing activities to more accurately reflect the nature of the cash flows and prescriptive restrictions on use. The net amount previously disclosed was split between proceeds received and repayments made (on a gross basis).

The Group has corrected these prior year errors by restating the affected financial statement line items for the prior period. The following tables summarise the impacts of the restatement on the comparatives included in the Group's financial statements.

2. Basis of preparation (continued)

(f) Prior year restatement (continued)

in thousands of dollars	As previously reported	Adjustments (a)	Adjustments (b)	As restated
Statement of Financial Position				
1 July 2021				
Investment properties	8,697	-	20,578	29,275
Intangible assets – goodwill	103,203	-	(22,244)	80,959
Other non-current assets	379,946	-	-	379,946
Total non-current assets	491,846	-	(1,666)	490,180
Total assets	513,087	-	(1,666)	511,421
Net asset deficiency	(103,234)	-	(1,666)	(104,900)
Reserves	(14,452)	-	-	(14,452)
Accumulated losses	(88,782)	-	(1,666)	(90,448)
Total (deficiency) in equity	(103,234)	-	(1,666)	(104,900)
Statement of Financial Position				
30 June 2022				
Investment properties	9,357	-	22,087	31,444
Intangible assets – goodwill	103,203	-	(22,244)	80,959
Other non-current assets	349,829	-	-	349,829
Total non-current assets	462,389	-	(157)	462,232
Total assets	556,881	-	(157)	556,724
Other financial liabilities	491,317	(2,714)	-	488,603
Other current liabilities	30,792	-	-	30,792
Total current liabilities	522,109	(2,714)	-	519,395
Other financial liabilities	86,574	5,255	-	91,829
Other non-current liabilities	97,397	-	-	97,397
Total non-current liabilities	183,971	5,255	-	189,226
Total liabilities	706,080	2,541	-	708,621
Net asset deficiency	(149,199)	(2,541)	(157)	(151,897)
Reserves	(31,545)	-	-	(31,545)
Accumulated losses	(117,654)	(2,541)	(157)	(120,352)
Total (deficiency) in equity	(149,199)	(2,541)	(157)	(151,897)

Basis of preparation (continued)

(f) Prior year restatement (continued)

in thousands of dollars	As previously reported	Adjustments (a)	Adjustments (b)	As restated
Statement of profit or loss and other comprehensive income 30 June 2022				
Other income	4,040	-	(660)	3,380
Fair value increase in investment property	-	-	2,169	2,169
Other operating activities	(32,722)	-	-	(32,722)
Results from operating activities	(28,682)	-	1,509	(27,173)
Finance income	218	-	-	218
Finance expenses	(5,931)	(2,541)	-	(8,472)
Net finance (expense)	(5,713)	(2,541)	-	(8,254)
Loss for the year	(34,395)	(2,541)	1,509	(35,427)
Other comprehensive income	516	-	-	516
Total other comprehensive loss for the year	(33,879)	(2,541)	1,509	(34,911)

in thousands of dollars	As previously reported	Adjustments (a)	Adjustments (c)	As restated
Statement of cash flows 30 June 2022				
Payments to suppliers and employees	(186,887)	1,641	-	(185,246)
Proceeds from collection of resident bonds / refundable accommodation deposits (RADs) and resident loans	36,745		(36,745)	-
Interest paid	(5,092)	(1,641)		(6,733)
Other cash flows from operating activities	191,436	-	-	191,436
Net cash flows used in operating activities	36,202	-	(36,745)	(543)
Proceeds from collection of resident bonds / refundable accommodation deposits (RADs) and resident loans	-	-	159,003	159,003
Repayment of resident bonds / refundable accommodation deposits (RADs) and resident loans	-	-	(122,258)	(122,258)
Other cash flows from financing activities	43,267	-	-	43,267
Net cash flows from financing activities	43,267	-	36,745	80,012

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these combined financial statements, and have been applied consistently by Group entities.

(a) Basis of combination

(i) Entering the Group

Entities that enter the Group via a business combination effected by existing group entities are accounted for using the acquisition method as at the acquisition date, i.e. when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises has an indefinite useful life and is tested annually for impairment (refer note 3(f)).

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Transaction costs related to the acquisition are expensed as incurred.

(ii) Transactions eliminated on combination

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the combined financial statements.

(iii) Exiting the Group

When an entity exits the combined Group the Group derecognises the assets and liabilities of the entity, any non-controlling interests and the other components of equity related to the entity. Any surplus or deficit arising on the exit is recognised in profit or loss.

(b) Financial instruments

Recognition and initial measurement

Trade receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument. A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit and loss (FVTPL), transaction costs that are directly attributable to its acquisition or issues. A trade receivable without a significant financing component is initially measured at the transaction price.

Classification and subsequent measurement

(i) Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost; fair value through other comprehensive income (FVOCI) – debt investment; FVOCI – equity investment; or fair value through profit and loss (FVTPL).

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

3. Significant accounting policies (continued)

(b) Financial instruments (continued)

(i) Financial assets (continued)

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The Group has the following financial assets recognised as amortised cost: loans and receivables, and cash and cash equivalents.

Loans and receivables

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

Loans and receivables comprise trade and other receivables.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of change in their fair value, and are used by the Group in the management of its short term commitments.

(ii) Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

(iii) Financial assets – Subsequent measurement and gains and losses

Financial assets at amortised cost – Loans and receivables

These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

3. Significant accounting policies (continued)

(b) Financial instruments (continued)

(iv) Financial assets – Derecognition and offsetting

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

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

(v) Financial liabilities – Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. Other financial liabilities comprise loans and borrowings, bank overdrafts, resident loans, resident bonds/refundable accommodation deposits payable, financial liability recognised on sale and lease back and trade and other payables. Bank overdrafts that are repayable on demand and form an integral part of the Group’s cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(vi) Derivative financial instruments and hedge accounting

The Group holds derivative financial instruments to hedge its interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if certain criteria are met.

Derivatives are initially recognised at fair value; any directly attributable transaction costs are recognised in profit and loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognised in profit and loss.

Cash Flow Hedges

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in fair value of the derivative is recognised in other comprehensive income and accumulated in the hedging reserve. Any ineffective portion of changes in fair value of the derivative is recognised immediately in profit or loss.

The amount accumulated in equity is retained in other comprehensive income and reclassified to profit or loss in the same period or periods during which the hedged item affects profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the amount accumulated in equity is reclassified to profit or loss.

(vii) Effective interest rate method

The effective interest rate method is used for amortising premiums, discounts and transaction costs for both financial assets and financial liabilities. When applying the effective interest rate method, interest is recognised in profit or loss in the period in which it accrues, even if payment is deferred.
The effective interest rate method is a method of calculating the amortised cost of a financial asset or financial liability and allocating the interest income or expense over the relevant period. Amortisation under this method reflects a constant period return on the carrying amount of the asset or liability.

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments, without consideration of future credit losses, over the expected life of the financial instrument, or through to the next market-based repricing date, to the net carrying amount of the financial instrument on initial recognition.

3. Significant accounting policies (continued)

(c) Property, plant and equipment

(i) Recognition and measurement

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

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

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The gains or losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within other income/other expenses in the profit or loss.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

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

Items of property, plant and equipment are depreciated from the date that they are installed and ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use.

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

- Buildings and developments — 40 years
- Plant and equipment — 2 – 10 years
- Leased assets — 2 – 10 years
- Leasehold improvements — 4 – 10 years
- Software — 2 - 5 years

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

(iv) Work in progress

Costs relating to the construction and refurbishment of aged care facilities are capitalised as work in progress. The initial capitalisation of costs is based on judgement that the project is expected to generate future economic benefits. Subsequent to determining the initial eligibility for capitalisation the Group reassesses on a regular basis whether projects are still sufficiently probable of completion and expected to deliver desired economic benefits.

3. Significant accounting policies (continued)

(d) Intangible assets and goodwill

(i) Approved provider aged care places (bed licences)

Certain bed licences were granted by the Government to McKenzie Aged Care Group Partnership for no consideration. These licences are issued to approved providers and can also be purchased from other third parties. Holders of licences receive Federal Government funding in accordance with predetermined rates.

Approved provider aged care places are stated at cost or fair value at acquisition less any accumulated impairment losses. During the year ended 30 June 2022 a change in accounting estimate was made resulting in the reclassification of bed license intangibles from a indefinite life intangible asset to a finite life intangible asset. As a result bed licences are being amortised on a straight-line basis down to a nil value by 30 June 2024. The carrying amount of the bed licences are reviewed at the end of the reporting period to ensure that they are not valued in excess of recoverable amount. Refer note 3(f) and note 12.

(ii) Goodwill

Goodwill that arises from business combinations is included in intangible assets. For the measurement of goodwill at initial recognition, see note 3(a)(i).

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses (Refer note 3(f)).

(e) Investment properties

Investment properties, comprising retirement villages, are held for long-term income yields and are not occupied by the Group. The Group makes a determination, on a property by property basis, as to whether a property should be considered an investment property. Factors taken into account include:

- Whether the property generates property related cash flows largely independent of other services provided to residents of the properties;
- Whether the property is held for long-term capital appreciation rather than for short-term sale in the ordinary course of business; and
- The probable future use of land that is not currently generating cash flows.

Initially, investment properties are measured at cost including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. Fair values are evaluated annually by an accredited external, independent valuer, applying a valuation model recommended by the International Valuation Standards Committee. Gains or losses arising from changes in fair values of the investment properties are included as other income in the statement of profit or loss and other comprehensive income in the period in which they arise.

Investment properties are derecognised when they have either been disposed of or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Gains or losses on disposals are determined by comparing net disposal proceeds with the carrying amount and are recognised in profit or loss.

(f) Impairment

(i) Non-derivative financial assets

The Group recognises a loss allowance for expected credit losses (“ECL”) on investments in debt instruments, lease receivables and trade receivables, as well as on financial guarantee contracts. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL for trade receivables and lease receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

3. Significant accounting policies (continued)

(f) Impairment (continued)

(i) Non-derivative financial assets (continued)

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. Goodwill and indefinite life intangible assets are tested annually for impairment. An impairment loss is recognised if the carrying amount of an asset or its related cash-generated unit (CGU) exceeds its recoverable amount.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets of Cash Generating Units (CGUs). Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination. The Group's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Fair value less costs of disposal is assessed using a similar set of discounted cash flows, with adjustments made for considerations a market participant would apply in valuing the CGU as part of an ordely transaction.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amount of the assets in the unit on a pro rata basis.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(g) Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution superannuation funds are recognised as an employee benefit expense in profit or loss in the periods during which services were rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

3. Significant accounting policies (continued)

(g) Employee benefits (continued)

(ii) Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits including long service and annual leave expected to be settled after 12 months, is the amount of future benefit that employees have earned in return for their service in the current and prior periods plus related on costs. The provision is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates based on turnover history. That provision is discounted to determine its present value. The discount rate is the yield at the reporting date on high quality Australian corporate bonds that have maturity dates approximating the terms of the Group's obligations.

(iii) Termination benefits

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date or to provide termination benefits as a result of an offer made to encourage voluntary redundancies. Termination benefits for voluntary redundancies are recognised if the Group has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

(iv) Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within twelve months of the reporting date are measured at their nominal amounts in current other payables and provisions and represent the amounts expected to be paid when liabilities are settled. Liabilities for non-vesting sick leave are recognised when the leave is taken and measured at the rates paid or payable. Liabilities for annual leave are classified as current liabilities irrespective of the expected maturity as there is not a right to defersettlement.

(h) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

(i) Revenue

The Group recognises revenue under AASB 15 *Revenue from Contracts with Customers* and applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The Group uses the five-step model as set out in AASB 15 to account for revenue arising from contracts with customers. The transaction price is allocated to performance obligations on the basis of their relative standalone selling prices and recognised as revenue accordingly as those performance obligations are satisfied over time as the customer simultaneously receives and consumes the benefits provided by the Group.

(i) Federal Government funding (Care)

The Federal Government assesses the Group's entitlement to revenue in accordance with the provisions of the *Aged Care Act 1997 (C'th)*. The subsidy received is based on Australian National Aged Care Classification ("AN-ACC") funding model and recognised on an ongoing daily basis. The Federal Government also calculates certain accommodation supplements and other supplements on a per resident per day basis. The amount of Government revenue received is determined by Federal Government regulation rather than a contract with a customer. The funding is determined by a range of factors, including the residents care needs; whether the home has been significantly refurbished; levels of supported resident ratios at the home; and the financial means of the resident.

3. Significant accounting policies (continued)

(i) Revenue (continued)

(i) Federal Government funding (Care) (continued)

For each resident, a single performance obligation that reflects a series of distinct services that are substantially the same and have the same pattern of transfer has been identified, being the ongoing daily delivery of care to the resident. The Group recognises revenue on a daily basis over-time in line with the care given to residents. Funding is received monthly in advance from the Federal Government.

(ii) Resident basic daily fee

The basic daily fee is a daily living expense paid by all residents as a contribution towards the provision of care and accommodation in accordance with the *Aged Care Act 1997 (Cth)*. This fee is calculated daily in accordance with rates set by the Federal Government, and invoiced on a monthly basis. In addition to the basic daily fee, if the resident has been assessed by the Federal Government as having financial means, an additional means tested care fee is payable by the resident as contribution to their care fees. This is also calculated on a daily basis and invoiced monthly.

For each resident, a single performance obligation that reflects a series of distinct services that are substantially the same and have the same pattern of transfer had been identified, being the ongoing daily delivery of care to the resident. The Group recognises revenue on a daily basis over time in line with the care given to residents. Residents are invoiced on a monthly basis for services provided, with payment due upon invoicing.

(iii) Other resident fees

These include fees recognised by the Group for additional services to residents, charged to residents under mutually agreed terms and conditions, depending upon the agreed room price and additional services requested. Each additional service provided to a resident represents a separate performance obligation. These services are typically provided on a regular recurring basis, with revenue recognised over time as the service is provided to the resident. Services provided are invoiced on a monthly basis for services provided, with payment due upon invoicing.

(iv) Government grant income

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants that are reciprocal in nature are recognised in profit or loss on a systematic basis over the periods in which the Group expenses the related costs for which the grants are intended to compensate. A reciprocal transfer generally occurs when a return obligation exists to the funding provider.

Where such a return obligation exists, revenue is deferred in the statement of financial position and is recognised as deferred income and released to profit or loss as the obligations are satisfied. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire assets are recognised in profit or loss immediately when control is obtained and can be measured reliably.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss inthe period in which they become receivable.

Government assistance which does not have conditions attached specifically relating to the operating activities of the Group is recognised in accordance with the accounting policies above.

(j) Finance income and finance costs

Finance income comprises interest income on funds invested and interest on resident bonds receivable. Interest income is recognised as it accrues, using the effective interest method.
Finance costs comprise interest expense on borrowings, ineffective portion of cash flow hedges, finance fees and imputed interest cost on refundable accommodation deposits (RADs)/ bond balances. The borrowing costs are recognised in profit or loss using the effective interest method.

3. Significant accounting policies (continued)

(j) Finance income and finance costs (continued)

For residents receiving residential care services under a refundable accommodation deposit (RAD) or accommodation bond arrangement, the Group has determined these arrangements are considered leases for accounting purposes under AASB 16 Leases with the Group acting as lessor. The Group has recognised as revenue an imputed non-cash charge for accommodation representing the resident's right to occupy a room under the arrangement and a corresponding non-cash increase in finance costs on the outstanding RAD and accommodation bond balances, with no net impact on the result for the period.

(k) Tax

Until 17 February 2023, the Group included McKenzie Aged Care Group Partnership and its controlled entities, and the net profit or loss was distributed to the Partners. Until this date, the reporting entity had no tax liability or assets to bring to account as the tax liability or asset was either the Partners' liability or asset. From 17 February 2023, the beneficial interest in the Group is owned by a not-for-profit Parent, which is exempt from income tax in accordance with section 50-5 of the *Income Tax Assessment Act 1997 (C'th).*

(l) Goods and services tax

Revenue, expenses and assets are recognised net of the amounts of Goods and Services Tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the item of expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable or payable to the ATO is included as a current asset or liability in the statement of financial position.

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

(m) Resident bonds/Refundable accommodation deposit (RAD) liabilities

Resident bonds/RAD liabilities represents the net balance of accommodation bonds or accommodation deposits held as at balance date. These are recorded at an amount equal to the proceeds received. The liability balance is reduced by the monthly retentions drawn from the bonds as at balance date.

The Group has an obligation to repay to residents the net balance of their accommodation bonds or deposits deposited with the Group upon the resident leaving the facility. At this time, bonds or RADs are repayable on demand and are classified as a current liability (recognised as part of trade and other payables), as the Group does not have an unconditional right to defer settlement of the liability for at least 12 months after balance date. Interest is charged on unpaid accommodation bonds at a fixed statutory rate determined by the Department of Health. Interest is calculated on a daily basis and recognised monthly as part of finance income in the statement of profit or loss and other comprehensive income.

(n) ILU Resident loans

ILU Resident loans relate to equity-funded independent living unit agreements. Resident loans are non-interest bearing and are recognised at fair value with resulting fair value adjustments recognised in profit or loss. Fair value is the amount payable on demand and is measured at the principle amount plus the resident's share of any increases in the market value of the occupied unit (for contracts that contain a capital gain share clause) less deferred management fees contractually accruing up to reporting date.

3. Significant accounting policies (continued)

(o) Leases

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of lease in AASB 16 *Leases*.

As a Lessee

At commencement or on modification of the contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition the right-of-use asset is periodically reduced by impairment loss, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

Lease payments include in the measurement of the lease liability comprises the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option; and
- penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment if whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payments.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment property in 'Right of use assets' and lease liabilities in 'Lease liabilities' in the statement of financial position.

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

3. Significant accounting policies (continued)

(o) Leases (continued)

As a Lessor

At inception or on modification of the contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

When the Group acts as a lessor, it determines at lease commencement whether each lease is a finance lease or an operating lease. To classify each lease, the Group makes an overall assessment of whether the lease transfers to the lessee substantially all of the risks and rewards of ownership incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset. If an arrangement contains lease and non-lease components, the Group applies AASB 15 to allocate the consideration in the contract.

(i) Residential Aged Care

For residents who have chosen a Residential Accommodation Deposit (“RAD”) or Bond arrangement, the Group has determined that the adoption of AASB 16 *Leases* will define these arrangements to be a lease for accounting purposes with the Group acting as the lessor. The accounting treatment requires a non-cash increase in revenue for accommodation and a non-cash increase in finance cost on the outstanding RAD liability, with no net impact on the results of the Group.

The Group has concluded that the lease term for these arrangements is 1 day based on earliest time of departure of resident in certain circumstances. The imputed non-cash charge for the year ended 30 June 2023 was calculated based on applying the daily cash rate published by the Reserve Bank of Australia to the monthly average outstanding RAD balance.

Where residents have opted to pay a Daily Accommodation Payment, the Group has determined that the adoption of AASB 16 does not have a material impact on the recognition and measurement of revenue.

(ii) Retirement Villages

Deferred management fee (“DMF”) revenue represents the fee that is contractually deducted from the ingoing contribution that is paid back to a resident upon exit from a Retirement Village. DMF revenue is recognised over the expected length of stay of the resident. The Group now discloses this revenue separately from revenue from contracts with customers as Accommodation income (refer to note 6).

(p) Comparatives

There have been no material changes in the comparative of the financial statements, other than as described in note 2(f).

4. Determination of fair values

A number of the Group’s accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities.

(a) Financial assets and liabilities

The fair value of cash and cash equivalents and non-interest bearing financial assets and liabilities (including trade and other receivables and trade and other payables) approximate their carrying amounts largely due to the short maturity.

Financial assets and financial liabilities measured at fair value are grouped into three levels of fair value hierarchy. This grouping is determined based on the lowest level of significant inputs used in fair value measurement, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly, i.e. as prices, or indirectly i.e. derived from prices.
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

4. Determination of fair values (continued)

(a) Financial assets and liabilities (continued)

Non-derivative financial liabilities are measured at fair value, at initial recognition and for disclosure purposes, at each annual reporting date. The fair value of interest-bearing borrowings, including leases, are determined by discounting the remaining contractual cash flows at the relevant credit adjusted market interest rates at the reporting date.

(b) Investment properties

The fair value of investment properties, previously acquired through a business combination, was determined by external, independent property valuers using the discounted cash flow methodology. The fair value is determined by an independent valuer annually.

(c) Derivatives and hedging activities

The fair value of interest rate swaps is based on the external financier's quotes, adjusted for any credit value adjustments required. The interest rate swap contracts expired during the year ended 30 June 2022.

5. Significant transactions

Until 17 February 2023, the McKenzie Aged Care Group was a partnership consisting of three equal partners being:

- Jolimont Lodge Pty Ltd ATF The Powell Family Trust
- Autumn Sun Pty Ltd ATF The Hutchison Family Trust
- Bay St 2 Pty Ltd ATF Bay Street No 2 Trust

The partners controlled the beneficial interest of the Group assets and the results from operations, while the legal interests of the Group were held by three Trustee companies being:

- McKenzie Aged Care Group Pty Ltd
- Cabool Retirement Villages Pty Ltd
- Residential Processing Services Pty Ltd

On 17 February 2023, the Group was acquired by RSL Care RDNS Limited ("the Parent"). The acquisition resulted in the beneficial interests of the Group being transferred to the Parent, along with the shares in McKenzie Aged Care Group Pty Ltd and Cabool Retirement Villages Pty Ltd. Certain assets legally owned by Residential Processing Services Pty Ltd and Cabool Retirement Villages Pty Ltd were also transferred to the Parent.

On 17 February 2023 a new Board of Directors was appointed to each of McKenzie Aged Care Group Pty Ltd and Cabool Retirement Villages Pty Ltd.

The Directors have considered the needs of users of these financial statements and have determined that the Group, comprising the assets, liabilities and results of operations of the facilities and services outlined on page 2, and presented by the following interests represents a reporting entity for the year ended 30 June 2023:

- Legal and beneficial interest in McKenzie Aged Care Group Pty Ltd
- Legal and beneficial interest in Cabool Retirement Villages Pty Ltd
- Legal and beneficial interest in Residential Processing Services Pty Ltd until 17 February 2023.
- Results of operations from the assets beneficially transferred to the Parent on 17 February 2023, to the extent they related to the facilities and services included in the historical Group and operated on behalf of the Parent.

The transaction described above had the following material impacts on the combined statement of profit or loss and other comprehensive income for the year ended 30 June 2023:

- Property, plant and equipment and investment properties were transferred to RSL Care RDNS Limited for nil consideration, resulting in a loss on disposal of assets of $129,007,000.

5. Significant transactions (continued)

In addition, the former partners retained property assets, which was recorded as a distribution of assets through equity, at an amount of $129,185,000.

6. Revenue

in thousands of dollars	Note	2023	2022
Care income			
Federal Government funding		142,165	138,848
Resident basic daily fees		35,909	33,825
Other resident fees		1,414	1,640
		179,488	174,313
Accommodation income			
Department of Health funding		8,127	6,891
Resident fees		9,278	8,478
Deferred management fees		865	858
		18,270	16,227
Imputed revenue on RAD and bond balances	3(o)(i)	14,122	839
Total revenue		211,880	191,379

Revenue amounts in the table above are recognised over time.

The group recognises revenue from the following major sources:

- Federal Government
- Residential Aged Care residents
- Retirement Village residents

Information about the performance obligations arising under each of the above categories of revenue, including a description of when the Group typically satisfies its performance obligations, the significant payment terms, the nature of the goods and services provided and related obligations is provided together with the accounting policies for revenue as set out in the account policy note 3(i).

7. Other income

in thousands of dollars	Note	2023	2022 Restated*
Government grant income		320	3,380
Sundry income		59	-
		379	3,380

* Refer note 2(f) Prior year restatement.

8. Expenses

(i) Finance income and expenses

Recognised in profit or loss

in thousands of dollars	Note	2023	2022 Restated*
(a) Finance income			
Interest income on bank deposits		1,393	25
Interest income on resident bonds		56	193
Total finance income		1,449	218
(b) Finance expenses			
Interest expense on bank loans		(2,364)	(2,296)
Interest expense on inter entity borrowings		(1,028)	-
Imputed interest cost on RAD and bond balances under AASB 16	3(o)(i)	(14,122)	(839)
Interest expense on resident bonds/refundable accommodation deposits		(1,428)	(1,305)
Interest expense on lease liabilities	16	(2,186)	(115)
Interest expense on other financial liability		(6,922)	(3,917)
Total finance expense		(28,050)	(8,472)
Net finance (expense)		(26,601)	(8,254)

* Refer note 2(f) Prior year restatement.

(ii) Depreciation and amortisation expense

Recognised in profit or loss

in thousands of dollars	Note	2023	2022
Property, plant and equipment	11	12,876	15,711
Intangible assets	12	27,374	20,531
Right of use assets	16	2,947	456
Total depreciation and amortisation expense		43,197	36,698

9. Cash and cash equivalents

in thousands of dollars	2023	2022
Current		
Cash in bank	10,747	4,958
Term deposit – restricted cash*	-	80,000
	10,747	84,958

** Term deposit of $80,000,000 was presented as restricted cash as it was used to net off against a facility commitment to satisfy the Group's Loan to Value bank covenants; refer to note 15.*

(a) Interest rates

The effective interest rate on cash in bank was 5.00% (2022: 0.00%). The effective rate on the Term deposit at 30 June 2022 was 0.79%.

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

9. Cash and cash equivalents (continued)

(b) Non-cash transactions

As a result of the sale of the business to RSL Care RDNS Limited, during the current year, the Group entered into the following non-cash investing and financing activities which are not reflected in the statement of cash flows:

- Property, plant and equipment of $174,987,000 was disposed of for nil consideration (refer note 11).
- Retirement village assets of $35,437,000 were disposed of for nil consideration (refer note 13).
- The bank loan and asset finance facility held with ANZ was transferred to RSL Care RDNS Limited, with no settlement required by the Group.

10. Trade and other receivables

in thousands of dollars	Note	2023	2022
Current			
Trade receivables		4,103	3,587
Allowance for impairment	(a)	(1,737)	-
Net trade receivables		2,366	3,587
Prepayments		2,507	1,985
Funds held in trust	(b)	965	1,118
Other receivables and deposits		2,243	5,017
Total current trade and other receivables		8,081	11,707

(a) Allowance for impairment

Trade receivables are reviewed annually for impairment (refer note 3(f)). As at 30 June 2023 an amount of $3,519,000 (2022: $3,027,000) is outstanding greater than 30 days, excluding refundable accommodation deposits receivable.

The Group recognised impairment losses on receivables arising from contracts with customers, included in Other Expenses in the combined statement of profit or loss and other comprehensive income of $13,000 for the year ended 30 June 2023 (2022: $10,000).

(b) Amount represents restricted cash balances held in respect of CRF and MRF funds on behalf of the residents of retirement villages.

11. Property, plant and equipment

Reconciliation of carrying amount

in thousands of dollars	Freehold land	Leasehold improvements	Buildings and Developments*	Plant and equipment	Leased assets	Software	Total
Cost							
Balance at 1 July 2021	53,369	1,361	258,903	96,014	3,669	1,335	414,651
Additions**	-	-	1,144	4,275	-	1,235	6,654
Disposals	-	-	(314)	-	-	-	(314)
Reclassification	-	77	1,254	(1,331)	-	-	-
Balance 30 June 2022	53,369	1,438	260,987	98,958	3,669	2,570	420,991
Balance at 1 July 2022	53,369	1,438	260,987	98,958	3,669	2,570	420,991
Additions**	-	-	671	8,718	-	-	9,389
Disposals	(39,492)	(541)	(158,711)	(74,708)	(3,669)	(2,570)	(279,691)
Reclassification	-	-	1,168	(1,168)	-	-	-
Balance 30 June 2023	13,877	897	104,115	31,800	-	-	150,689

** Included in Buildings and Developments category are capital work in progress amounting to $NIL as at 30 June 2023 (2022: $3,334,000)*

*** Included in Buildings and Developments and Software additions above is capitalised employee costs of $NIL (2022: $1,234,000) in accordance with note 3(c)(i).*

11. Property, plant and equipment (continued)

Reconciliation of carrying amount (continued)

in thousands of dollars	Freehold land	Leasehold improvements	Buildings and developments	Plant and equipment	Leased assets	Software	Total
Accumulated depreciation and impairment losses							
Balance at 1 July 2021	-	649	55,261	52,631	3,669	152	112,362
Depreciation for the year	-	486	6,820	7,662	-	743	15,711
Disposals	-	-	(241)	-	-	-	(241)
Reclassification	-	-	1,210	(1,210)	-	-	-
Balance 30 June 2022	-	1,135	63,050	59,083	3,669	895	127,832
Balance at 1 July 2022	-	1,135	63,050	59,083	3,669	895	127,832
Depreciation for the year	-	-	5,849	7,027	-	-	12,876
Disposals	-	(285)	(38,274)	(51,938)	(3,669)	(895)	(95,061)
Reclassification	-	-	(468)	468	-	-	-
Balance 30 June 2023	-	850	30,157	14,640	-	-	45,647
Carrying amounts							
30 June 2022	53,369	303	197,937	39,875	-	1,675	293,159
30 June 2023	13,877	47	73,958	17,160	-	-	105,042

Sale and lease back

During the year ended 30 June 2022, the Group entered into a transaction with a third party for the sale of three aged care properties in Queensland (The Terraces, Capella Bay and Seabrook) and the lease back of the properties for a term of 25 years with options to extend for two additional 10 year periods. The contract includes a right to buy back one or more properties from the third party at an agreed value. Given the existence of the option, the Group has deemed that control of the property assets has not passed to the third party. The Group continues to recognise these assets in property, plant and equipment amounting to $65,966,000 (2022: $67,761,000). A financial liability has been recognised for the consideration received on the sale – refer to note 18(c) and note 2(f).

Valuation of land and buildings

The carrying value of the land and buildings is based on the historical cost of the freehold land when purchased and the cost of construction of the buildings. Historical additions through the business combinations were recognised at fair value in accordance with note 4. The Group does not revalue land and buildings post initial acquisition.

Non-current assets pledged

Non-current assets (freehold land and buildings and developments) are pledged as security by the Group over loans and borrowings held by the Parent as at 30 June 2023.

Significant judgement – useful lives

The assets' residual values, useful lives and depreciation rates are reviewed at each reporting date and adjusted prospectively, if appropriate.

12. Intangible assets

Reconciliation of carrying amount

in thousands of dollars	Approved bed licences	Goodwill	Total
Cost			
Balance at 1 July 2022 – Restated*	75,280	80,958	156,238
Balance 30 June 2023	75,280	80,958	156,238
Accumlated amorisation and impairment losses			
Balance at 1 July 2022	20,531	-	20,531
Amortisation for the year	27,374	-	27,374
Balance 30 June 2023	47,905	-	47,905
Carrying amounts			
Balance at 1 July 2022 – Restated*	54,750	80,958	135,708
Balance 30 June 2023	27,375	80,958	108,333

* Refer note 2(f) Prior year errors.

(a) Approved bed licences

Bed licences are issued by the Government to Approved Providers. Bed licences are stated at cost or fair value at acquisition less any accumulated amortisation and impairment losses. The Directors have noted the announcements made by the Federal Government in respect of the proposed discontinuation of Aged Care bed licences from 1 July 2024 - refer to note 3(d). Accordingly amortisation of $27,374,000 has been recognised for the year ended 30 June 2023 (2022: $20,531,000).

(b) Significant judgement and estimates – Valuation and impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the CGU to which goodwill has been allocated. A CGU may be an aged care home or a group of aged care homes that are operated independently from other assets. The value in use calculation requires the Directors to estimate the future cash flows and growth rates expected to arise from the CGU and a suitable discount rate in order to calculate present value. Where the actual cash flows are less than expected, a material impairment loss may arise.

The most sensitive assumptions used in the calculation of value in use are the discount rate, long term growth rate and profile of future residents with respect to accommodation payment preferences. Sensitivity analysis on reasonably likely changes to these assumptions did not result in an outcome where impairment would be required.

Discount rate was applied to cash flow forecasts, including the terminal value. This rate reflects the current market assessments of the risks specific to the industry the Group operates in, and taking into consideration the time value of money. The calculation of the rate is based on the specific circumstances of the asset and is derived from its weighted average cost of capital.

Long term growth rate reflects an assessment of inflation and perpetual growth using market and economic data.

The discount and growth rates used as at 30 June 2023 in assessing the recoverable amount are as follows:

	2023	2022
Pre-tax discount rate	10.3%	10.3%
Long term growth rate	2.5%	2.5%
Terminal growth rate	2.5%	2.5%

No impairment expense in respect of goodwill was recognised in the year ended 30 June 2023 (2022: $NIL).

13. Investment properties

Reconciliation of carrying amount

in thousands of dollars	2023	2022 Restated*
Balance at beginning of the year	31,444	29,275
Fair value adjustments	3,993	2,169
Disposals	(35,437)	-
Balance at the end of the year	-	31,444

* Refer note 2(f) Prior year errors.

Investment properties comprised Independent Living Units (ILUs) located across two retirement villages. On 17 February 2023, these investment properties were sold to the Parent, while the Group retained the right to operate the retirement villages under a Management Agreement.

These two retirement villages are subject to lease agreements which confer the right to occupancy of the unit, until such time as the resident's occupancy rights are transferred to another resident. Upon entry a resident will loan the Group an amount equal to the fair value of the unit. On termination the resident is entitled to repayment of the loan less any deferred management fee. These resident loans are disclosed in note 18.

The fair value of the investment properties at 30 June 2022 was based on external property valuations undertaken in February 2022 by a Certified Practising Valuer and Fellow of the Australian Property Institute. As at 30 June 2022 a fair value increase of $2,169,000 was recognised in profit and loss (other income) as determined by an external property valuer in February 2022. This fair value increase was restated as described in note 2(f).

During the year ended 30 June 2023, and prior to the disposal of the assets, an independent fair value assessment was completed based on market conditions. Investment property valuations are subject to key market-based assumptions including discount rates, the current market value of residential units and the growth in those values over time. The properties were transferred to the parent as outlined in Note 5.

14. Trade and other payables

in thousands of dollars	Note	2023	2022
Current			
Trade creditors		5,549	5,363
Accruals		5,084	3,741
Amount payable to related party	20(a)	102,572	180
Total current trade and other payables		113,205	9,284

During the year ended 30 June 2023 the Group received non-current working capital and loan funding from the Parent. These loans are interest bearing at the relevant reference rate plus margin. The loans are to be repaid on the earlier of 30 days following the date of any written demand for repayment received from the Parent (provided no such demand can be made before 28 February 2024) and 28 February 2028.

15. Loans and borrowings

in thousands of dollars	Note	2023	2022
(a) Current			
Asset finance facility		-	2,586
Total current borrowings		-	2,586
Non-current			
Bank loans – secured		-	91,831
Asset finance facility		-	1,372
Total non-current borrowings		-	93,203
Total loans and borrowings		-	95,789

(b) Security

At 30 June 2022, the ANZ Bank held first registered charges over all the Group's assets. The ANZ Bank also held security over the Partnership and related entities including:

- Bay St 2 Pty Ltd ATF Bay Street No 2 Trust
- Autumn Sun Pty Ltd ATF The Hutchison Family Trust
- Jolimont Lodge Pty Ltd ATF Powell Family Trust
- McKenzie Aged Care Group Pty Ltd
- McKenzie Staff Trust (Trustee: McKenzie Staff Pty Ltd) (controlled entity)
- Cabool Retirement Villages Pty Ltd (agent for Cabool Retirement Villages Partnership) (controlled entity)
- Residential Processing Services Pty Ltd (agent for Residential Processing Services Partnership) (controlled entity)

(c) Terms and conditions of outstanding loans

in thousands of dollars	2023	2022
Bank loan - Facility A	-	91,831
Asset finance facility	-	3,958
	-	95,789

The above bank loan facilities were provided pursuant to a facility agreement entered into with the ANZ Bank. The loan facilities were repaid by the Parent on 17 February 2023, resulting in a loan from a related party (refer note 20(a))

The interest payable on the bank loan facilities at 30 June 2022 was calculated as Bank Bill Swap Rate and a 1.5% to 1.6% margin depending on the Loan to Value Ratio.

The asset financing facility nominal interest rate at 30 June 2022 ranged between 2.90% and 4.72%.

15. Loans and borrowings (continued)

(d) Facilities

in thousands of dollars	2023 Total Facility	2023 Used	2023 Unused	2022 Total Facility	2022 Used	2022 Unused
Facility A – Core loan	-	-	-	91,831	91,831	-
Facility B – Capex	-	-	-	20,000	-	20,000
Bond liquidity facility – Facility D	-	-	-	50,000	-	50,000
Asset finance facility	-	-	-	10,000	3,958	6,042
Electronic payaway facility	4,000	-	4,000	4,000	-	4,000
Credit card/encashment/standby letter of credit or indemnity/guarantee (domestic)	803	-	803	803	-	803
Total facilities: used and unused at year end	4,803	-	4,803	176,634	95,789	80,845

16. Leases

(a) Leases as lessee

(i) Right-of-use assets

in thousands of dollars	2023	2022
Balance as at 1 July	1,921	2,377
Additions	80,122	-
Depreciation charge for the year	(2,946)	(456)
Balance as at 30 June 2023	79,097	1,921

(ii) Amounts recognised in profit or loss

in thousands of dollars

Interest on lease liabilities	2,318	115
Depreciation expense of right-of-use asset	2,946	456

(iii) Amounts recognised in Statement of Cash Flows

in thousands of dollars

Total cash outflow for leases - principal	253	400
Total cash outflow for leases – interest	2,161	115

(iv) Lease liabilities

in thousands of dollars

The below sets out the maturity analysis of lease liabilities:

Maturity analysis – contractual undiscounted cash flows		
Less than one year	10,024	448
One to five years	31,196	1,871
More than five years	153,164	41
Total undiscounted lease liabilities at 30 June	194,384	2,360

The below shows the split between current and non-current liabilities at 30 June:

Current	5,165	351
Non-current	73,727	1,805
Lease liabilities 30 June	78,892	2,156

16. Leases (continued)

(a) Leases as lessee (continued)

(v) Nature of leases

The Group leases residential aged care homes and office buildings. The average lease term of the residential care homes is 25 years for non-related party lessors and 2 years for related party lessors. Office buildings have a lease term of less than 5 years remaining.

The leases contain extension options exercisable by the Group. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

(b) Leases as lessor

The Group generates lease income under AASB 16 *Leases* from its residents within aged care facilities and retirement villages. All these leases are classified as operating leases from a lessor perspective.

17. Employee benefits provisions

in thousands of dollars	**2023**	**2022**
Short term employee benefits		
- Annual leave	-	10,677
- Long service leave	-	3,796
- Other employee related accruals	5,578	6,271
Balance at 30 June	5,578	20,744
Long-term employee benefits		
- Long service leave	-	2,389
Balance 30 June	-	2,389
Total employee benefits		
- Current	5,578	20,744
- Non-current	-	2,389
	5,578	23,133

During the year the Group contributed $11,840,000 to defined contribution superannuation funds (2022: $10,799,000).

On 13 March 2023 all employees and their associated provisions were transferred to the Parent entity.

Significant judgement – employee benefits provisions

Management judgement was applied in determining the following key assumptions used in the calculation of annual leave and long service leave at the end of the prior reporting period:

- future increases in wages and salaries;
- future on-cost rates; and
- experience of employee departures and period of service.

18. Other financial liabilities

in thousands of dollars	**Note**	**2023**	**2022 Restated***
Current			
ILU Resident loans, net of deferred management fees	(a)	22,482	22,087
Resident bonds/Refundable accommodation deposits	(b)	479,218	466,516
		501,700	**488,603**
Non-current			
Other financial liabilities	(c)	**93,752**	**91,829**

* Refer note 2(f) Prior year errors.

18. Other financial liabilities (continued)

(a) Resident loans, net of deferred management fees

Resident loans in respect of independent living units (ILUs)/retirement villages are non interest bearing loans made by ILU residents to the Group upon entering into a lease agreement to occupy an independent living unit operated by the Group (refer note 3(n)), classified as current as the Group does not have an unconditional right to defer settlement of the liability for at least 12 months after balance date.

(b) Resident bonds/Refundable accommodation deposits

Resident bonds/refundable accommodation deposits are non-interest bearing deposits made by aged care facility residents to the Group upon their admission to the aged care facility.

The resident bonds/refundable accommodation deposits are classified as current as the Group does not have an unconditional right to defer settlement of the liability for at least 12 months after balance date. Refer note 3(m).

The Department of Health and Ageing guarantees the repayment of resident bonds/refundable accommodation deposits in case of provider default.

(c) Other financial liabilities

During the year ended 30 June 2022, the Group entered into a sale and lease back transaction with a third party for three aged care properties. The arrangement includes a call option which allows the Group to repurchase the property assets at an agreed price. In accordance with accounting standards, it was assessed that the Group has not transferred control of these property assets to the third party under the sale and lease back arrangement and therefore continues to recognise the property assets in the statement of financial position (refer to note 11). The Group has recognised a financial liability for the consideration received for the sale in accordance with AASB 9 *Financial Instruments.*

Determining the effective interest rate relating to the financial liability for the leaseback transactions requires an estimation of the expected cashflows relating to the final settlement of the liability. These cashflows relate either to the expected option exercise price, if the option is expected to be exercised, or to the expected fair value of the underlying assets at the end of the leaseback period if the asset is expected to be surrendered.

The expected cashflows relating to the financial liability have been estimated using an estimated future fair value of the underlying assets taking into account market factors and historical valuation trends.

There is significant uncertainty in the measurement of the financing liability due to the long period of time until the liability may be settled (over 20 years) and the inherent uncertainty as to whether the option to purchase the assets will in fact be exercised. In the event that the option is not exercised, the financial liability and associated assets will be derecognised, with no cash outflow required.

As a result of this accounting treatment required by AASB 9 *Financial Instruments*, the interest expense recognised on the financial liability has no relationship with or connection to the rent payable under the lease contracts.

19. Events subsequent to reporting date

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

20. Related party transactions

in thousands of dollars	Note	2023	2022
(a) Amounts payable			
RSL Care RDNS Limited as trustee for the RSL (QLD) War Veterans Home Trust	(i), 14	(102,572)	-
Cartash Pty Ltd	(ii),14	-	(180)
		(102,572)	(180)

(i) During the year ended 30 June 2023 the Group received current working capital and loan funding from the Parent. Refer note 14 for a description of the terms of the loan.

(ii) The amount payable to Cartash Pty Ltd was non-interest bearing and repayable on demand. Cartash Pty Ltd was a related party of McKenzie Aged Care Group Partnership.

(b) Right of use assets and lease liabilities

The Group leases residential aged care homes from the parent entity. The leases expire on 16 February 2025.

in thousands of dollars	Note	2023	2022
Right of use asset – non-current	16(a)(i)	**7,680**	**-**
Lease liability – current	16(a)(iv)	**4,822**	**-**
Lease liability – non-current	16(a)(iv)	**2,959**	**-**
		7,781	**-**

(c) Transactions with related parties

During the year, the Group entered into the following trading transactions with related parties:

in thousands of dollars	Note	2023	2022
Salary and wages expense recharge – RSL Care RDNS Limited as trustee for the RSL (QLD) War Veterans' Homes Trust		**46,086**	**-**
Management of retirement village assets - RSL Care RDNS Limited as trustee for the RSL (QLD) War Veterans' Homes Trust		**506**	**-**
Net interest on intercompany loan – RSL Care RDNS Limited as trustee for the RSL (QLD) War Veterans Homes' Trust		**1,028**	**-**

(d) Related parties – Key management personnel compensation

The key management personnel compensation of the Group, included in "employee benefits expenses", during the year are as follows:

in dollars	2023	2022
Short-term employee benefits	2,756,359	2,728,309
Termination benefits	1,028,959	-
Other long-term benefits	-	9,094
	3,785,318	2,737,403

Included in the above amounts is an amount of $213,229 (2021: $248,464) paid for superannuation benefits.

The compensation disclosed above represents an allocation of the key management personnel's estimated compensation from the Group in relation to their services rendered to the Group.

Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Group, including Directors and other executives.

Compensation levels for key management personnel of the Group are competitively set to attract and retain appropriately qualified and experienced executives.

No Director or related party has entered into a material contract with the Group since the end of the previous financial year and there are no material contracts involving Director's interests subsisting at year end. Directors may have family members or relatives who utilise the services that the Group provides. Such transactions are conducted at arm's length.

20. Related party transactions (continued)

(e) Parent and ultimate controlling entity

From 17 February 2023 the Parent and ultimate controlling entity of the reporting entity is RSL Care RDNS Limited.

21. Capital and other commitments

The capital commitments at 30 June 2023 are $NIL (2022: $NIL).

22. Partners' capital

(a) Partners' capital

The Partners' capital represents the balance of funds contributed to the entity by the Partners. From 17 February 2023, the Partners' have removed all of their capital from the Group, and the Group is now owned by RSL Care RDNS Limited as trustee for the RSL (QLD) War Veterans Homes Trust.

23. Contributed equity

in thousands of dollars	2023	2022
Issued and fully paid		
Ordinary shares – McKenzie Aged Care Group Pty Ltd	-	-
Ordinary shares – Cabool Retirement Villages Pty Ltd	-	-
	-	-

Movements in ordinary shares on issues

McKenzie Aged Care Group Pty Ltd

	2023		2022	
	Number of Shares	$	Number of Shares	$
Balance at 1 July	3	3	3	3
Balance 30 June	3	3	3	3

Cabool Retirement Villages Pty Ltd

	2023		2022	
	Number of Shares	$	Number of Shares	$
Balance at 1 July	12	12	12	12
Balance 30 June	12	12	12	12

Terms and conditions of contributed equity

The companies in the Group are incorporated under the Corporations Act 2001 and accordingly, do not have a limited amount of authorised capital and issued shares do not have a par value.

Ordinary shares

Ordinary shares have the right to receive distributions as declared and, in the event of winding up the Group, to participate in the proceeds from sale of all surplus assets in proportion ot the numbers of securities held and whether fully paid. Ordinary securities entitle their holder to one vote, either in person or by proxy, at a meeting of the Group.

24. Reserves

in thousands of dollars	Note	2023	2022
Revaluation reserve	(a)	7,364	14,727
Hedge reserve	(b)	-	-
Distribution reserve	(c)	(177,057)	(46,272)
Total reserves		(169,693)	(31,545)

(a) Revaluation reserve

The Revaluation reserve is used to record revaluations on approved aged care bed licences in prior years (refer to note 12).

Reconciliation of movement in revaluation reserve

in thousands of dollars	2023	2022
Revaluation reserve – bed licences		
Balance at 1 July	14,727	20,250
Write back of reserve to retained earnings	(7,363)	(5,523)
Balance as at 30 June	7,364	14,727

The write-back of reserve to accumulated losses is determined based on the straight-line amortisation of the revaluation reserve balance from 1 October 2021 until 30 June 2024 to account for the announcement in the 2021-2022 Federal Budget of the discontinuance of Aged Care Licenses from 1 July 2024.

(b) Hedge reserve

The Hedge reserve is used to record the effective portion of the fair value revaluations on interest rate swap contracts. As at 30 June 2022, the interest rate swap contracts were derecognised.

Reconciliation of movement in hedge reserve

in thousands of dollars	2023	2022
Hedge reserve	-	-
Movements		
Hedge fair value reserve at 1 July	-	(516)
Fair value adjustment recognised in other comprehensive income	-	516
Balance as at 30 June	-	-

(c) Distribution reserve

The Distribution reserve represents Partners' future distributable income which has been drawn in excess of the accounting income, either earned in the current year or on a retained earnings basis. Transfers from this account, as determined by the Partners, are recorded when sufficient current year earnings or retained earnings arise.

Reconciliation of movement in distribution reserve

in thousands of dollars	2023	2022
Distribution reserve	(177,057)	(46,272)
Movements		
Distribution reserve at 1 July	(46,272)	(34,186)
Partner retained assets	(129,185)	-
Drawings during the year	(1,600)	(12,086)
Balance as at 30 June	(177,057)	(46,272)

25. Contingencies

A contingent liability is a possible obligation arising from past events which will only be confirmed by the occurrence or non-occurrence of future events not wholly within the control of the Group or a present obligation arising from past events that is not probable or cannot be measured reliably.

There are no contingent liabilities at 30 June 2023 (2022: Nil).

26. Remuneration of Auditors

in dollars	2023	2022
Deloitte Touche Tohmatsu		
Audit or review of financial reports	167,510	-
Statutory assurance services required by legislation to be provided by the auditor	7,490	-
	175,000	-
KPMG		
Audit or review of financial reports	-	156,692

Deloitte Touche Tohmatsu were appointed auditors 20 June 2023 and KPMG resigned as auditor on the same date.

27. Economic Dependency

The Group is dependent on government funding under the *Aged Care Act 1997 (C'th)* for operation of its residential care facilities.

Directors' declaration

In the opinion of the Directors of McKenzie Aged Care Group:

(a) the Group is not publicly accountable;

(b) the combined financial statements and notes that are set out on pages 6 to 40:

  (i) give a true and fair view of the Group's financial position as at 30 June 2023 and of its performance for the financial year ended on that date; and

  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations); and

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

Signed in accordance with a resolution of the Directors:

Mr Pat McIntosh AM CSC
Chairman

Melbourne, 26 October 2023

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Independent Auditor's Report to the Members of McKenzie Aged Care Group

Opinion

We have audited the financial report of McKenzie Aged Care Group (the "Group") which comprises the combined statement of financial position as at 30 June 2023, the combined statement of profit or loss and other comprehensive income, the combined statement of changes in equity and the combined statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information and other explanatory information and the directors' declaration.

In our opinion, the accompanying financial report presents fairly, in all material respects, the Group's financial position as at 30 June 2023 and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards – Simplified Disclosures.

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 & 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.

Other Information

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

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

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and the Directors' for the Financial Report

Management of the Entity is responsible for the preparation of the financial report in accordance with Australian Accounting Standards – Simplified Disclosures and for such internal control as management determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, management is responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Report

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

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement 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 management.
- Conclude on the appropriateness of management's 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

We communicate with management and 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.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Vanessa de Waal
Partner
Chartered Accountants
Brisbane
26 October 2023