

2015 Aged Care Financial Reporting

Comply with Accounting Standards

Keep it Simple

26 May 2015

Agenda

- ACNC and ASIC Refresher
- ACNC Financial Reporting
- Reduced Disclosure Requirements
- Financial Statements Presentation
- Accounting Standards Update
- Questions

ACNC and ASIC Refresher

- Third year reporting to ACNC - annual information statements and second year of financial reporting (medium or large)
- Improved clarity of who to report to and what/when to file
- Which regulator - ACNC or ASIC?

ACNC and ASIC Refresher

ACTIVITY / CHANGE:	ACNC	ASIC
REGISTER: <ul style="list-style-type: none"> - Company - Charity 	<p>No</p> <p>Yes</p>	<p>Yes</p> <p>No</p>
CHANGE DETAILS: <ul style="list-style-type: none"> - Company name - Address for service - Directors (responsible persons) - Constitution 	<p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p>	<p>Yes</p> <p>No</p> <p>No</p> <p>No</p>
ANNUAL REPORTING: <ul style="list-style-type: none"> - Annual information statement - Financial statements - Criminal liability for directors duties / insolvent trading 	<p>Yes</p> <p>Yes</p> <p>No</p>	<p>No</p> <p>No</p> <p>Yes</p>

ACNC and ASIC Refresher

ACTIVITY / CHANGE:	ACNC	ASIC
AUDITORS: <ul style="list-style-type: none"> - Appointment - Resignation / removal 	<p>No</p> <p>No</p>	<p>No</p> <p>Yes</p>
CLOSING: <ul style="list-style-type: none"> - Revoke registration of charitable status - Appointment of administrator - Deregistration of a company 	<p>Yes</p> <p>Yes</p> <p>Yes</p>	<p>No</p> <p>Yes</p> <p>Yes</p>

ACNC and ASIC Refresher

2014 and 2015 ASIC Focus Areas

FOCUS AREAS:	ASSET VALUES	ACCOUNTING POLICY CHOICES	MATERIAL DISCLOSURES	ROLE OF DIRECTORS / RESPONSIBLE PERSONS
<i>Financial reporting:</i>	Impairment testing	Revenue recognition	Off balance sheet arrangements	Tax accounting (transparency)
	Amortisation of intangibles	New accounting standards	Estimates and accounting policy judgements	Expense deferral

ACNC and ASIC Refresher

- ❖ ASIC reviews at 30 June 2014 covered 300 financial reports of listed entities and those unlisted entities with a large number of users

Findings

- ❖ Financial reporting in Australia is generally of a high standard, however ASIC continues to identify some deficiencies in key areas
- ❖ ASIC has made 73 enquiries of 55 of entities and a number of material adjustments have been made

ACNC and ASIC Refresher

“The largest number of our enquiries and findings continue to relate to inadequate asset impairment and inappropriate accounting treatments. Preparers of financial reports should focus on these areas and ensure that they provide high quality, useful and meaningful information to investors and others.” [ASIC]

ACNC Financial Reporting

- Responsible persons (Directors) must assess whether the entity is:
 - Reporting entity (general purpose financial report); or
 - Non-reporting entity (special purpose financial report).
- Reporting entities must apply Australian Accounting Standards (AASBs) - may apply Tier 2 RDR reporting

ACNC Financial Reporting

- Medium sized charities (revenue \$250K to \$1Mil) and large charities (revenue \$1Mil+) must lodge their annual financial statements with ACNC within 6 months of year end
- Financial reports must include:
 - ✓ Financial statements (GPFR or SPFR)
 - ✓ Notes to the financial statements
 - ✓ Responsible entities' declaration
- All charities must lodge an Annual Information Statement (AIS).

ACNC Financial Reporting

Directors Report

- ✓ Prepared under Corporations Law (not ACNC Act) and required by most company constitutions
- ✓ Companies Limited by Guarantee have different format – s300B
- ✓ Must include:
 - Short and long term objectives
 - Strategy for achieving those objectives
 - Methodology to monitor and measure performance
 - Members liability
 - Auditors Independence Statement

ACNC Financial Reporting

Auditors Independence Declaration

- ✓ Forms part of the Directors Report
- ✓ In accordance with s60.40 of the *ACNC Act 2012*

Responsible Persons' Declaration

- ✓ Similar in format to Directors Declaration
- ✓ Signed in accordance with s60.15 of the *ACNC Regulation 2013*

Reduced Disclosure Reporting

AASB 1053: Application of Tiers of Australian Accounting Standards

- Applies to all Reporting entities from year ending 30 June 2014
- Reduced disclosure requirements (RDR) - not full IFRS
- Applies to Companies Limited by Guarantee - entities reporting to DSS. Not listed public companies
- Be wary of “over disclosure” - check with your auditor what may or may not be removed from financial report

Reduced Disclosure Reporting

- Significantly reduced financial report disclosures:
 - ✓ Financial instruments: AASB 7
 - ✓ Reconciliation items: cash flows, PPE comparatives
 - ✓ Key management personnel remuneration disclosures
 - ✓ Auditors remuneration
 - ✓ Intangible assets
 - ✓ Consolidation accounting
 - ✓ No effect on Charitable Fundraising Reporting

Financial Statements Presentation

Presentation of Financial Statements - AASB 101

“An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications in its statement of financial position.....except when a presentation based on liquidity provides information that is reliable and more relevant. When that exemption applies, an entity shall present all assets and liabilities in order of liquidity.”
[AASB101.60]

Financial Statements Presentation

“Whichever method of presentation is adopted, an entity shall disclose the amount expected to be recovered or settled after more than twelve months for each asset and liability line item that combines amounts expected to be recovered or settled:

- No more than twelve months after the reporting period, and
- More than twelve months after the reporting period.”
[AASB101.61]

Financial Statements Presentation

STATEMENT OF FINANCIAL POSITION (STANDARD FORMAT)

	Note	2015 \$	2014 \$
ASSETS			
Current assets			
Cash and cash equivalents	4	xxx,xxx	xxx,xxx
Trade and other receivables	5	xxx,xxx	xxx,xxx
Financial assets	6	xxx,xxx	xxx,xxx
<i>Total current assets</i>		<u>xxx,xxx</u>	<u>xxx,xxx</u>
Non-current assets			
Investment property	7	xxx,xxx	xxx,xxx
Property, plant and equipment	8	xxx,xxx	xxx,xxx
Intangible assets	9	xxx,xxx	xxx,xxx
<i>Total non-current assets</i>		<u>xxx,xxx</u>	<u>xxx,xxx</u>
TOTAL ASSETS		<u>xxx,xxx</u>	<u>xxx,xxx</u>
LIABILITIES			
Current liabilities			
Trade and other payables	10	xxx,xxx	xxx,xxx
Employee benefits	11	xxx,xxx	xxx,xxx
Refundable loans	12	xxx,xxx	xxx,xxx
Provisions	13	xxx,xxx	xxx,xxx
<i>Total current liabilities</i>		<u>xxx,xxx</u>	<u>xxx,xxx</u>
Non-current liabilities			
Employee benefits	11	xxx,xxx	xxx,xxx
Provisions	13	xxx,xxx	xxx,xxx
<i>Total non-current liabilities</i>		<u>xxx,xxx</u>	<u>xxx,xxx</u>
TOTAL LIABILITIES		<u>xxx,xxx</u>	<u>xxx,xxx</u>
NET ASSETS		<u>\$xxx,xxx</u>	<u>\$xxx,xxx</u>
EQUITY			
Retained earnings		xxx,xxx	xxx,xxx
Reserves	14	xxx,xxx	xxx,xxx
TOTAL EQUITY		<u>\$xxx,xxx</u>	<u>\$xxx,xxx</u>

Financial Statements Presentation

STATEMENT OF FINANCIAL POSITION (LIQUIDITY FORMAT)

	Note	2015 \$	2014 \$
ASSETS			
Cash and cash equivalents	4	XXX,XXX	XXX,XXX
Trade and other receivables	5	XXX,XXX	XXX,XXX
Financial assets expected to be settled within 12 months	6	XXX,XXX	XXX,XXX
Refundable loans expected to be received within 12 months	5	XXX,XXX	XXX,XXX
Financial assets expected to be settled after 12 months	6	XXX,XXX	XXX,XXX
Refundable loans expected to be received after 12 months	5	XXX,XXX	XXX,XXX
Investment property	7	XXX,XXX	XXX,XXX
Property, plant and equipment	8	XXX,XXX	XXX,XXX
Intangible assets	9	XXX,XXX	XXX,XXX
TOTAL ASSETS		<u>XXX,XXX</u>	<u>XXX,XXX</u>

Financial Statements Presentation

STATEMENT OF FINANCIAL POSITION (LIQUIDITY FORMAT)

	Note	2015 \$	2014 \$
LIABILITIES			
Trade and other payables	10	xxx,xxx	xxx,xxx
Employee benefits expected to be paid within 12 months	11	xxx,xxx	xxx,xxx
Refundable loans expected to be paid within 12 months	12	xxx,xxx	xxx,xxx
Provisions expected to be paid within 12 months	13	xxx,xxx	xxx,xxx
Employee benefits expected to be paid after 12 months	11	xxx,xxx	xxx,xxx
Refundable loans expected to be paid after 12 months	12	xxx,xxx	xxx,xxx
Provisions expected to be paid after 12 months	13	xxx,xxx	xxx,xxx
TOTAL LIABILITIES		<u>xxx,xxx</u>	<u>xxx,xxx</u>
NET ASSETS			
		<u>\$xxx,xxx</u>	<u>\$xxx,xxx</u>
EQUITY			
Accumulated funds		xxx,xxx	xxx,xxx
Reserves	14	xxx,xxx	xxx,xxx
TOTAL EQUITY		<u>\$xxx,xxx</u>	<u>\$xxx,xxx</u>

Financial Statements Presentation

STATEMENT OF PROFIT OR LOSS OR OTHER COMPREHENSIVE INCOME

	Note	2015 \$	2014 \$
Revenue	2	xxx,xxx	xxx,xxx
Other income	2	xxx,xxx	xxx,xxx
		<u>xxx,xxx</u>	<u>xxx,xxx</u>
Expenses			
Administration		(xxx,xxx)	(xxx,xxx)
Catering and food supplies		(xxx,xxx)	(xxx,xxx)
Cleaning and laundry expenses		(xxx,xxx)	(xxx,xxx)
Depreciation and amortisation	3	(xxx,xxx)	(xxx,xxx)
Insurance		(xxx,xxx)	(xxx,xxx)
Fair value adjustment on investment property	3	(xxx,xxx)	(xxx,xxx)
Finance costs	3	(xxx,xxx)	(xxx,xxx)
Maintenance costs		(xxx,xxx)	(xxx,xxx)
Resident and client expenses		(xxx,xxx)	(xxx,xxx)
Salaries and employee benefits		(xxx,xxx)	(xxx,xxx)
Utilities		(xxx,xxx)	(xxx,xxx)
		<u>(xxx,xxx)</u>	<u>(xxx,xxx)</u>
Surplus before income tax		xxx,xxx	xxx,xxx
Income tax expense		xxx,xxx	xxx,xxx
		<u>xxx,xxx</u>	<u>xxx,xxx</u>
Surplus for the year		xxx,xxx	xxx,xxx
Other comprehensive income			
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Gain (loss) on revaluation of property		xxx,xxx	xxx,xxx
		<u>xxx,xxx</u>	<u>xxx,xxx</u>
<i>Items that may be reclassified subsequently to profit or loss</i>			
Fair value gains (loss) on available-for-sale financial assets		xxx,xxx	xxx,xxx
		<u>xxx,xxx</u>	<u>xxx,xxx</u>
Total comprehensive income for the year		<u>\$xxx,xxx</u>	<u>\$xxx,xxx</u>

Financial Statements Presentation

STATEMENT OF CASH FLOWS

	Note	2015 \$	2014 \$
Cash flows from operating activities			
Receipts from customers and government		xxx,xxx	xxx,xxx
Payments to suppliers and employees		xxx,xxx	xxx,xxx
Donations and bequests received		xxx,xxx	xxx,xxx
Interest received		xxx,xxx	xxx,xxx
Interest paid		xxx,xxx	xxx,xxx
<i>Net cash flows from operating activities</i>		<u>xxx,xxx</u>	<u>xxx,xxx</u>
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		xxx,xxx	xxx,xxx
Proceeds from sale of investment property		xxx,xxx	xxx,xxx
Proceeds from sale of financial assets		xxx,xxx	xxx,xxx
Purchase of financial assets		(xxx,xxx)	(xxx,xxx)
Purchase of property, plant and equipment		(xxx,xxx)	(xxx,xxx)
Purchase of investment property		(xxx,xxx)	(xxx,xxx)
Purchase of intangible assets		(xxx,xxx)	(xxx,xxx)
<i>Net cash flows from investing activities</i>		<u>(xxx,xxx)</u>	<u>(xxx,xxx)</u>
Cash flows from financing activities			
Proceeds from resident loans and accommodation bonds		xxx,xxx	xxx,xxx
Proceeds from borrowings		xxx,xxx	xxx,xxx
Repayment of resident loans and accommodation bonds		(xxx,xxx)	(xxx,xxx)
<i>Net cash flows from financing activities</i>		<u>(xxx,xxx)</u>	<u>(xxx,xxx)</u>
Net increase in cash and cash equivalents		xxx,xxx	xxx,xxx
Cash and cash equivalents at the beginning of the financial year		<u>xxx,xxx</u>	<u>xxx,xxx</u>
Cash and cash equivalents at the end of the financial year	4	<u>\$xxx,xxx</u>	<u>\$xxx,xxx</u>

Financial Statements Presentation

STATEMENT OF CASH FLOWS WORKSHEET

	Note	2015 \$	2014 \$
<i>Cash flows from operating activities</i>			
Receipts	1	xxx,xxx	xxx,xxx
Payments	2	(xxx,xxx)	(xxx,xxx)
Donations and bequests received	3	xxx,xxx	xxx,xxx
Interest received	4	xxx,xxx	xxx,xxx
Interest paid	5	(xxx,xxx)	(xxx,xxx)
<i>Movements</i>			
Trade and other receivables	A	(xxx,xxx)	xxx,xxx
Prepayments	B	xxx,xxx	xxx,xxx
Trade and other payables	C	xxx,xxx	(xxx,xxx)
Income in advance	D	(xxx,xxx)	xxx,xxx
Liabilities to employees	E	xxx,xxx	(xxx,xxx)
Provisions	F	xxx,xxx	xxx,xxx

<i>Journals</i>		2015	2014
Trade & other receivables	A	xxx,xxx	(xxx,xxx)
Revenue	1	xxx,xxx	xxx,xxx
Payments	2	(xxx,xxx)	xxx,xxx
Dividends	3	xxx,xxx	(xxx,xxx)
Interest - other	4	(xxx,xxx)	(xxx,xxx)
Capital	C/Flow	xxx,xxx	xxx,xxx
Impairment (non cash)		xxx,xxx	xxx,xxx
Prepayments	B	(xxx,xxx)	(xxx,xxx)
Payments	2	xxx,xxx	(xxx,xxx)
Capital	C/Flow	xxx,xxx	xxx,xxx

Financial Statements Presentation

STATEMENT OF CASH FLOWS WORKSHEET

Trade & other payables	C	(xxx,xxx)	(xxx,xxx)
Payments	2	xxx,xxx	(xxx,xxx)
Interest paid	5	xxx,xxx	(xxx,xxx)
Capital	C/Flow	xxx,xxx	xxx,xxx

Income in advance	D	(xxx,xxx)	(xxx,xxx)
Revenue	1	(xxx,xxx)	(xxx,xxx)

Liabilities to employees	E	(xxx,xxx)	(xxx,xxx)
Payments	2	xxx,xxx	(xxx,xxx)
Provision (non cash)		xxx,xxx	xxx,xxx

Provisions	F	(xxx,xxx)	(xxx,xxx)
Payments	2	xxx,xxx	(xxx,xxx)
Payments (non cash)		xxx,xxx	(xxx,xxx)
Capital	C/Flow	xxx,xxx	xxx,xxx

Bad & doubtful debts			
Revenue	1	xxx,xxx	(xxx,xxx)
Payments	2	xxx,xxx	xxx,xxx

Other non-cash			
Depreciation	2	(xxx,xxx)	xxx,xxx
Fair value loss on investment property	1/2	xxx,xxx	(xxx,xxx)
(Gain) loss on disposal of fixed assets	1/2	(xxx,xxx)	(xxx,xxx)
(Gain) loss on disposal of financial assets	1/2	xxx,xxx	xxx,xxx
Retentions - bonds	1	xxx,xxx	(xxx,xxx)
Retentions - entry contributions	1	(xxx,xxx)	(xxx,xxx)
Bond interest (non cash)	5	xxx,xxx	xxx,xxx

Financial Statements Presentation

STATEMENT OF CASH FLOWS WORKSHEET

GST			
Revenue	1	xxx,xxx	xxx,xxx
Payments	2	(xxx,xxx)	(xxx,xxx)
Refunded	1	xxx,xxx	xxx,xxx

PP&E			
Payments (per movements)	C/Flow	(xxx,xxx)	(xxx,xxx)
Payments (non cash)		(xxx,xxx)	(xxx,xxx)
Reclassification (non cash)		xxx,xxx	xxx,xxx
Proceeds	C/Flow	xxx,xxx	xxx,xxx

Intangibles			
Payments	C/Flow	(xxx,xxx)	(xxx,xxx)
Payments (non cash)		(xxx,xxx)	(xxx,xxx)
Proceeds	C/Flow	xxx,xxx	xxx,xxx

Investment property			
Payments	C/Flow	(xxx,xxx)	(xxx,xxx)
Payments (non cash)		(xxx,xxx)	(xxx,xxx)
Impairment loss	2	xxx,xxx	xxx,xxx
Proceeds	C/Flow	xxx,xxx	xxx,xxx

Financial Statements Presentation

STATEMENT OF CASH FLOWS WORKSHEET

Held to Maturity Financial assets			
Payments	C/Flow	(xxx,xxx)	(xxx,xxx)
Payments (non cash)		(xxx,xxx)	(xxx,xxx)
Proceeds	C/Flow	xxx,xxx	xxx,xxx

Loans - external			
Payments	C/Flow	(xxx,xxx)	(xxx,xxx)
Proceeds	C/Flow	xxx,xxx	xxx,xxx

Resident loans - net proceeds	C/Flow	xxx,xxx	xxx,xxx
Resident loans - net repayments	C/Flow	(xxx,xxx)	(xxx,xxx)
Proceeds from resident loans		xxx,xxx	xxx,xxx
Payments of resident loans		(xxx,xxx)	(xxx,xxx)
Loans payable - prior year		(xxx,xxx)	(xxx,xxx)
Loans payable - current year		xxx,xxx	xxx,xxx
Loans receivable - prior year		xxx,xxx	xxx,xxx
Loans receivable - current year		(xxx,xxx)	(xxx,xxx)

Accounting Standards

Topics for discussion

- ✓ Intangible assets (*AASB 138*) - bed licences
- ✓ Property, Plant and Equipment (*AASB 116*)
- ✓ Investment Properties (*AASB 140*) - retirement villages/strategically held property
- ✓ Segment Reporting (*AASB 8* - Operating Segments)
- ✓ New and upcoming Accounting Standards - disclosure implications

Accounting Standards

Intangible Assets (AASB 138)

Paragraph 12 of AASB 138 states.....an intangible asset shall be recognised if, and only if:

- It is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
- The cost of the asset can be measured reliably

Accounting Standards

Intangible Assets (AASB 138)

Common Intangible Assets include:

- ✓ Bed licences
- ✓ Computer software
- ✓ Right to occupy assets - proposed revision to the leasing Accounting Standard

Accounting Standards

Intangible Assets (AASB 138)

Bed licences

- The issue with bed licences is that they are typically granted by government at no cost. However, there is a not-for-profit concession in the standard (AASB 138 and AASB 1004) that deals with this issue.

Paragraph AUS24.1 states....

Where an asset is acquired at no cost, or from nominal cost, the cost is its fair value as at the date of acquisition.

Accounting Standards

Intangible Assets (*AASB 138*)

Measurement of bed licences after initial recognition:

- Able to revalue to fair value each year? No, as the conditions for an active market set out in *AASB 138* paragraph 8 are not met
- Useful life assessment - it is generally accepted that bed licences have an indefinite life provided regulatory requirements have been met. This means that the licences are not amortised, however, they are required to be assessed each year for impairment
- Impairment testing is required each year - this could be based on assessment by an independent valuer or own valuation model

Accounting Standards

Property, Plant and Equipment (*AASB 116*)

- ❖ There is significant investment in developing new or upgrading facilities
- ❖ Recap of the rules for capitalising construction costs - *AASB 116*

The cost of an item of property shall be recognised if, and only if:

- ❖ It is probable that the expected future economic benefits associated with the item will flow to the entity; and the cost of the item can be measured reliably

Accounting Standards

Property, Plant and Equipment (*AASB 116*)

An asset's recoverable amount must be measured whenever there is an indicator of impairment - *AASB 136*

Examples of impairment indicators:

- Facility does not meet certification requirements without significant redevelopment
- Significant legislative change with an adverse effect on a facility
- Asset not fully utilised
- Plans to discontinue or restructure the operation to which the asset belongs
- Plans to dispose of an asset before a previously expected date

Accounting Standards

Investment Property (AASB 140)

Independent Living Units (ILU) / RFUs

- Do ILU's qualify for recognition as investment property under AASB 140?

AASB 140 paragraph 5 defines investment property as “property held primarily to earn rentals of for capital appreciation or both”.

Accounting Standards

Investment Property (AASB 140)

Independent Living Units (ILU) / RFUs

- What is the primary objective in providing ILU's?
- Classification may vary depending on individual agreements, however, common features include:
 - Self care;
 - Provider earning rental through retention; and/or
 - Capital appreciation accruing to the provider in whole or in part.
- Given the above features, it would be difficult to argue that these ILU's were not Investment Property

Accounting Standards

Investment Property (AASB 140)

Independent Living Units (ILU) / RFUs

➤ Does the ILU meet the definition of Investment Property?

Yes - Elect cost model or fair value model with movements in value recognised in the income statement (AASB 140)

No - Elect cost model or fair value model with movements in value booked to reserves (AASB 116)

Accounting Standards

Segment Reporting - Operating Segments (AASB 8)

Applies to:

- Each for-profit entity preparing financial reports in accordance with Part 2M.3 of the *Corporations Act* and that is a reporting entity
- GPFRs of other for-profit reporting entities, other than government departments
- Financial statements of a for-profit entity other than for-profit government departments that are, or are held out to be, GPFRs

Accounting Standards

Segment Reporting - Operating Segments (AASB 8)

So, why are not-for-profit aged care providers required to comply with AASB 8?

CAP financial reporting requirements Paragraph 40 of Division 3 of the *Accountability Principles 2014*

- “...within four months after the end each financial yeargive the Secretary a segment report...within the meaning of the Australian Accounting Standard.....”
- Applicable to residential aged care segment of business only

Accounting Standards

New and Upcoming Accounting Standards

- FY 2015 a “slow year” - not many changes:
 - *AASB 10*: impact on consolidation / control of related entities: foundations, charitable purpose bequest vehicles
 - application of corporate bond rates to LSL/AL (G100 instigation / Milliman Report April 2015)
- *Upcoming:*
 - *AASB 15*: Revenue from contracts with customers
 - Leasing project
 - Related party disclosures for government NFPs

Presenters

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