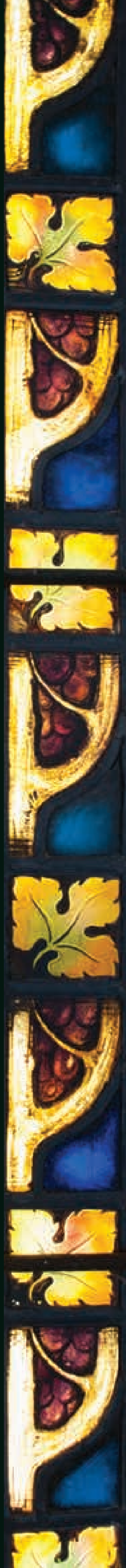
2016 FINANCIAL REPORT



Mercy Education Limited

Mercy Education Limited

ACN 154 531 870

Special Purpose Financial Report

For the Year Ended 31 December 2016

Mercy Education Limited

ACN 154 531 870

Special Purpose Financial Report

31 December 2016

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Mercy Education Limited

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Directors' Report

31 December 2016

Directors' Report

The directors of Mercy Education Limited present their report together with the financial statements of the company for the year ended 31 December 2016.

Directors

The following persons were directors of Mercy Education Limited during or since the end of the financial year.

Mrs Lucy Molony
Board Chair
Director since 30 November 2011
Board Chair since 21 May 2015

Qualifications:
BA, BTheol

Experience:
CEM School Reviewer – 5 years
School Principal – 9 years

Mrs Elizabeth Monahan
Board Deputy Chair
Director since 30 November 2011
Deputy Chair since 21 May 2015

Qualifications:
BSc, DipEd, GradDipRE, MEdLeadership

Experience:
CEM School Reviewer – 5 years
School Principal – 11 years

Mr Tony Wheeler OAM
Board Director
Director since 1 February 2013

Qualifications:
Diploma of Tribunal Practice - Canon Law

Experience:
Chair, Catholic Development Fund Perth
Corporate Banking Sector – 30 years

Ms Mary Retel
Board Director
Director since 03 February 2014

Qualifications:
BA, DipEd, MEdLeadership

Experience:
School Principal – 13 years
Deputy Director of Catholic Education – 10 years

Mr Anthony Loschiavo
Board Director
Appointed 21 May 2015
Resigned 31 Dec 2016

Qualifications:
BA, LLB, GDipMan

Experience:
Corporate Lawyer – 29 years
AICD Facilitator – 15 years

Dr Anne Hunt OAM
Board Director
Appointed 10 June 2015

Qualifications:
BSc, BEd, BTheol, DipEd, MSc, MA, DTheol

Experience:
School Principal – 14 years
ACU Dean & Professor – 13 years

Sr Sylvia Williams rsm
Board Director
Director since 26 May 2016

Qualifications:
Dip Teach ACU

Experience:
School Principal – 30 years
Assistant Director of Mercy International Association – 5 years

Mrs Georgina Smith
Board Director
Director since 26 May 2016

Qualifications:
DipRE, DipTeach, BEd, MEdStudies

Experience:
School Principal – 5 years
Assistant Director of Catholic Education – 3 years

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Directors' Report

31 December 2016

History

On the 8th January 1846 Sr Ursula Frayne and five other Sisters of Mercy arrived in Perth from Dublin, and established the first Mercy school in Australia. Over the next 60 years the Sisters of Mercy would establish new congregations all over Australia – peaking with 53 separate congregations at the start of the 1900s.

Some of these congregations were started from existing Australian congregations (including Ursula Frayne's subsequent move to Melbourne), others were started from additional Irish delegations, and still others from other overseas Mercy congregations – such as the Sisters of Mercy from Argentina who came to Adelaide.

At various times, to better meet the needs of their mission and ministry, the various congregations have merged and grown together – firstly in the 1950's when the number of congregations reduced to 17, and then again in 2011 when 14 of these congregations joined together with the autonomous region of Papua New Guinea to form the Institute of the Sisters of Mercy of Australia and Papua New Guinea (ISMAPNG). As a result of this re-structure, Mercy Education Limited was established to take on national responsibility for the governance of the educational ministries of ISMAPNG.

Mercy Education Limited was incorporated on 30 November 2011 as a company limited by guarantee, and commenced trading in 2012. In the first year of operations Mercy Education governed seven Victorian secondary schools (previously operated by Mercy Secondary Education Inc (MSEI)), as well as three Mercy Colleges based in Perth, Western Australia.

Additional Colleges joined the company in 2013 (Catholic College Bendigo) and 2014 (St Aloysius College, Adelaide).

In the 170 years since Ursula Frayne's arrival the Sisters of Mercy have been integrally involved in dozens of Catholic secondary schools and hundreds of primary schools. Education represents an important strand of the significant contribution of the Sisters of Mercy to Catholic life in Australia since European settlement.

Mercy Education Limited is committed to continuing this work into the next century and beyond.

Principal Activities

The principal activity of the company during the period was the education of students. The company operates 12 secondary schools in Western Australia, South Australia and Victoria. Three of these schools include primary school operations, and two of these schools offer boarding facilities.

No significant change in the nature of these activities occurred during the year.

Short Term Objectives

The Company's short-term objectives are to:

- Continue to develop and enhance systems and people to support and protect the ethos, spirit, students and staff of Mercy Education schools.
- Supervise and develop the quality of the educational experience offered in all of its key dimensions.

Long Term Objectives

The Company's long-term objectives are to support the work of the Institute of Sisters of Mercy of Australia and Papua New Guinea by:

- Operating the education entities and facilities of the Institute; and
- Carrying on and promoting the charitable activities of the Institute in connection with education and in particular to assist the Education Facilities.

Strategy for achieving short and long term objectives

To achieve these objectives, the Company adopted a range of strategies, including:

- The appointment of a "Chief Executive" with responsibility for the operations of the company and the implementation of the Board's strategic plan.
- Establishment of Educational Standards and Effectiveness Committee.
- Regular professional development opportunities for principals, deputy principals and business managers.

After Balance Date Events

No matters or circumstances have arisen since the end of the financial period which significantly affected or may significantly affect the operations of the company, the results of those operations or the state of affairs of the company in future periods.

Future Developments

Likely developments in the operations of the company and the expected results of those operations in future periods have not been included in this report as the inclusion of such information is likely to result in unreasonable prejudice to the company.

Auditor's Independence Declaration

A copy of the auditor's independence declaration is set out at page 6.

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Directors' Report

31 December 2016

Directors' Meetings

The following table sets out the number of directors' meetings held in the period and the number of meetings attended by each director.

Director Name	No. of Board Meetings eligible to attend	No. of Board Meetings Attended
Mrs Lucy Molony	11	10
Mrs Elizabeth Monahan	11	10
Mr Tony Wheeler OAM	11	10
Mrs Mary Retel	11	9
Mr Anthony Loschiavo	11	8
Dr Anne Hunt OAM	11	10
Sr Sylvia Williams rsm	8	4
Mrs Georgina Smith	8	7

Contribution in winding up

The company is incorporated under the Corporations Act 2001 and is a company limited by guarantee. If the company is wound up, the constitution states that each member is required to contribute a maximum of $5 each towards meeting any outstanding obligations of the entity. At 31 December 2016, the total amount that members of the company are liable to contribute if the company wound up is $25.

There were five members at 31 December 2016.

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

Lucy Molony

Mrs Lucy Molony
Board Chair & Director

Dated this 21st day of April 2017

The Rialto, Level 30
525 Collins St
Melbourne Victoria 3000

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Auditor's Independence Declaration
To the Directors of Mercy Education Limited

In accordance with the requirements of section 60-40 of the Australian Charities and Not-for-profits Commission Act 2012, as lead auditor for the audit of Mercy Education Limited for the year ended 31 December 2016, I declare that, to the best of my knowledge and belief, there have been no contraventions of any applicable code of professional conduct in relation to the audit.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

Adrian Nathanielsz
Partner - Audit & Assurance

Melbourne, 21 April 2017

Mercy Education Limited

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Statement of Profit of Loss and Other Comprehensive Income

For the Year Ended 31 December 2016

	Note	2016	2015
		$'000	$'000
Revenue and other income	2	**244,420**	**237,563**
Employee benefits expense		(157,550)	(151,691)
Finance costs		(4,016)	(3,820)
Depreciation and amortisation expense		(21,474)	(18,068)
Curriculum expense		(15,889)	(15,283)
Maintenance and property expense		(13,716)	(13,159)
Administration expense		(14,318)	(15,329)
Other expenses		(6,244)	(6,172)
Surplus before income tax expense		**11,213**	**14,041**
Income tax expense	1(a)	-	-
Surplus	**3**	**11,213**	**14,041**
Items that may be reclassified subsequently to profit or loss			
Current year gains on available-for-sale financial assets		80	-
Total comprehensive income		**11,293**	**14,041**

The accompanying notes form part of the financial statements

Mercy Education Limited

ACN 154 531 870

Statement of Financial Position

As at 31 December 2016

	Note	2016 $'000	2015 $'000
ASSETS			
Current assets			
Cash and cash equivalents	4	66,058	61,850
Trade and other receivables	5	12,710	12,130
Inventories	6	1,865	1,509
Other assets	7	2,454	2,706
Total current assets		**83,087**	**78,195**
Non-current assets			
Financial Assets	8	1,661	1,163
Property, plant and equipment	9	362,005	344,649
Total non-current assets		**363,666**	**345,812**
TOTAL ASSETS		**446,753**	**424,007**
LIABILITIES			
Current liabilities			
Trade and other payables	10	28,464	24,514
Borrowings	11	12,334	15,699
Provisions	12	8,407	7,521
Total current liabilities		**49,205**	**47,734**
Non-current liabilities			
Borrowings	11	74,064	64,137
Provisions	12	1,112	1,057
Total non-current liabilities		**75,176**	**65,194**
TOTAL LIABILITIES		**124,381**	**112,928**
NET ASSETS		**322,372**	**311,079**
EQUITY			
Other contributed equity		269,960	269,960
Investment revaluation reserve		413	333
Retained earnings		51,999	40,786
TOTAL EQUITY		**322,372**	**311,079**

The accompanying notes form part of the financial statements

Mercy Education Limited

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Statements of Changes in Equity

For the Year Ended 31 December 2016

	Note	Other Contributed Equity	Investment Revaluation Reserve	Retained earnings	Total
2015		**$'000**	**$'000**	**$'000**	**$'000**
Balance at 1 January 2015		269,960	333	26,745	297,038
Surplus for the period		-	-	14,041	14,041
Other comprehensive income for the period		-	-	-	-
Total comprehensive income		-	-	14,041	14,041
Balance at 31 December 2015		**269,960**	**333**	**40,786**	**311,079**
2016					
Balance at 1 January 2016		269,960	333	40,786	311,079
Surplus for the year		-	-	11,213	11,213
Other comprehensive income for the year		-	80	-	80
Total comprehensive income		-	80	11,213	11,293
Balance at 31 December 2016		**269,960**	**413**	**51,999**	**322,372**

The accompanying notes form part of the financial statements

Mercy Education Limited

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Statement of Cash Flows

For the Year Ended 31 December 2016

	Note	2016 $'000	2015 $'000
Cash flows from operating activities:			
Receipts from students		93,178	89,053
Receipts from Government grants		140,998	136,947
Other receipts		9,273	9,981
Interest received		1,546	1,649
Payments to suppliers and employees		(204,010)	(201,055)
Interest payments		(4,016)	(3,820)
Net cash provided by operating activities	14(a)	**36,969**	**32,755**
Cash flows from investing activities:			
Payments for property, plant and equipment		(32,790)	(25,798)
Payments for available for sale financial assets		(456)	-
Proceeds from disposal of property, plant and equipment		229	388
Proceeds from the sale of financial assets		38	-
Net cash used in investing activities		**(32,979)**	**(25,410)**
Cash flows from financing activities:			
Repayment of borrowings		(18,514)	(15,570)
Proceeds from borrowings		18,732	12,126
Net cash provided by/(used in) financing activities		**218**	**(3,444)**
Net increase in cash held		**4,208**	**3,901**
Cash at beginning of year		61,850	57,949
Cash at end of year	14(b)	**66,058**	**61,850**

1 Statement of Significant Accounting Policies

The Directors have prepared the financial statements on the basis that the Company is a non-reporting entity because there are no users dependent on a general purpose financial report. The financial report is therefore a special purpose financial report that has been prepared in order to meet the requirements of the Australian Charities and Not-for-profits Commission Act 2012.

The financial report has been prepared in accordance with the mandatory Australian Accounting Standards applicable to entities reporting under the Australian Charities and Not-for-profits Commission Act 2012, specifically:

- AASB 101: Presentation of Financial Statements
- AASB 107: Statement of Cash Flows
- AASB 108: Accounting Policies, Changes in Accounting Estimates and Errors
- AASB 110: Events After the Reporting Period
- AASB 1048: Interpretation of Standards
- AASB 1054: Australian Additional Disclosures

and all recognition and measurement requirements of all other relevant AASB's, and the significant accounting policies disclosed below which the directors have determined are appropriate to meet the needs of members.

Mercy Education Limited is a Company limited by guarantee, incorporated and domiciled in Australia. Mercy Education Limited is a not-for-profit entity for the purposes of preparing the financial statements.

The financial statements were authorised for issue by the directors on 21st April 2017.

Basis of Preparation

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

Standards and interpretations affecting the reported results or financial position

A number of new and revised Standards are effective for annual periods beginning on or after 1 January 2016. There has not been any material effect on adopting these new standards in the current year. The Company has also made an assessment of the impacts of applying these standards retrospectively. The effect on prior periods was found to be insignificant and consequently the Company has not restated prior year balances.

1 Statement of Significant Accounting Policies continued

Standards and interpretations not yet effective which have not been early adopted by Mercy Education Limited

At the date of authorisation of the financial statements, the following Australian Accounting Standards and Accounting Interpretations have been issued or amended and are applicable to the Company but are not yet effective and have not been adopted in preparation of the financial statements, and are likely to have a significant impact on the Company:

AASB 16 Leases - replaces AASB 117 Leases and some lease-related Interpretations. It requires all leases to be accounted for 'on-balance sheet' by lessees, other than short-term and low value asset leases, provides new guidance on the application of the definition of lease and on sale and lease back accounting, largely retains the existing lessor accounting requirements in AASB 117 and requires new and different disclosures about leases.

The company is yet to undertake a detailed assessment of the impact of AASB 16. However, based on the entity's preliminary assessment, the likely impact on the first time adoption of the Standard for the year ending 31 December 2019 is that there will be a significant increase in lease assets and financial liabilities recognised on the balance sheet, in relation to leases that are currently and will in the intervening years to 1 January 2019 be classified as operating leases under the existing standard. This will however be dependent on to what extent the company takes advantage of the exemption in relation to low value assets as there are currently a large number of capitalised finance leases on the company's balance sheet in relation to laptops and iPads which could be expensed as incurred should the exemption be utilised.

AASB 1058 Income of Not-for-Profit Entities – replaces AASB 1004 Contributions (in part) and is effective for the first time for the year ended 31 December 2019 unless early adopted. AASB 1058 clarifies and simplifies the income recognition requirements that apply to NFP entities, in conjunction with AASB 15 Revenue from Contracts with Customers. These Standards supersede all the income recognition requirements relating to private sector NFP entities, and the majority of income recognition requirements relating to public sector NFP entities, previously in AASB 1004 Contributions.

Under AASB 1058, the timing of income recognition depends on whether a NFP transaction gives rise to a liability or other performance obligation (a promise to transfer a good or service), or a contribution by owners, related to an asset (such as cash or another asset) received by an entity. This standard applies when a NFP entity enters into transactions where the consideration to acquire an asset is significantly less than the fair value of the asset principally to enable the entity to further its objectives. In the latter case, the entity will recognise and measure the asset at fair value in accordance with the applicable Australian Accounting Standard (e.g. AASB 116 Property, Plant and Equipment).

Upon initial recognition of the asset, AASB 1058 requires the entity to consider whether any other financial statement elements (called 'related amounts') should be recognised, such as: (a) Contributions by owners; (b) Revenue, or a contract liability arising from a contract with a customer; (c) A lease liability; (d) A financial instrument; or (e) A provision. These related amounts will be accounted for in accordance with the applicable Australian Accounting Standard.

1 Statement of Significant Accounting Policies continued

The new guidance will affect how entities apply the new leasing standard, AASB 16 Leases, in the context of below-market leases. AASB 1058 and related amendments to AASB 16 will require entities to:

- recognise the right-of-use asset at fair value;
- recognise a liability for the present value of contractual lease payments in accordance with AASB 16; and
- recognise income immediately for the difference between the asset and liability; either:
  - upfront (if the entity has no ongoing obligations) in accordance with AASB 1058; or
  - when (or as) the entity satisfies any obligations attached to its use of the leased asset that fall in the scope of AASB 15.

The company is yet to undertake a detailed assessment of the impact of AASB 1058. However, the company currently has leases of properties with a related party which may be considered below-market leases and based on the entity's preliminary assessment, there may be an impact on the accounting for these leases, as set out above, on the first time adoption of the Standard for the year ending 31 December 2019.

AASB 2016-4 Amendments to Australian Accounting Standards – Recoverable Amount of Non-Cash-Generating Specialised Assets of Not-for-Profit Entities - This Standard amends AASB 136 Impairment of Assets to: (a) Remove references to depreciated replacement cost as a measure of value in use for not-for-profit entities; and (b) Clarify that the recoverable amount of primarily non-cash generating assets of not-for-profit entities, which are typically specialised in nature and held for continuing use of their service capacity, is expected to be materially the same as fair value determined under AASB 13 Fair Value Measurement, utilising the 'replacement cost' concept as a measure of fair value. Practically, the company is not expecting any significant impairments arising from using the 'replacement cost' concept as opposed to the previous 'depreciated replacement cost' concept for assessing impairment of its non-current assets on application of the amendment from 1 January 2017.

Management anticipate that all the above pronouncements will be adopted in the Company's financial statements for the first period beginning after the effective date of the pronouncement.

1 Statement of Significant Accounting Policies continued

Significant Accounting Policies

(a) Income Tax

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

(b) Inventories

Inventories are measured at the lower of cost and net realisable value.

(c) Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost less, where applicable, any accumulated depreciation and impairment losses. Where an item of property, plant or equipment is acquired for no or nominal consideration, the item's fair value at acquisition date is deemed as its cost. Subsequent to initial recognition, each class is carried at cost, less where applicable, any accumulated depreciation and impairment losses.

(i) Leasehold Buildings and Improvements

All buildings and land on which the schools operate is owned by the McAuley Property Association Limited and as such is shown in these financial statements as leasehold buildings and improvements.

Leasehold buildings and improvements are shown at cost less, where applicable, any accumulated depreciation and impairment losses.

(ii) Plant and Equipment

Plant and equipment is measured on the cost basis less depreciation and impairment losses.

(iii) Depreciation

The depreciable amount of all property, plant and equipment including buildings, but excluding land, is depreciated on a straight line basis over their useful lives (commencing from the time the asset is ready for use).

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	***Effective Life (Years)***	***Depreciation Rate***	***Basis***
Buildings & Improvements	40	2.5%	Straight Line
Boarding Facilities	25	4%	Straight Line
Furniture & Equipment	10	10%	Straight Line
ICT Equipment	3	33.33%	Straight Line
Library Stock	10	10%	Straight Line
Plant & Machinery	15	6.66%	Straight Line
Motor Vehicles	6.66	15%	Straight Line

1 Statement of Significant Accounting Policies continued

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in profit or loss.

(d) Impairment on Non-Financial Assets

At each reporting date, the directors review a number of factors affecting property, plant and equipment, including their carrying values, to determine if these assets, grouped into cash-generating units, may be impaired. If an impairment indicator exists, the recoverable amount of the asset, being the higher of the asset's 'fair value less costs to sell' and 'value in use', is compared to the carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed in the statement of comprehensive income as an impairment expense. As the future economic benefits of the Company's property, plant and equipment is not primarily dependent on the their ability to generate net cash inflows, and the Company would replace the remaining future economic benefit of the asset if deprived of those assets, value in use of an asset is determined as its depreciated replacement cost.

Any excess of the asset's carrying value over its recoverable amount is expensed to the profit or loss.

Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

(e) Financial Instruments

Financial assets and financial liabilities are recognised on the company's statement of financial position when the company becomes a party to the contractual provisions of the instrument.

Trade Receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method. Amortised cost is the total receivable less any amounts received and impairment losses. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the amount expected to be recovered.

Available for Sale Financial Assets

All investments are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investment.

After initial recognition, investments are measured at fair value using the latest bid price at reporting date or the School's investment in the net assets of the investee.

Gains or losses on investments are recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of.

1 Statement of Significant Accounting Policies continued

Impairment

The company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired.

If there is objective evidence of impairment for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Bank Borrowings

Interest bearing bank loans and overdrafts are initially measured at fair value, net of transaction costs, and are subsequently measured at amortised cost, using the effective interest method.

Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the company's accounting policy for borrowing costs.

Trade Payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost. Amortised cost is the initial amount payable less any repayments.

Derivative Financial Instruments

The Company uses derivative financial instruments to hedge some of its risk associated with interest rate fluctuations on bank loans. The Company does not use derivative financial instruments for speculative purposes.

Derivatives are initially measured at fair value on the date a derivative contract is entered into and are subsequently measured at fair value at each reporting date. The net fair value of all derivative financial instruments outstanding at the reporting date is recognised in the statement of financial position as either a financial asset or liability. The Directors of the Company have decided not to use the option in AASB 139 Financial Instruments: Recognition and Measurement to classify the interest rate swaps as cash flow hedges (and accordingly these are classified as at fair value through profit or loss (classified as held for trading), and the changes in the fair value of the derivative financial instruments are recognised in profit or loss.

1 Statement of Significant Accounting Policies continued

(f) Employee Benefits

Provision is made for the company's liability for employee benefits arising from services rendered by employees to reporting date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs.

Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. Those cash flows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cash flows.

(g) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to entities in the company are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

(h) Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable.

Revenue from tuition fees, subject levies and other receipts from students are recognised upon the delivery of the service or goods.

Government grants are recognised at fair value when there is reasonable assurance that the grant will be received.

Interest revenue is recognised on an effective interest method in relation to the outstanding financial asset.

Other revenue is recognised when the right to receive the revenue has been established.

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

1 Statement of Significant Accounting Policies continued

(i) Foreign Currency Translation

Functional and Presentation Currency

The functional currency of the company is identified as the currency of the primary economic environment in which the company operates, and is used in the recognition of transactions and balances.

The financial statements are presented in Australian dollars, which is also the company's functional and presentation currency.

(j) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(k) Critical Accounting Estimates and Judgements

In the application of the company's accounting policies the directors are required to make judgements, estimates and assumptions about carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Liability to employees for long service leave

The Company contributes an annual amount based on total salaries to the Catholic Long Service Leave Fund (the "Fund"). Any amounts payable to employees in relation to long service leave are funded from this Fund as and when they arise. However, the existence of the scheme does not discharge the Company's obligation to pay long service leave to employees in the event that the Fund cannot meet its obligations. At balance date the directors have no reason to believe that the Fund will not meet its obligations under the agreements with the Company as employer. As information on the long service leave provisions as they pertain to the Company's employees is not readily available, the gross receivable from the Fund and provision for long service leave payable to employees (which are equal and offsetting) have not been recognised in these financial statements.

(l) Economic dependency

The Company is dependent upon the ongoing receipt of Federal and State government grants to ensure the ongoing continuance of its educational facilities. At the date of this report the directors have no reason to believe that this financial support will not continue.

2 Revenue and Other Income

	2016	2015
	$'000	$'000
Tuition fees levies and other charges	92,095	88,879
Government grants	140,998	136,947
Interest received	1,546	1,649
Donations	328	555
Other revenue	9,453	9,533
Total revenue and other income	**244,420**	**237,563**

3 Surplus for the Year

Surplus for the year has been determined after:

Bad and doubtful debts	**1,046**	**978**
Net loss on disposal of non-current assets	**75**	**307**
Rental expense on operating leases	**1,073**	**2,743**

4 Cash and Cash Equivalents

Cash on hand	21	24
Cash at bank	26,518	20,378
Deposits at call	31,323	33,760
Special purpose deposits	8,196	7,688
	66,058	**61,850**

	2016	2015
	$'000	$'000

5 Trade and Other Receivables

	2016 $'000	2015 $'000
CURRENT		
Trade receivables (family debtors)	16,039	14,843
Allowance for impairment of receivables	(4,713)	(3,589)
	11,326	**11,254**
Other receivables	1,384	876
	12,710	**12,130**

6 Inventories

	2016 $'000	2015 $'000
CURRENT		
At Cost		
Finished goods	**1,865**	**1,509**

7 Other Assets

	2016 $'000	2015 $'000
Prepayments	**2,454**	**2,706**

8 Financial assets

	2016 $'000	2015 $'000
Available for sale financial assets	**1,661**	**1,163**

9 Property, Plant and Equipment

	2016 $'000	2015 $'000
LEASEHOLD BUILDINGS & IMPROVEMENTS		
Leasehold Buildings & Improvements		
At cost	451,787	428,015
Less accumulated depreciation	(116,564)	(106,725)
Total Leasehold Buildings & Improvements	**335,223**	**321,290**
PLANT AND EQUIPMENT		
Plant and equipment		
At cost	89,009	80,078
Less accumulated depreciation	(68,729)	(60,656)
Total plant and equipment	**20,280**	**19,422**
Library		
At cost	5,152	5,078
Less accumulated depreciation	(3,906)	(3,498)
Total Library	**1,246**	**1,580**
Motor Vehicles		
At cost	3,260	3,288
Less accumulated depreciation	(1,649)	(1,544)
Total Motor Vehicles	**1,611**	**1,744**
Total Plant and Equipment	**23,137**	**22,746**
CAPITAL WORKS IN PROGRESS		
Capital works in progress		
At cost	3,645	613
Total Capital Works in Progress	**3,645**	**613**
TOTAL PROPERTY, PLANT & EQUIPMENT	**362,005**	**344,649**

10 Trade and Other Payables

	2016 $'000	2015 $'000
CURRENT		
Trade payables	10,102	8,155
Other payables	6,337	5,489
Fees and levies in advance	12,025	10,870
	28,464	**24,514**

11 Borrowings

	2016 $'000	2015 $'000
CURRENT		
Unsecured liabilities		
Bank loans	**2,179**	**2,500**
Secured liabilities		
Bank loans	7,022	11,577
Hire purchase liabilities	3,133	1,622
	10,155	**13,199**
	12,334	**15,699**
NON CURRENT		
Unsecured liabilities		
Bank loans	**16,515**	**19,470**
Secured liabilities		
Bank loans	54,840	43,604
Hire purchase liabilities	2,709	1,063
	57,549	**44,667**
	74,064	**64,137**

The bank loans are provided by the respective Catholic Development Fund in each diocese except for South Australian loans which are held with the Commonwealth Bank and are secured by registered first mortgage security. Some of the Victorian loans are supported by a letter of comfort provided by the Institute of Sisters of Mercy of Australia and Papua New Guinea (ISMAPNG), and others by registered first mortgage security. The West Australian loans are supported by registered first mortgage security over the respective school properties. The hire purchase obligations are secured against the property to which they relate.

12 Provisions

	2016	2015
	$'000	$'000
CURRENT		
Employee benefits	**8,407**	**7,521**
NON-CURRENT		
Employee benefits	**1,112**	**1,057**

13 Members' Guarantee

The company is incorporated under the *Corporations Act 2001* and is a company limited by guarantee. If the company is wound up, the constitution states that each member is required to contribute a maximum $5 each towards meeting any outstanding obligations of the entity. At 31 December 2016, the total amount that members of the company are liable to contribute if the company wound up is $25.

14 Cash Flow Information

(a) Reconciliation of Cash Flows from Operations

	Note	2016 $'000	2015 $'000
Net surplus for the year		11,213	14,041
Non-cash flows in net surplus			
Depreciation		21,474	18,068
Net loss on disposal of non-current assets		75	307
Changes in assets and liabilities			
Increase in trade and other receivables		(580)	(1,415)
Increase in inventories		(356)	(389)
Decrease in other assets		252	177
Increase in trade payables and other payables		3,950	1,894
Increase in provisions		941	72
		36,969	**32,755**

(b) Cash and Cash Equivalents

	Note	2016 $'000	2015 $'000
Cash at bank and on hand	4	66,058	61,850
		66,058	**61,850**

15 Capital Management Policies and Procedures

Management controls the capital of the Company to ensure that adequate cash flows are generated to fund its programs and that returns from surplus cash are maximised. The Board and management ensure that the overall risk management strategy is in line with this objective.

The Company's capital consists of financial liabilities, supported by financial assets.

Management effectively manages the Company's capital by assessing the Company's financial risk and responding to changes in these risks and in the market. These responses may include the consideration of debt levels. There have been no changes to the strategy adopted by management to control capital of the Company since the previous year.

16 Capital Commitments

The company, on occasion, enters into significant building contracts which may span multiple years. At balance day the following projects were not yet complete. An estimate of the outstanding amounts (which will generally fall due progressively throughout the following year) is included in the "Contract Outstanding" column.

School	Project	Contract Value	Contract Outstanding
Our Lady of Mercy College, Heidelberg	Gymnasium	$5.97m	$3.56m
Sacred Heart College, Geelong	Court Precinct	$5.93m	$3.35m

17 Contingent Liability

Capital Grants

The company occasionally receives capital grants from the Commonwealth Government to assist with building works at the Schools. Under the terms of the agreement under which these grants are provided, if the buildings are sold or cease to be used for School purposes within 10 years of the grant receipt, the entire amount is repayable to the government. For the subsequent 10 years this exposure drops by 10% per annum, and is fully extinguished after 20 years.

Whilst the Board does not currently foresee any amount being paid out under this agreement the following contingency calculations are provided:

School	Year	Amount	Current Exposure	Exposure Reduces	Exposure Ends
St Aloysius College, Adelaide	2010	$2.5m	$2.5m	2020	2030
St Brigid's College, Lesmurdie	2010	$3.0m	$3.0m	2020	2030
Santa Maria College, Attadale	2010	$2.0m	$2.0m	2020	2030

18 Post Balance Date Events

No matters or circumstances have arisen since the end of the financial period which significantly affected or may significantly affect the operations of the company, the results of those operations or the state of affairs of the company in future periods.

19 Company Details

The registered office and principal place of business of the company is:

Mercy Education Limited
720 Heidelberg Road
ALPHINGTON VIC 3078

20 Schools Operated By Mercy Education Limited at 31 December 2016

College	*Location*	*State*	*Established*
Mercedes College	Perth	WA	1846
Academy of Mary Immaculate	Fitzroy	VIC	1857
Sacred Heart College	Geelong	VIC	1860
Catholic College Bendigo	Bendigo	VIC	1876
St Aloysius College	Adelaide	SA	1880
St Aloysius College	North Melbourne	VIC	1887
Sacred Heart College	Kyneton	VIC	1889
Mount Lilydale Mercy College	Lilydale	VIC	1896
St Joseph’s College	Mildura	VIC	1906
Our Lady of Mercy College	Heidelberg	VIC	1910
St Brigid’s College	Lesmurdie	WA	1926
Santa Maria College	Attadale	WA	1937

Mercy Education Limited

ACN 154 531 870

Directors' Declaration

As detailed in note 1 to the financial statements, the company is not a reporting entity because in the opinion of the directors there are unlikely to exist users of the financial statements who are unable to command the preparation of reports tailored so as to satisfy specifically all of their information needs. Accordingly these special purpose financial statements have been prepared to satisfy the directors' reporting requirements under the Australian Charities and Not-for-profits Commission Act 2012.

The directors of the Company declare that:

1. The financial statements, comprising the statement of profit or loss and other comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows and accompanying notes, are in accordance with the Australian Charities and Not-for-profits Commission Act 2012 including:

   (a) Complying with Australian Accounting Standards and the Australian Charities and Not-for-profits Commission Regulation 2013; and

   (b) Giving a true and fair view of the company's financial position as at 31 December 2016 and of its performance for the year ended on that date.

2. In the directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors, and is signed in accordance with subsection 60.15(2) of the *Australian Charities and Not-for-profit Commission Regulation 2013*.

Lucy Molony

Mrs Lucy Molony
Board Chair

Dated this 21st day of April 2017

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Independent Auditor's Report
To the Members of Mercy Education Limited

Auditor's Opinion

We have audited the financial report of Mercy Education Limited (the "Company"), which comprises the statement of financial position as at 31 December 2016, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the Directors' declaration.

In our opinion the financial report of Mercy Education Limited has been prepared in accordance with Division 60 of the Australian Charities and Not-for-profits Commission Act 2012 (the "ACNC Act"), including:

a giving a true and fair view of the Company's financial position as at 31 December 2016 and of its financial performance for the year then ended; and

b complying with Australian Accounting Standards to the extent described in Note 1 and complying with Division 60 of the Australian Charities and Not-for-profits Commission Regulation 2013.

Basis for Auditor's Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those Standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report. We are independent of the Company in accordance with the auditor independence requirements of the ACNC Act and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (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.

Emphasis of Matter – Basis of Accounting

We draw attention to Note 1 of the financial report, which describes the basis of accounting. The financial report has been prepared for the purpose of fulfilling the Company's financial reporting responsibilities under the ACNC Act. As a result, the financial report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Information other than the Financial Report and Auditor's Report

The Directors are responsible for the other information. The other information comprises the information included in the Company's annual report for the year ended 31 December 2016, but does not include the financial report and our auditor's report thereon.

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

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

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

Responsibility of the Directors for the Financial Report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view and have determined that the accounting policies used and described in Note 1 to the financial report are appropriate to meet the requirements of the ACNC Act and the needs of the members. The Directors' responsibility also includes such internal control as the Directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

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

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 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 the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_files/ar3.pdf . This description forms part of our auditor's report.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

Adrian Nathanielsz
Partner - Audit & Assurance

Melbourne, 21 April 2017

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