Incolink
A joint enterprise of employer associations and unions in the building and construction industry

# INCOLINK COMBINED SPECIAL PURPOSE ACCOUNTS

**For the year ended 30 June 2020**

## CONTENTS

## DIRECTORS' REPORT

The Directors of Redundancy Payment Central Fund Ltd trading as Incolink (the Company) present their report together with the Combined Special Purpose Accounts of the Incolink Group of Entities (the Group) for the financial year ended 30 June 2020 and the auditor's report thereon.

### 1. Directors

The Directors of the Company (all non-executive) at any time during the financial year and until the date of this report are as follows:

Mr Hedley Davis
Mr Radley de Silva
Mr Ralph Edwards
Mr Kenneth Gardner
Mr Michael O'Neill
Mr Earl Setches
Mr Noel Washington
Ms Louise Hansen
Mr William Oliver – appointed 18 December 2019
Mr Brian Boyd – resigned 17 December 2019

### 2. Chairman

Mr Brian Boyd – appointed 18 December 2019
Mr Brian Welch – resigned 17 December 2019

### 3. Company secretary

Mr Tri Duc Nguyen

### 4. Directors' meetings

The number of Board meetings attended by each Director of the Company, whilst in office, during the financial year was:

| Director | Board Meetings Held | Board Meetings Attended |
|---|---|---|
| Mr Hedley Davis | 16 | 16 |
| Mr Radley de Silva | 16 | 15 |
| Mr Ralph Edwards | 16 | 15 |
| Mr Kenneth Gardner | 16 | 15 |
| Mr Michael O'Neill | 16 | 15 |
| Mr Earl Setches | 16 | 13 |
| Mr Noel Washington | 16 | 16 |
| Ms Louise Hansen | 16 | 14 |
| Mr William Oliver | 10 | 10 |
| Mr Brian Boyd | 6 | 5 |

## DIRECTORS' REPORT (CONTINUED)

### 5. Principal activities

The principal activity of the Company during the course of the financial year was to act as trustee for the following trusts:

- Redundancy Payment Central Fund
- Redundancy Payment Central Fund No. 2
- Redundancy Payment Approved Worker Entitlement Fund 1
- Redundancy Payment Approved Worker Entitlement Fund 2
- Construction Industry Complying Portable Sick Leave Pay Scheme
- Metal and Engineering Construction and Contracting Industries Complying Portable Sick Leave Pay Scheme

The Company is also the ultimate holding company of the following companies:

- IPT Agency Co. Ltd
- IPT Agency Co (No. 2) Ltd
- Incolink Foundation Ltd
- Red Property Management Pty Ltd
- Red (4) Investments Pty Ltd
- Red (5) Investments Pty Ltd

The Company's objective is to act as Trustee and administer those industry funds that provide a range of benefits and services to members of the above schemes.

### 6. Operating results

The net loss of the Group for the financial year after providing for income tax was $7.11 million (2019: profit - $35.63 million). The Company generated a net profit after tax of $Nil (2019: $Nil).

### 7. Distributions/Dividends

Distributions have been disbursed by Redundancy Payment Central Fund and Redundancy Payment Central Fund No. 2 in line with the appropriate Trust Deeds. No dividends were declared or paid during the year ended 30 June 2020 and the Directors do not recommend that a dividend should be paid.

### 8. Likely developments

The *Fair Work Laws Amendment (Proper Use of Worker Benefits) Bill 2019* is currently before Parliament. If passed, the Bill will have regulatory compliance implications for Incolink in terms of staff resourcing and compliance reporting obligations.

### 9. Indemnification and insurance of Directors and Officers

The Company has agreed to indemnify all current and former Directors of the Company against all liabilities to another person that may arise from their position as Directors of the Company, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

The Company has agreed to indemnify all senior executives for all liabilities to another person that may arise from their position in the Company, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including legal fees.

## DIRECTORS' REPORT (CONTINUED)

**11. Indemnification of auditors**
To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). The indemnity does not extend to any liability resulting from a negligent, wrongful or wilful act or omission by Ernst & Young. No payment has been made to indemnify Ernst & Young during or since the financial year.

**12. Events after the reporting date**
Please refer to Note 21 of the Combined Special Purpose Accounts for details on events after the reporting date.

**13. Significant changes in state of affairs**
As it has for most businesses in Australia and across the world, the Covid-19 pandemic has had a major impact on the operational activities of the Incolink during FY20.

The sharp sell-off in investment markets during February/March had a significant impact, with the value of Incolink's investment portfolio initially falling by 9%. The value of investments then recovered as markets improved, with the portfolio increasing by 2.1% for the full year to 30 June 2020. The allocation of cash within the portfolio was increased to ensure that Incolink was able to support expected increases in redundancy claims.

Government imposed lockdown restrictions necessitated a quick response in implementing remote working from home arrangements for our staff, overseen by our IT department. As at the date of this report, all staff are working remotely and these arrangements will continue in line with State Government directions. Government stimulus support in the form of JobKeeper payments ($498k) and cash flow boost ($150k) were received during the financial year.

Incolink has also been pro-active in working with government and construction industry stakeholders to facilitate the continuity of safe working conditions and practices on construction sites. During this period Incolink has been responsible for conducting 17,000 Covid-19 tests (to June 30) on industry worksites and sourcing appropriate PPE for on-site workers.

In response to the crisis, Incolink increased its online presence and digital interactions with members. We introduced hardship payments for worker members and our staff have transitioned seamlessly to conducting virtual conferencing counselling sessions with our members instead of face-to-face sessions.

This report is made out in accordance with a Resolution of the Board of Directors and is signed for and on behalf of the Directors.

| | |
|---|---|
| **Hedley Davis, Director** | **Ralph Edwards, Director** |

**Melbourne,**
**16 September 2020**

## COMBINED STATEMENT OF COMPREHENSIVE INCOME
## FOR THE YEAR ENDED 30 JUNE 2020

| | Note | 2020<br>$ | 2019<br>$ |
|---|---|---|---|
| **Revenue** | | | |
| Investment income | **2** | 17,614,192 | 64,132,020 |
| Other income | **3** | 10,360,037 | 9,391,345 |
| Operating expenses | **4** | (15,889,006) | (14,789,058) |
| **Operating profit for the year** | | **12,085,223** | **58,734,307** |
| Income tax expense | **18** | (3,332,268) | (7,655,386) |
| **Operating profit after income tax** | | **8,752,955** | **51,078,921** |
| Non-beneficiary industry grants | | (4,849,957) | (4,904,790) |
| Scheme insurances | | (7,300,205) | (7,789,112) |
| Other non-operating expenses | **5** | (3,709,114) | (2,759,760) |
| **Total non-operating expenses** | | **(15,859,276)** | **(15,453,662)** |
| **Net (loss)/ profit after income tax** | | **(7,106,321)** | **35,625,259** |
| Other comprehensive income for the year | | - | - |
| **Total comprehensive (loss)/income for the year** | | **(7,106,321)** | **35,625,259** |

The above statement of comprehensive income should be read in conjunction with the accompanying notes which form part of the Combined Special Purpose Accounts

## COMBINED STATEMENT OF FINANCIAL POSITION
## AS AT 30 JUNE 2020

| | Note | 2020<br>$ | 2019<br>$ |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | **6** | 80,145,433 | 17,903,340 |
| Trade receivable and other assets | **7** | 1,386,718 | 3,379,506 |
| Financial assets at amortised cost | **8** | - | 24,078,411 |
| Financial assets at fair value through profit or loss | **9** | 811,583,944 | 821,319,953 |
| Right-of-use assets | **14** | 697,825 | - |
| Intangible assets | **10** | 2,033,708 | 1,879,632 |
| Property, plant and equipment | **11** | 29,353,222 | 28,227,300 |
| **Total Assets** | | **925,200,850** | **896,788,142** |
| | | | |
| **Trading Liabilities** | | | |
| Trade and other payables | **12** | 10,693,261 | 6,372,756 |
| Employee benefits | **13** | 1,058,392 | 1,052,820 |
| Lease liabilities | **14** | 708,362 | - |
| Income taxes payable | | 5,387,524 | 3,631,219 |
| Deferred tax liability | | 10,723,349 | 14,048,916 |
| **Total Trading Liabilities** | | 28,570,888 | 25,105,711 |
| | | | |
| **Member Liabilities** | | | |
| Worker member liability balances | **15** | 746,256,418 | 698,980,368 |
| Apprentice member liability provision | **16** | 12,046,399 | 10,623,630 |
| **Total Member Liabilities** | | 758,302,817 | 709,603,998 |
| | | | |
| **Total Liabilities** | | **786,873,705** | **734,709,709** |
| | | | |
| **Net Assets** | | **138,327,145** | **162,078,433** |
| | | | |
| **Equity** | | | |
| Retained earnings | | (13,326,703) | 20,931,900 |
| Distributable capital | | 66,122,161 | 41,099,406 |
| Reserves | **17** | 85,531,687 | 100,047,127 |
| **Total Equity** | | **138,327,145** | **162,078,433** |

The above statement of financial position should be read in conjunction with the accompanying notes which form part of the Combined Special Purpose Accounts

## NOTES TO THE COMBINED SPECIAL PURPOSE ACCOUNTS
## FOR THE YEAR ENDED 30 JUNE 2020

### 1. Statement of significant accounting policies

### (a) Basis of preparation

In the opinion of the Directors, the Incolink Group is not a reporting entity. The Combined Special Purpose Accounts have been prepared to satisfy the needs of the members.

The Combined Special Purpose Accounts have been prepared in accordance with the accounting policies disclosed below, which the Directors have determined are appropriate to meet the needs of the users. Such accounting policies are consistent with the previous period unless stated otherwise.

The Combined Special Purpose Accounts have been prepared on an accrual basis and are based on historical costs unless otherwise stated in the notes.

**Principles of combination**
The Combined Special Purpose Accounts are that of the Incolink Group, comprising the Company and the following entities:
- Redundancy Payment Central Fund
- Redundancy Payment Central Fund No. 2
- Redundancy Payment Approved Worker Entitlement Fund 1
- Redundancy Payment Approved Worker Entitlement Fund 2
- Red (4) Investments Pty Ltd
- Red (5) Investments Pty Ltd
- Construction Industry Complying Portable Sick Leave Scheme
- Metal and Engineering Construction and Contracting Industries Complying Portable Sick Leave Pay Scheme
- IPT Agency Co. Ltd
- IPT Agency Co (No. 2) Ltd
- Incolink Foundation Ltd
- Red Property Management Pty Ltd

The entities combined to form the Incolink Group do not represent a single economic entity and therefore the principles of consolidation do not apply. These Combined Special Purpose Accounts are an aggregation of the financial information of the above entities. The financial information of the combined entities is prepared for the same reporting period and using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies which may exist. All inter-group balances and transactions, including any unrealised profits or losses have been eliminated.

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

The Combined Special Purpose Accounts are presented in Australian dollars which is the Group’s functional and presentation currency.

In determining the appropriate basis of preparation of the Combined Special Purpose Accounts, the Directors are required to consider whether the Group can continue in operational existence for the foreseeable future.

## NOTES TO THE COMBINED SPECIAL PURPOSE ACCOUNTS (CONTINUED)
## FOR THE YEAR ENDED 30 JUNE 2020

The Directors have considered the plans, forecasts and all available information, including the significant COVID-19 consequences as detailed in the Directors' Report. Whilst significant estimates and judgements including the impacts of the wider economic environment are always required, in the opinion of the Directors the going concern assumption is appropriate in the preparation of the Combined Special Purpose Accounts.

### (b) Cash and cash equivalents

Cash and cash equivalents include cash on hand, cash at bank and deposits held at call with banks.

### (c) Revenue and other income

Revenue is recognised when the amount of the revenue can be measured reliably, it is probable that economic benefits associated with the transaction will flow to the entity and the income can be reliably measured.

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

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

**Investment income**

Investment income is derived by obtaining the movement in market value of the investments from period to period, using the closing unit price provided by all applicable investment fund managers. Distributions from investments are recognised in the period in which they are reinvested into units in the relevant fund.

**Other income**

*Training levy contributions retained*
Training fund contributions are collected from employers on behalf of their workers at a rate stipulated in an Enterprise Bargaining Agreement (EBA). Contributions are recognised as they are collected. The contributions are to be directed towards ongoing training in the building industry and to improve employee work skills. The Group retains contributions in order to facilitate such training grants to the industry.

*Occupational health & safety grant income*
Funding is received from the State Government of Victoria in order to jointly support occupational health and safety (OH&S) projects in the Victorian commercial building and civil construction industry. OH&S grant

income is recognised as the grant is accrued over the period of the agreement. This funding is then forwarded to stakeholders to facilitate the abovementioned purpose.

*Government stimulus income*
Payments have been received from the Australian Taxation Office as part of the government stimulus measures available for businesses during the COVID-19 pandemic. Monies have been received as part of the JobKeeper payment scheme and the tax-free cashflow boost. Income is recognised in the period to which it is attributed.

**Revenue from contracts with customers**

Under AASB 15 *Revenue from Contracts with Customers*, revenue received as part of a contract is required to be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The Group has identified a single revenue stream which incorporates investment income, and which is not linked to a contract with a customer. An assessment performed of the applicable aspects under the relevant standard has determined that they are not applicable to investment income. Measurement of all other income remains unchanged under the new standard.

### (d) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, to the extent that GST incurred is recoverable from the Australian Taxation Office. Where GST is not recoverable, the GST is recognised as a separate operating expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

### (e) Income tax

Income tax is the amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for the year and is measured at the amount expected to be paid to (recovered from) the Australian Taxation Office, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The Group recognises a deferred tax liability (DTL) on the unrealised mark to market gains on financial assets at fair value through profit and loss. This is measured by calculating the temporary differences arising between the tax (cost) base and the fair value of each investment asset and applying the relevant tax rates expected to apply in future periods when the assets are realised.

### (f) Trust net income distributions

In accordance with the relevant Trust Deeds, Trusts within the group distribute net income to beneficiaries. Distributions are payable/credited to the beneficiaries after the end of each financial year. The distribution amount is transferred to Unpaid Present Entitlements pursuant to a Heads of Agreement between the parties and used to fund industry grants to the beneficiaries. Any amount unapplied to industry grants remains in the present entitlements account to be applied as such in the following years.

### (g) Financial instruments

***Financial assets***

**Initial recognition and measurement**

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, or fair value through profit or loss. The Group does not hold financial assets classified as at fair value through comprehensive income (OCI), which is the third possible category.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. The Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

In order for a financial asset to be classified and measured at amortised cost it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

**Subsequent measurement**

For purposes of subsequent measurement, financial assets are classified in two categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through profit or loss

*Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term.

Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

*Financial assets at amortised cost (debt instruments)*

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows

  And;
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

**Impairment of financial assets**

Impairment on financial assets is recognised on an expected credit loss (ECL) model at the time of introduction of the financial asset. A simplified approach is used to determine impairment of financial assets which include trade receivables and sundry debtors.

The Group has applied the expected credit loss model and considered the relevant judgement in relation to the requirements of impairment. Based on all available factors the Group has assessed an expected credit loss as close to zero and, being immaterial, no amount is taken up for impairment.

The general approach is applied to inter-company receivables and loans. This requires an ECL to be recognised in two stages: 1) For those credit exposures with no significant increase in credit risk since initial recognition, entities are required to provide for default events that are possible in the next 12 months and 2) for those with a significant increase in exposure since initial recognition, a loss allowance is also required for credit losses expected over the remaining life of the exposure.

**Derecognition**

Financial assets are derecognised where the contractual rights to receipt of cash flows expire or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset.

***Financial liabilities***

**Initial recognition and measurement**

Financial liabilities are recognised in the statement of financial position when, and only when, the entity becomes party to the contractual provisions of the instrument.

At initial recognition, financial liabilities are measured at fair value less any directly attributable transaction costs.

**Subsequent measurement**

All financial liabilities are classified by the Group as subsequently measured at amortised cost using the effective interest method.

Any gain or loss on a financial liability that is measured at amortised cost shall be recognised in profit or loss when the liability is derecognised and through the amortisation process.

**Derecognition**

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

### (h) Intangible assets

The Group recognises internally developed software and software purchases as intangible assets.

Intangible assets are measured on initial recognition at cost. Following initial recognition intangible assets are varied at cost less any accumulated amortisation and accumulated impairment losses.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period for intangible assets with a finite useful life is reviewed at least at the end of each reporting period.

An intangible asset is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising from derecognition of the asset is included in the statement of comprehensive income.

*Software development costs*
Internally generated software development costs are capitalised until such time as the project is complete. Thereon the software is considered available for use and amortisation begins to be applied.

A summary of the policies applied to the Group's intangible assets is as follows:

| | Internally Developed Software | IT Software |
|---|---|---|
| **Useful lives** | Finite (7 years) | Finite (4 years) |
| **Amortisation method used** | Amortised on a straight- line basis over the period of use | Amortised on a straight- line basis over the period of use |
| **Internally generated or acquired** | Internally generated | Acquired |

### (i) Property, plant and equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

*Property*
Freehold land and buildings are shown at their fair value (being the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction).

Independent property valuations are performed at least every three years by a certified property valuer, or more often if the market is assessed as having changed materially.

Increases in the carrying amount arising on revaluation of land and buildings are credited to a revaluation reserve in equity. Decreases that offset previous increases of the same asset are charged against the related revaluation reserve directly in equity; all other decreases are charged to the statement of comprehensive income.

Any accumulated depreciation at the date of revaluation is restated to the revalued amount of the asset.

*Plant and equipment*
Plant and equipment and other fixed assets are measured at cost less depreciation and impairment losses.

**Depreciation**

The depreciable amount of all property, plant and equipment including building and capitalised leased assets, but excluding freehold land, is depreciated on a straight-line basis over their useful lives to the Group commencing from the time the asset is held ready for use. Leased assets and leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the assets.

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

| *Class of property, plant & equipment* | *Depreciation rate* | *Useful life (Years)* |
|---|---|---|
| Plant and equipment | 20.00% | 5 |
| Furniture and fittings | 10.00% | 10 |
| Motor vehicles | 22.50% | 4.4 |
| IT/Communications equipment | 25.00% | 4 |
| Buildings* | 3.57% | 28 |

*From 1 July 2020, this rate will update to 3.70% due to revaluation and remaining existing useful life of 27 years.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting period date. An asset's carrying amount is written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains or losses are included in the statement of comprehensive income. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

**(j) Trade and other payables**

Trade and other payables are measured at amortised cost and represent liabilities for goods and services provided to the Group during the financial year that remain unpaid at year end. The Group is obligated to make future payments in respect of the purchase of these goods and services.

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured. Provisions are measured using the best estimate of amounts required to settle the obligation at the end of the reporting period.

Industry grants payable are recognised when a Grant Finance Agreement (GFA) has been duly executed and the Group (as Grantor) is legally required to fulfil its obligations under the contract to the Grantee. The liability for GFAs executed between the Group and a beneficiary to one of the Trusts is drawn against unpaid present entitlements or the capital reserve of the applicable Trust. All other GFAs are taken to the statement of comprehensive income as non-beneficiary industry grants. The liability for industry grants payable is extinguished as each reporting milestone is met by the relevant grant recipient.

### (k) Employee benefits

*Short-term employee benefits*

Short-term employee benefits, other than termination benefits, are benefits that are expected to be settled wholly within twelve months after the end of the period in which the employees render the related services. Short-term employee benefits are measured at the undiscounted amounts expected to be paid when the liabilities are settled.

*Long-term employee benefits*

Employee benefits expected to be settled more than twelve months after the end of the reporting period have been measured at the present value of the estimated future cash outflows to be made for those benefits. In determining the liability, consideration is given to employee wage increases and the probability that the employee may satisfy vesting requirements.

### (l) Member liabilities

*Worker member liability balances*

This liability represents the balance of redundancy contributions held in trust on behalf of worker members of the Fund.

*Apprentice member liability provision*

This liability represents a provision for financial redundancy obligations to apprentice workers based on Trust Deed provisions. At least every three years an independent external actuary evaluates the methodology and assumptions underpinning this liability valuation.

### (m) Leases

The Group assesses at contract inception, whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

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

## NOTES TO THE COMBINED SPECIAL PURPOSE ACCOUNTS (CONTINUED)
## FOR THE YEAR ENDED 30 JUNE 2020

*(i) Right-of-use assets*

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying assets is available for use). Right-of-use assets are measured at cost, less any accumulated amortisation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

Right-of-use assets are amortised on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

- Right to use premises (office leases) 3 to 5 years
- Equipment lease 7.6 years

*(ii) Lease liabilities*

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. These lease payments include fixed payments less any lease incentives receivable, variable lease payments that depend on an index or rate, and amounts expected to be paid under residual value guarantees.

In calculating the present value of lease payments, the Group uses the government bond yield rate applicable to the average lease terms for the group of assets. The interest rate implicit in the lease is not readily determinable and the Group is unable to use an incremental borrowing rate as the Group does not have any such borrowings to which it can refer.

After the commencement date, subsequent payments for the lease are separated into principal and interest components. The liability is extinguished as payments are made and the interest component on the lease is taken to the statement of comprehensive income. In addition, the carrying amount of the lease liability is remeasured if there is a modification, a change in the lease term or a change in the lease payments.

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

The Group applies the short-term lease recognition exemption to its short-term leases i.e. those leases that have a lease term of 12 months or less from commencement date that do not contain a purchase option.

The Group applies the low value lease recognition exemption to leases determined to be of low value. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

*Adopting the new leases standard*

AASB 16 *Leases* replaces AASB 117 *Leases* from 1 July 2019. Under AASB 117, and therefore the comparative period, operating leases were not recognised on the Statement of Financial Position. All operating lease payments were instead shown as an expense in the relevant operating expense category.

In applying the new standard, the Group elected to apply the modified retrospective approach. Under this method the entity does not restate comparative figures. Instead, the Group as lessee recognises the cumulative effect of initially applying AASB 16 as an adjustment to the opening balance of retained earnings at the date of initial application. The Group elected to use the transition practical expedient to not reassess whether a contract is or contains a lease.

The effect of adoption of AASB 16 as at 1 July 2019 on the Combined Special Purpose Accounts was as follows:

| | $ |
|---|---|
| Right-of-use-assets | 155,464 |
| Lease liabilities | 159,846 |
| Retained Earnings | (4,382) |

When measuring the lease liabilities, the Group discounted lease payments using the government bond yield rate applicable to the lease terms for the asset (1%). The interest rate implicit in the lease is not readily determinable and the Group is unable to use an incremental borrowing rate as the Group does not have any such borrowings to which it can refer.

| | $ |
|---|---|
| Operating lease commitments at 30 June 2019 | 162,738 |
| Less: | |
| Discounted using applicable government bond yield rate | (2,892) |
| Lease liabilities recognised at 1 July 2019 | 159,846 |

### (n) Significant judgements and estimates – valuation of land and building

As outlined in the accounting policies, the land and building are measured initially at cost, including transaction costs. Subsequent to initial recognition, the land and building are stated at the revalued carrying amount, which reflects market conditions at the reporting date. Adjustments to the revalued carrying amount arising from changes in the valuation of the land and building are included in the revaluation reserve in the period in which the revaluation is undertaken.

Revalued amounts are determined based on the valuation performed by a qualified external independent valuer. The independent property valuation is performed at least every three years, or more often if the market is assessed as having changed materially.

As at 30 June 2020 there was significant valuation uncertainty relating to the land and building valuation. This uncertainty affects our valuers' ability and therefore our ability to reliably determine the key judgements and assumptions used in the property valuations.

Two property valuation approaches are generally adopted by valuers: The Income Capitalisation approach and the Discounted Cash Flow approach to arrive at a range of valuation outcomes, from which a best estimate of fair value is derived at a point in time.

The key assumptions and estimates used in these valuation approaches which have been impacted by COVID-19 include:

- forecast future rental income, based on the location, type and quality of the property, which are supported by the terms of any existing leases, other contracts or external evidence such as current market rents for similar properties adjusted to recognise the COVID-19 impact
- lease assumptions based on current and expected future market conditions after expiry of any current lease
- the capitalisation rate and discount rate derived from recent comparable market transactions adjusted for COVID-19 to reflect the uncertainty in the amount and timing of cash flows
- the impact of government support on tenants and rental schemes giving rise to rental deferrals, rental forgiveness, and eviction moratoriums.

Due to the valuation uncertainty, the property value may change significantly and unexpectedly over a relatively short period of time. The property valuation has been prepared based on the information that is available at 30 June 2020.

| | | 2020<br>$ | 2019<br>$ |
|---|---|---|---|
| **2.** | **Investment income** | | |
| | Mark to market movement in fair value | (18,489,629) | 33,592,245 |
| | Distributions received | 23,498,913 | 16,221,719 |
| | Interest revenue | 9,418,013 | 12,389,414 |
| | Other | 3,186,895 | 1,928,642 |
| | | **17,614,192** | **64,132,020** |
| **3.** | **Other income** | | |
| | Training levy contributions retained | 6,299,162 | 6,042,311 |
| | Occupational health and safety grant income | 2,000,000 | 2,000,000 |
| | Late payment fees | 601,247 | 550,795 |
| | Management fee income | 690,902 | 660,959 |
| | Government stimulus income | 647,850 | - |
| | Other | 120,876 | 137,280 |
| | | **10,360,037** | **9,391,345** |

| | | 2020<br>$ | 2019<br>$ |
|---|---|---|---|
| **4.** | **Operating expenses** | | |
| | Audit, tax and accounting fees | 503,807 | 487,999 |
| | Staff & related expenses | 9,096,720 | 8,909,267 |
| | Depreciation & amortisation | 1,368,226 | 1,025,511 |
| | Occupancy expenses | 1,147,306 | 1,156,381 |
| | Industry sponsorships & donations | 464,158 | 438,226 |
| | Printing, stationery & postage | 57,548 | 81,338 |
| | Legal fees | 53,988 | 124,061 |
| | Consultancy fees | 498,584 | 515,980 |
| | Marketing expenses | 565,658 | 493,570 |
| | IT expenses | 533,428 | 323,871 |
| | Corporate insurances | 189,242 | 187,006 |
| | GST expense | 450,689 | 441,546 |
| | Depreciation of right-of-use assets | 156,238 | - |
| | Interest on lease liabilities | 8,642 | - |
| | Other operating expenses | 794,772 | 604,302 |
| | | **15,889,006** | **14,789,058** |
| **5.** | **Other non-operating expenses** | | |
| | Forfeited balances reinstated | 521,754 | 628,620 |
| | Member balance adjustments | (90,797) | - |
| | Apprentice liability expense | 3,278,157 | 2,131,140 |
| | | **3,709,114** | **2,759,760** |
| **6.** | **Cash and cash equivalents** | | |
| | Cash at bank | **80,145,433** | **17,903,340** |
| **7.** | **Trade receivable and other assets** | | |
| | Related party receivables | 30,303 | 297,096 |
| | Trade receivables | 855,264 | 727,055 |
| | Sundry debtors | 214,190 | 527,787 |
| | Prepayments | 286,961 | 321,612 |
| | Investment redemption pending settlement | - | 1,505,956 |
| | | **1,386,718** | **3,379,506** |
| **8.** | **Financial assets at amortised cost** | | |
| | Mezzanine finance debt | - | 18,142,563 |
| | Interest receivable on unlisted property | - | 5,935,848 |
| | | **-** | **24,078,411** |

| | | 2020 | 2019 |
|---|---|---|---|
| | | $ | $ |
| **9.** | **Financial assets at fair value through profit or loss** | | |
| | Cash and fixed interest | 212,665,229 | 268,753,338 |
| | Alternative credit | 57,032,050 | 60,153,864 |
| | Diversifying alternatives | 133,568,345 | 129,604,611 |
| | Australian and international equities | 231,743,163 | 214,375,149 |
| | Property and infrastructure | 176,575,157 | 148,432,991 |
| | | **811,583,944** | **821,319,953** |
| **10.** | **Intangible assets** | | |
| | IT software and development costs | 4,899,098 | 4,203,173 |
| | Less: accumulated depreciation | (2,865,390) | (2,323,541) |
| | Total intangible assets | **2,033,708** | **1,879,632** |
| **11.** | **Property, plant and equipment** | | |
| | Land and buildings – at revalued amount | 29,000,000 | 27,800,000 |
| | Less: accumulated depreciation | - | - |
| | Total land and buildings | 29,000,000 | 27,800,000 |
| | Plant and equipment – at cost | 1,508,077 | 1,818,253 |
| | Less: accumulated depreciation | (1,154,855) | (1,390,953) |
| | Total plant and equipment | 353,222 | 427,300 |
| | **Total property, plant and equipment** | **29,353,222** | **28,227,300** |
| **12.** | **Trade and other payables** | | |
| | Accounts payable | 821,108 | 1,018,046 |
| | Sundry creditors and accrued expenses | 5,887,729 | 2,645,652 |
| | Industry grants payable | 3,984,424 | 2,709,058 |
| | | **10,693,261** | **6,372,756** |
| **13.** | **Employee benefits** | | |
| | Annual leave | 425,392 | 396,167 |
| | Personal leave | 319,880 | 335,323 |
| | Long service leave | 313,120 | 321,330 |
| | | **1,058,392** | **1,052,820** |

## 14. Leases

***Right-of-use assets***

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

| | Property leases | Equipment Leases | Total |
|---|---|---|---|
| | $ | $ | $ |
| **As at 1 July 2019** | 155,464 | - | **155,464** |
| Additions | - | 704,328 | 704,328 |
| Adjustment for lease modification | (5,729) | - | (5,729) |
| Depreciation expense | (63,360) | (92,878) | (156,238) |
| **As at 30 June 2020** | 86,375 | 611,450 | **697,825** |

***Lease liabilities***

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

| | Property leases | Equipment Leases | Total |
|---|---|---|---|
| | $ | $ | $ |
| **As at 1 July 2019** | 159,846 | - | **159,846** |
| Additions | - | 704,328 | 704,328 |
| Adjustment for lease modification | (5,729) | - | (5,729) |
| Payments | (60,191) | (89,893) | (150,083) |
| **As at 30 June 2020** | 93,926 | 614,436 | **708,362** |

***Maturity analysis – contractual undiscounted cash flows***

| | $ |
|---|---|
| Less than one year | 161,338 |
| One to five years | 417,813 |
| More than five years | 153,496 |
| **Total undiscounted lease liabilities at 30 June** | 732,647 |
| Lease liabilities included in the statement of financial position | 708,362 |
| Current | 154,872 |
| Non-current | 553,490 |

***Amounts recognised in profit and loss***

The following are the amounts recognised in profit or loss in relation to operating leases:

| | 2020 |
|---|---|
| | $ |
| Depreciation of right-of-use assets | 156,238 |
| Interest on lease liabilities | 8,642 |
| Expenses relating to leases of low-value assets | 94,096 |
| **Total amount recognised in profit or loss** | 258,976 |

## NOTES TO THE COMBINED SPECIAL PURPOSE ACCOUNTS (CONTINUED)
## FOR THE YEAR ENDED 30 JUNE 2020

| | | 2020<br>$ | 2019<br>$ |
|---|---|---|---|
| **15.** | **Worker member liability balances** | | |
| | Opening balance | 698,980,368 | 645,735,539 |
| | Employer redundancy contributions | 158,080,640 | 145,920,657 |
| | Forfeited balances reinstated | 521,754 | 628,620 |
| | Apprentice credits rolled over | 3,884,200 | 2,879,299 |
| | Claims and transfers | (115,210,544) | (96,183,747) |
| | Closing balance | **746,256,418** | **698,980,368** |
| **16.** | **Apprentice member liability provision** | | |
| | Opening balance | 10,623,630 | 9,460,551 |
| | Apprentice levy collected | 2,028,812 | 1,911,238 |
| | Apprentice liability expense | 3,278,157 | 2,131,140 |
| | Apprentice credits rolled over | (3,884,200) | (2,879,299) |
| | Closing balance | **12,046,399** | **10,623,630** |

In line with the policy outlined in Note 1, the Trust engaged Finity Actuarial & Insurance Consultants to perform an actuarial assessment of the assumptions and methodologies underpinning the apprentice member liability provision as at 30 June 2020. Following that valuation, the claim rates for members in some cohorts were reduced to more accurately reflect the current data. The discount rate was also reduced from 4% to 0.27% based on the implied government bond yield for a weighted average term until claim of 21 months. In order to provide the highest level of confidence that the provision is large enough to cover all future claims, the updated valuation is recognised to the 95% percentile, as has been the case in previous years.

| | | 2020<br>$ | 2019<br>$ |
|---|---|---|---|
| **17.** | **Reserves** | | |
| | Asset revaluation reserve (i) | 15,059,987 | 13,584,125 |
| | Unpaid present entitlements | 7,758,481 | 6,393,864 |
| | Capital reserve | 62,713,219 | 80,069,138 |
| | Total reserves closing balance | **85,531,687** | **100,047,127** |
| | (i) Asset revaluation reserve | | |
| | Opening balance | 13,584,125 | 5,131,377 |
| | Property revaluation | 1,475,862 | 8,452,748 |
| | Closing balance | **15,059,987** | **13,584,125** |

Property revaluations are based upon reports prepared by m3property (Vic) Pty Ltd, an independent, certified property valuer, as to the market value of the property at 151 Rathdowne Street as at 30th June in the relevant year. Valuations are to be performed at least every three years, or more often if the market is assessed as having changed materially. As at 30 June 2019 and 30 June 2020 it was determined appropriate for a valuation to be performed.

**17. Reserves continued**

As at 30 June 2020 the independent valuation has been impacted by the market uncertainty that the COVID-19 pandemic has caused. Consequently, the valuer noted that their assessed value may change significantly and unexpectedly over a relatively short period of time. Given the valuation uncertainty noted, the 30 June 2020 valuation should be considered appropriate for the date of valuation only.

| | 2020 | 2019 |
|---|---|---|
| **18. Income tax expense** | **$** | **$** |
| **Current income tax expense** | | |
| Current income tax charge | 5,700,728 | 5,129,775 |
| Adjustment in respect of current income tax of previous year | 446,883 | 402,275 |
| **Deferred income tax expense** | | |
| Relating to origination and reversal of temporary differences | (3,325,567) | 2,123,336 |
| Unwinding of deferred tax adjustment in other capital reserve | 510,224 | - |
| | **3,332,268** | **7,655,386** |

**19. Forfeited balances reinstated contingent liability**

The trusts within the Group reinstate forfeited member balances on an ad-hoc basis upon application by the member. The Trustee is under no obligation, under the trust deed or otherwise, to reverse a previously forfeited amount. Typically, applications to reverse forfeited balances have not been denied.

These reinstatements are subject to the receipt of an application from the member and are not within the control of the trust fund. Therefore, it is not practicable to determine or state the timing or amount of any potential payment. Accordingly, no provision for any liability has been made in these Combined Special Purpose Accounts.

**20. Segment Information**

The Incolink Group operates solely within Australia in one industry segment.

## NOTES TO THE COMBINED SPECIAL PURPOSE ACCOUNTS (CONTINUED)
## FOR THE YEAR ENDED 30 JUNE 2020

### 21. Events after the reporting period – COVID-19 pandemic

The COVID-19 pandemic has developed rapidly in 2020, with a significant number of cases. Measures taken by various governments to contain the virus have affected economic activity.

On the 7 July 2020, Metropolitan Melbourne and Mitchell Shire entered a second phase of lockdown enforced by the State Government with Stage 3 restrictions. The Group's tenants were largely able to continue trading during this period. With regards to the land and building, the assumptions within the valuation approach and methodology conducted in June 2020 included adequate consideration of these restrictions, albeit with significant valuation uncertainty disclosed by the real estate valuers. Refer to Note 17 for further details.

On the 2nd August 2020, with COVID-19 case numbers not reducing, Stage 4 restrictions were introduced in metropolitan Melbourne and Stage 3 in regional Victoria. These restrictions have resulted in non-essential services being shut down across metropolitan Melbourne. The impact of the more severe restrictions is considered a non-adjusting event as they relate to circumstances that arose after the reporting period.

## DIRECTORS' DECLARATION

Directors' declaration for the year ended 30 June 2020

The Directors of the entities within the combined Group declare that:

a) In the Directors' opinion, the attached Combined Special Purpose Accounts and notes are in accordance with the accounting policies outlined in Note 1 to the Combined Special Purpose Accounts and present fairly the financial position and performance of the combined Group as at 30 June 2020; and

b) In the Directors' opinion, there are reasonable grounds to believe that each entity within the combined Group as at 30 June 2020 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 Directors.

On behalf of the Board

| | |
|---|---|
| **Hedley Davis, Director** | **Ralph Edwards, Director** |

**Melbourne,**
**16 September 2020**

Ernst & Young
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# Independent Auditor's Report to the Directors of Incolink Group

## Opinion

We have audited the accompanying combined special purpose accounts of Incolink Group (the Group), which comprises the combined statement of financial position as at 30 June 2020, the combined statement of comprehensive income, combined statement of changes in equity and combined statement of cash flows for the year then ended, notes to the combined special purpose accounts, including a summary of significant accounting policies, and the directors' declaration. The Group comprises the entities specified in Note 1 to the combined special purpose accounts

In our opinion, the accompanying combined special purpose accounts have been prepared, in all material respects, in accordance with the accounting policies described in Note 1 to the combined special purpose accounts.

## Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the combined special purpose accounts 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 and Restriction on Distribution and Reliance

We draw attention to Note 1 to the combined special purpose accounts which describes the basis of accounting. The combined special purpose accounts are prepared to assist the Group to meet the requirements of the members. As a result the combined special purpose accounts may not be suitable for another purpose. Our report is intended solely for the Group and members of the Incolink Group (collectively the Recipients) and should not be distributed to parties other than the Recipients. A party other than the Recipients accessing this report does so at their own risk and Ernst & Young expressly disclaims all liability to a party other than the Recipients for any costs, loss, damage, injury or other consequence which may arise directly or indirectly from their use of, or reliance on the report. Our opinion is not modified in respect of this matter.

## Information Other than the Combined Special Purpose Accounts and Auditor's Report Thereon

The directors are responsible for the other information. The other information obtained at the date of this auditor's report are the Directors' Report and the Annual Report accompanying the combined special purpose accounts

Our opinion on the combined special purpose accounts 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 combined special purpose accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the combined special purpose accounts 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 the Directors for the Combined Special Purpose Accounts

The directors of the Group are responsible for the preparation of the combined special purpose accounts in accordance with accounting policies described in Note 1 to the combined special purpose accounts and for such internal control as the directors determine is necessary to enable the preparation of the combined special purpose accounts that is free from material misstatement, whether due to fraud or error.

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

## Auditor's Responsibilities for the Audit of the Combined Special Purpose Accounts

Our objectives are to obtain reasonable assurance about whether the combined special purpose accounts 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 combined special purpose accounts.

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

- Identify and assess the risks of material misstatement of the combined special purpose accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the combined special purpose accounts 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.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the combined special purpose accounts. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst + Young

Ernst & Young
Melbourne
16 September 2020