

Hunter New England Local Health District

Financial Statements

for the year ended 30 June 2018



INDEPENDENT AUDITOR'S REPORT

Hunter New England Local Health District

To Members of the New South Wales Parliament

Opinion

I have audited the accompanying financial statements of the Hunter New England Local Health District (the District), which comprise the Statement of Comprehensive Income for the year ended 30 June 2018, the Statement of Financial Position as at 30 June 2018, the Statement of Changes in Equity and the Statement of Cash Flows for the year then ended, notes comprising a Statement of Significant Accounting Policies and other explanatory information of the District and the consolidated entity. The consolidated entity comprises the District and the entities it controlled at the year's end or from time to time during the financial year.

In my opinion, the financial statements:

- give a true and fair view of the financial position of the District and the consolidated entity as at 30 June 2018, and of their financial performance and cash flows for the year then ended in accordance with Australian Accounting Standards
- are in accordance with section 45E of the *Public Finance and Audit Act 1983* (PF&A Act) and the Public Finance and Audit Regulation 2015.

My opinion should be read in conjunction with the rest of this report.

Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under the standards are described in the 'Auditor's Responsibilities for the Audit of the Financial Statements' section of my report.

I am independent of the District and the consolidated entity in accordance with the requirements of the:

- Australian Auditing Standards
- Accounting Professional and Ethical Standards Board's APES 110 'Code of Ethics for Professional Accountants' (APES 110).

I have fulfilled my other ethical responsibilities in accordance with APES 110.

Parliament promotes independence by ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of public sector agencies
- precluding the Auditor-General from providing non-audit services.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Emphasis of Matter – Presentation of Budget Information

Without modification to the opinion expressed above, I draw attention to the basis of presenting adjusted budget information detailed in Note 1(ah). The note states that AASB 1055 'Budgetary Reporting' is not applicable to the District. It also states that, unlike the requirement in AASB 1055 'Budgetary Reporting' to present original budget information, the District's financial statements present adjusted budget information.

The Chief Executive's Responsibilities for the Financial Statements

The Chief Executive is responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards and the PF&A Act, and for such internal control as the Chief Executive determines is necessary to enable the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Executive is responsible for assessing the ability of the District and the consolidated entity to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting except where operations will cease as a result of an administrative restructure.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to:

- obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

Reasonable assurance is a high level of assurance, but does not guarantee an audit conducted in accordance with Australian Auditing Standards will always detect material misstatements. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions users take based on the financial statements.

A description of my responsibilities for the audit of the financial statements is located at the Auditing and Assurance Standards Board website at: www.auasb.gov.au/auditors_responsibilities/ar3.pdf. The description forms part of my auditor's report.

My opinion does not provide assurance:

- that the District or the consolidated entity carried out their activities effectively, efficiently and economically
- about the assumptions used in formulating the budget figures disclosed in the financial statements
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about any other information which may have been hyperlinked to/from the financial statements.



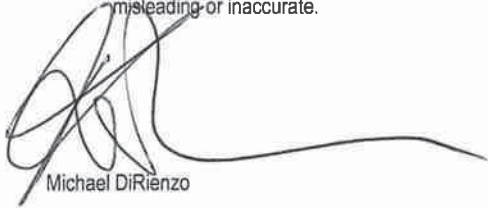
Dominika Ryan
Director, Financial Audit Services

5 September 2018
SYDNEY

**Hunter New England Local Health District
Certification of the Financial Statements
for the year ended 30 June 2018**

I state, pursuant to section 45F of the *Public Finance and Audit Act 1983*:

- 1) The financial statements of the Hunter New England Local Health District for the year ended 30 June 2018 have been prepared in accordance with:
 - a) Australian Accounting Standards (which include Australian Accounting Interpretations);
 - b) the requirements of the *Public Finance and Audit Act 1983 (PFAA)*, the *Public Finance and Audit Regulation 2015 (Regulation)*; and
 - c) Financial Reporting Directions mandated by the Treasurer.
- 2) The financial statements exhibit a true and fair view of the financial position and the financial performance of the Hunter New England Local Health District; and
- 3) I am not aware of any circumstances which would render any particulars in the financial statements to be misleading or inaccurate.



Michael DiRienzo
Chief Executive
3 September 2018

Hunter New England Local Health District
Statement of Comprehensive Income for the year ended 30 June 2018

PARENT							CONSOLIDATION		
Actual	Adjusted Budget Unaudited	Actual		Notes	Actual	Adjusted Budget Unaudited	Actual		
2018	2018	2017			2018	2018	2017		
\$000	\$000	\$000			\$000	\$000	\$000		
			Expenses excluding losses						
			Operating Expenses						
-----	-----	-----							
			Employee Related Expenses	2	1,309,547	1,316,008	1,227,709		
1,254,532	1,260,831	1,193,878	Personnel Services	3	-----	-----	-----		
107,088	108,775	101,782	Visiting Medical Officers		107,088	108,775	101,782		
575,281	571,482	562,704	Other Expenses	4	575,281	571,482	562,704		
85,589	85,771	82,003	Depreciation and Amortisation	1(n), 5	85,589	85,771	82,003		
6,266	6,798	6,601	Grants and Subsidies	6	6,266	6,798	6,601		
7,865	7,827	8,888	Finance Costs	1(h), 7	7,865	7,827	8,888		
136,682	136,682	135,776	Payments to Affiliated Health Organisations	8	136,682	136,682	135,776		
<u>2,173,303</u>	<u>2,178,166</u>	<u>2,091,632</u>	Total Expenses excluding losses		<u>2,228,318</u>	<u>2,233,343</u>	<u>2,125,463</u>		
			Revenue						
1,802,946	1,802,946	1,670,163	NSW Ministry of Health Recurrent Allocations	1(i)	1,802,946	1,802,946	1,670,163		
54,136	56,026	61,419	NSW Ministry of Health Capital Allocations	1(i)	54,136	56,026	61,419		
-----	-----	-----	Acceptance by the Crown Entity of Employee Benefits	1(e)(ii),12	55,015	55,177	33,831		
259,607	260,756	256,999	Sale of Goods and Services	1(i), 9	259,607	260,756	256,999		
1,927	2,414	1,914	Investment Revenue	1(i),10	1,927	2,414	1,914		
81,927	82,246	64,835	Grants and Other Contributions	1(i),11	81,927	82,246	64,835		
11,262	8,243	15,118	Other Income	13	11,262	8,243	15,118		
<u>2,211,805</u>	<u>2,212,631</u>	<u>2,070,448</u>	Total Revenue		<u>2,266,820</u>	<u>2,267,808</u>	<u>2,104,279</u>		
(1,804)	(785)	(1,291)	Gain / (Loss) on Disposal	14	(1,804)	(785)	(1,291)		
(1,698)	(825)	(1,204)	Other Gains / (Losses)	15	(1,698)	(825)	(1,204)		
<u>35,000</u>	<u>32,855</u>	<u>(23,679)</u>	Net Result	31	<u>35,000</u>	<u>32,855</u>	<u>(23,679)</u>		
			Other Comprehensive Income						
			Items that will not be reclassified to net result						
			Changes in Revaluation Surplus of						
-----	-----	1,302	Property, Plant and Equipment	19	-----	-----	1,302		
-----	-----	1,302	Total Other Comprehensive Income		-----	-----	1,302		
<u>35,000</u>	<u>32,855</u>	<u>(22,377)</u>	TOTAL COMPREHENSIVE INCOME		<u>35,000</u>	<u>32,855</u>	<u>(22,377)</u>		

The accompanying notes form part of these financial statements.

Hunter New England Local Health District
Statement of Financial Position as at 30 June 2018

PARENT			CONSOLIDATION			
Actual	Adjusted Budget Unaudited	Actual	Notes	Actual	Adjusted Budget Unaudited	Actual
2018	2018	2017		2018	2018	2017
\$000	\$000	\$000		\$000	\$000	\$000
ASSETS						
Current Assets						
98,739	83,411	92,372		98,739	83,411	92,372
63,153	75,693	66,780	16	63,153	75,693	66,780
2,792	2,494	2,494	17	2,792	2,494	2,494
<u>164,684</u>	<u>161,598</u>	<u>161,646</u>	18	<u>164,684</u>	<u>161,598</u>	<u>161,646</u>
164,684	161,598	161,646		164,684	161,598	161,646
Total Current Assets						
Non-Current Assets						
Property, Plant & Equipment						
1,260,853	1,244,175	1,234,036		1,260,853	1,244,175	1,234,036
141,865	150,793	133,368	19	141,865	150,793	133,368
75,961	79,795	79,795	19	75,961	79,795	79,795
2,535	2,355	2,355	19	2,535	2,355	2,355
<u>1,481,214</u>	<u>1,477,118</u>	<u>1,449,554</u>		<u>1,481,214</u>	<u>1,477,118</u>	<u>1,449,554</u>
1,727	-----	-----	20	1,727	-----	-----
<u>1,482,941</u>	<u>1,477,118</u>	<u>1,449,554</u>		<u>1,482,941</u>	<u>1,477,118</u>	<u>1,449,554</u>
1,482,941	1,477,118	1,449,554		1,482,941	1,477,118	1,449,554
<u>1,647,625</u>	<u>1,638,716</u>	<u>1,611,200</u>		<u>1,647,625</u>	<u>1,638,716</u>	<u>1,611,200</u>
1,647,625	1,638,716	1,611,200		1,647,625	1,638,716	1,611,200
Total Non-Current Assets						
Total Assets						
LIABILITIES						
Current Liabilities						
174,494	175,666	173,020		174,494	175,666	173,020
8,988	6,971	14,573	23	8,988	6,971	14,573
203,823	198,685	189,796	24	203,823	198,685	189,796
381	264	264	25	381	264	264
<u>387,686</u>	<u>381,586</u>	<u>377,653</u>	26	<u>387,686</u>	<u>381,586</u>	<u>377,653</u>
387,686	381,586	377,653		387,686	381,586	377,653
Total Current Liabilities						
Non-Current Liabilities						
76,282	75,738	85,270		76,282	75,738	85,270
3,468	3,332	3,073	24	3,468	3,332	3,073
255	270	270	25	255	270	270
<u>80,005</u>	<u>79,340</u>	<u>88,613</u>	26	<u>80,005</u>	<u>79,340</u>	<u>88,613</u>
80,005	79,340	88,613		80,005	79,340	88,613
Total Non-Current Liabilities						
Total Liabilities						
Net Assets						
EQUITY						
132,641	133,578	133,578		132,641	133,578	133,578
1,047,293	1,044,212	1,011,356		1,047,293	1,044,212	1,011,356
<u>1,179,934</u>	<u>1,177,790</u>	<u>1,144,934</u>		<u>1,179,934</u>	<u>1,177,790</u>	<u>1,144,934</u>
1,179,934	1,177,790	1,144,934		1,179,934	1,177,790	1,144,934

The accompanying notes form part of these financial statements.

Hunter New England Local Health District
Statement of Changes in Equity for the year ended 30 June 2018

PARENT AND CONSOLIDATION	Notes	Accumulated Funds \$000	Revaluation Surplus \$000	Total \$000
Balance at 1 July 2017		1,011,356	133,578	1,144,934
Total Equity at 1 July 2017		1,011,356	133,578	1,144,934
Net Result for the year		35,000	----	35,000
Other Comprehensive Income:				
Net Change in Revaluation Surplus of Property, Plant and Equipment	19	----	----	----
Transfers on Disposal		937	(937)	----
Total Other Comprehensive Income		937	(937)	----
Total Comprehensive Income for the year		35,937	(937)	35,000
Balance at 30 June 2018		1,047,293	132,641	1,179,934
Balance at 1 July 2016		1,034,943	132,368	1,167,311
Total Equity at 1 July 2016		1,034,943	132,368	1,167,311
Net Result for the year		(23,679)	----	(23,679)
Other Comprehensive Income:				
Net Change in Revaluation Surplus of Property, Plant and Equipment	19	----	1,302	1,302
Transfers on Disposal		92	(92)	----
Total Other Comprehensive Income		92	1,210	1,302
Total Comprehensive Income for the year		(23,587)	1,210	(22,377)
Balance at 30 June 2017		1,011,356	133,578	1,144,934

The accompanying notes form part of these financial statements.

Hunter New England Local Health District
Statement of Cash Flows for the year ended 30 June 2018

PARENT			CONSOLIDATION			
Actual	Adjusted Budget Unaudited	Actual	Notes	Actual	Adjusted Budget Unaudited	Actual
2018	2018	2017		2018	2018	2017
\$000	\$000	\$000		\$000	\$000	\$000
CASH FLOWS FROM OPERATING ACTIVITIES						
Payments						
-----	-----	-----	Employee Related	(1,268,010)	(1,276,693)	(1,204,928)
(755,067)	(760,646)	(704,731)	Suppliers for Goods and Services	(755,067)	(760,646)	(704,731)
(159,128)	(159,665)	(157,888)	Grants and Subsidies	(159,128)	(159,665)	(157,888)
(7,865)	(7,827)	(8,886)	Finance Costs	(7,865)	(7,827)	(8,886)
(1,268,010)	(1,276,693)	(1,204,928)	Other	-----	-----	-----
<u>(2,190,070)</u>	<u>(2,204,831)</u>	<u>(2,076,433)</u>	Total Payments	<u>(2,190,070)</u>	<u>(2,204,831)</u>	<u>(2,076,433)</u>
Receipts						
1,802,947	1,802,947	1,670,163	NSW Ministry of Health Recurrent Allocations	1,802,947	1,802,947	1,670,163
54,136	56,026	61,419	NSW Ministry of Health Capital Allocations	54,136	56,026	61,419
27,082	27,082	25,060	Reimbursements from the Crown Entity	27,082	27,082	25,060
268,593	265,974	260,547	Sale of Goods and Services	268,593	265,974	260,547
1,927	2,414	1,914	Interest Received	1,927	2,414	1,914
84,337	84,657	69,709	Grants and Other Contributions	84,337	84,657	69,709
88,747	83,997	93,260	Other	88,747	83,997	93,260
<u>2,327,769</u>	<u>2,323,097</u>	<u>2,182,072</u>	Total Receipts	<u>2,327,769</u>	<u>2,323,097</u>	<u>2,182,072</u>
<u>137,699</u>	<u>118,266</u>	<u>105,639</u>	NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>137,699</u>	<u>118,266</u>	<u>105,639</u>
CASH FLOWS FROM INVESTING ACTIVITIES						
4,339	5,502	5,156	Proceeds from Sale of Property, Plant & Equipment and Intangibles	4,339	5,502	5,156
(121,100)	(115,596)	(112,187)	Purchases of Property, Plant & Equipment and Intangibles	(121,100)	(115,596)	(112,187)
<u>(116,761)</u>	<u>(110,094)</u>	<u>(107,031)</u>	NET CASH FLOWS FROM INVESTING ACTIVITIES	<u>(116,761)</u>	<u>(110,094)</u>	<u>(107,031)</u>
CASH FLOWS FROM FINANCING ACTIVITIES						
(14,571)	(17,133)	(5,143)	Repayment of Borrowings and Advances	(14,571)	(17,133)	(5,143)
<u>(14,571)</u>	<u>(17,133)</u>	<u>(5,143)</u>	NET CASH FLOWS FROM FINANCING ACTIVITIES	<u>(14,571)</u>	<u>(17,133)</u>	<u>(5,143)</u>
6,367	(8,961)	(6,535)	NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	6,367	(8,961)	(6,535)
92,372	92,372	98,907	Opening Cash and Cash Equivalents	92,372	92,372	98,907
<u>98,739</u>	<u>83,411</u>	<u>92,372</u>	CLOSING CASH AND CASH EQUIVALENTS	<u>98,739</u>	<u>83,411</u>	<u>92,372</u>

The accompanying notes form part of these financial statements.

Hunter New England Local Health District
Notes to and forming part of the Financial Statements
for the year ended 30 June 2018

1. Statement of Significant Accounting Policies

a) The Reporting Entity

The Hunter New England Local Health District (the HNELHD) was established under the provisions of the Health Services Act 1997 with effect from 1 January 2011.

The HNELHD is a NSW Government entity and is controlled by the NSW Ministry of Health, which is the immediate parent. The reporting entity is also controlled by the State of New South Wales (and is consolidated as part of the NSW Total State Sector Accounts), which is the ultimate parent. The reporting entity is a not-for-profit entity (as profit is not its principal objective).

The HNELHD, as a reporting entity, comprises all the entities under its control, namely:

- * The parent entity, comprises all the operating activities of the Hospital Facilities and the Community Health Centres under its control. It also encompasses the Restricted Assets (as disclosed in Note 22), which, while containing assets which are restricted for specified uses by the grantor or the donor, are nevertheless controlled by the parent entity.
- * The Hunter New England Local Health District Special Purpose Service Entity, which was established as a Division of the HNELHD on 1 January 2011 in accordance with the Health Services Act 1997. This Division provides personnel services to enable the HNELHD to exercise its functions.

As a consequence, the values in the financial statements presented herein consist of the parent entity and the consolidated entity which comprises the parent and special purpose service entity. In the process of preparing the consolidated financial statements consisting of the controlling and controlled entities, all inter-entity transactions and balances have been eliminated, and like transactions and other events are accounted for using uniform accounting policies.

These consolidated financial statements for the year ended 30 June 2018 have been authorised for issue by the Chief Executive on 3 September 2018.

b) Basis of Preparation

The HNELHD's financial statements are general purpose financial statements which have been prepared on an accrual basis and in accordance with applicable Australian Accounting Standards (which include Australian Accounting Interpretations), the requirements of the Health Services Act 1997 and its regulations (including observation of the Accounts and Audit Determination for Public Health Organisations), the Public Finance and Audit Act 1983, the Public Finance and Audit Regulation 2015, and Financial Reporting Directions mandated by the Treasurer. The financial statements comply with the NSW Treasury mandates circular for NSW General Government Sector Entities. Further information on the adjusted budget figures can be found at Note 1(ah).

The financial statements of the HNELHD have been prepared on a going concern basis.

The Secretary of NSW Health, the Chair of the Hunter New England Local Health District Board and the Chief Executive, through the Service Agreements have agreed to service and funding levels for the forward financial year. The Service Agreements sets out the level of financial resources for public health services under the HNELHD's control and the source of these funds. By agreement, the Service Agreements requires local management to control its financial liquidity and in particular meet benchmarks for the payment of creditors. Where the HNELHD fails to meet Service Agreements performance standards, the NSW Ministry of Health as the state manager can take action in accordance with annual performance framework requirements, including financial support and increased management interaction by the NSW Ministry of Health.

Other circumstances why the going concern assumption is appropriate include:

- * Allocated funds, combined with other revenues earned, are applied to pay debts as and when they become due and payable.
- * The HNELHD has the capacity to review timing of subsidy cashflows to ensure that debts can be paid when they become due and payable.
- * The HNELHD has developed an Efficiency and Improvement Plan (EIP) which identifies revenue improvement and cost saving strategies. Benefits from the EIP are retained by the HNELHD and assist in meeting its overall budget target. The EIP is monitored and evaluated by the NSW Ministry of Health throughout the financial year.

Property, plant and equipment, assets (or disposal groups) held for sale and financial assets at 'fair value through profit and loss' are measured at fair value. Other financial statement items are prepared in accordance with the historical cost convention except where specified otherwise.

Judgements, key assumptions and estimations management has made are disclosed in the relevant notes to the financial statements.

All amounts are rounded to the nearest one thousand dollars and are expressed in Australian currency.

Hunter New England Local Health District
Notes to and forming part of the Financial Statements
for the year ended 30 June 2018

1. Statement of Significant Accounting Policies

c) Comparative Information

Except when an Australian Accounting Standard permits or requires otherwise, comparative information is disclosed in respect of the previous period for all amounts reported in the financial statements.

Certain comparative information has been reclassified to ensure consistency with current year presentation and classification.

d) Statement of Compliance

The financial statements and notes comply with Australian Accounting Standards which include Australian Accounting Interpretations.

e) Employee Benefits and Other Provisions

i) Salaries and Wages, Annual Leave, Sick Leave, Allocated Days Off (ADO) and On-Costs

Salaries and wages (including non-monetary benefits) and paid sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the service are recognised and measured at the undiscounted amounts of the benefits.

Annual leave and ADO are not expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related service. As such, it is required to be measured at present value in accordance with AASB 119 Employee Benefits (although short-cut methods are permitted).

Actuarial advice obtained by NSW Treasury, a controlled entity of the ultimate parent, has confirmed that using the nominal annual leave balance plus the annual leave entitlements accrued while taking annual leave can be used to approximate the present value of the annual leave liability. On-costs of 18.1% are applied to the value of leave payable at 30 June 2018 (comparable on-costs for 30 June 2017 were 17.2%). The HNELHD has assessed the actuarial advice based on the HNELHD's circumstances to both the annual leave and ADO and has determined that the effect of discounting is immaterial. All annual leave and ADO are classified as a current liability even where the consolidated entity does not expect to settle the liability within 12 months as the consolidated entity does not have an unconditional right to defer settlement.

Unused non-vesting sick leave does not give rise to a liability as it is not considered probable that sick leave taken in the future will be greater than the benefits accrued in the future.

ii) Long Service Leave and Superannuation

The HNELHD's liability for Long Service Leave and defined benefit superannuation (State Authorities Superannuation Scheme and State Superannuation Scheme) are assumed by the Crown Entity, which is a controlled entity of the ultimate parent.

The HNELHD accounts for the liability as having been extinguished resulting in the amount assumed being shown as part of the non-monetary revenue item described as 'Acceptance by the Crown Entity of Employee Benefits'.

Specific on-costs relating to Long Service Leave assumed by the Crown Entity are borne by the HNELHD as shown in Note 25.

Long service leave is measured at the present value of expected future payments to be made in respect of services provided up to the reporting date. Consideration is given to certain factors based on actuarial review, including expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using Commonwealth government bond rate at the reporting date.

The superannuation expense for the financial year is determined by using the formulae specified in the Treasurer's Directions. The expense for certain superannuation schemes (i.e. Basic Benefit and First State Super) is calculated as a percentage of the employee's salary. For other superannuation schemes (i.e. State Superannuation Scheme and State Authorities Superannuation Scheme), the expense is calculated as a multiple of the employee's superannuation contributions.

iii) Consequential On-Costs

Consequential costs to employment are recognised as liabilities and expenses where the employee benefits to which they relate have been recognised. This includes outstanding amounts of workers' compensation insurance premiums and fringe benefits tax.

iv) Other Provisions

Other provisions exist when the HNELHD has a present legal or constructive obligation as a result of a past event; it is probable that an outflow of resources will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation.

f) Insurance

The HNELHD's insurance activities are conducted through the NSW Treasury Managed Fund (TMF) Scheme of self insurance for government entities. The expense (premium) is determined by the Fund Manager based on past claims experience. The TMF is managed by Insurance and Care NSW (iCare), a controlled entity of the ultimate parent.

Hunter New England Local Health District
Notes to and forming part of the Financial Statements
for the year ended 30 June 2018

1. **Statement of Significant Accounting Policies**

g) **Grants and Subsidies**

Grant and subsidies expense generally comprise contributions in cash or in kind to various local government authorities and not-for-profit community organisations to support their health-related objectives and activities. The grants and subsidies are expensed on the transfer of the cash or assets. The transferred assets are measured at their fair value.

h) **Finance Costs**

Finance costs are recognised as expenses in the period in which they are incurred in accordance with NSW Treasury's Mandate to not-for-profit NSW general government sector entities.

i) **Income Recognition**

Income is measured at the fair value of the consideration or contribution received or receivable. Additional comments regarding the accounting policies for the recognition of revenue are discussed below.

Sale of Goods

Revenue from the sale of goods is recognised as revenue when the HNELHD transfers the significant risks and rewards of ownership of the assets.

Rendering of Services

Revenue is recognised when the service is provided or by reference to the stage of completion (based on labour hours incurred to date).

Grants and Other Contributions

Grants and other contributions, comprising mainly cash and in-kind contributions, are recognised as revenues when control passes to the HNELHD and the contractual obligations have been satisfied. In-kind contributions are measured at fair value on transfer date.

Patient Fees

Patient fees are derived from chargeable inpatients and non-inpatients on the basis of rates specified by the NSW Ministry of Health. Revenue is recognised on an accrual basis when the service has been provided to the patient.

Highly Specialised Drugs

Revenue for highly specialised drugs is paid by the Commonwealth in accordance with the terms of the Commonwealth agreement through Medicare and reflects the recoupment of costs incurred under Section 100 of the *National Health Act 1953* for highly specialised drugs. The agreement provides for the provision of medicines for the treatment of chronic conditions where specific criteria are met in respect of day admitted patients, non admitted patients or patients on discharge. Revenue is recognised when the drugs have been provided to the patient.

Motor Accident Authority Third Party

A bulk billing agreement exists in which motor vehicle insurers effect payment directly to NSW Health for the hospital costs for those persons hospitalised or attending for inpatient treatment as a result of motor vehicle accidents. The HNELHD recognises the revenue on an accruals basis from the time the patient is treated or admitted into hospital.

Department of Veterans' Affairs

An agreement is in place with the Commonwealth Department of Veterans' Affairs through which direct funding is provided for the provision of health services to entitled veterans. For inpatient services, revenue is recognised by the HNELHD on an accrual basis by reference to patient admissions. Non admitted patients are recognised by the NSW Ministry of Health in the form of a block grant.

Investment Revenue

Interest revenue is recognised using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset.

Debt Forgiveness

Debts are accounted for as extinguished when and only when settlement occurs through repayment or replacement by another liability.

Hunter New England Local Health District
Notes to and forming part of the Financial Statements
for the year ended 30 June 2018

1. Statement of Significant Accounting Policies

Specialist Use of Hospital Facilities

Specialist doctors with rights of private practice are subject to an infrastructure charge, including service charges where applicable for the use of hospital facilities at rates determined by the NSW Ministry of Health. Charges consist of two components:

- * a monthly charge raised by the HNELHD based on a percentage of receipts generated.
- * the residual of the Private Practice Trust Fund at the end of each financial year, such sum being credited for the HNELHD use in the advancement of the HNELHD or individuals within it.

Refer to Note 9 (b) for further details.

Use of Outside Facilities

The HNELHD uses a number of facilities owned and maintained by the local authorities in the area to deliver community health services for which no charges are raised by the authorities.

Where material, the cost method of accounting is used for the initial recording of all such services. Cost is determined as the fair value of the services given and is then recognised as revenue with a matching expense.

NSW Ministry of Health Allocations

Payments are made by the immediate parent on the basis of the allocation for the HNELHD as adjusted for approved supplementations mostly for salary agreements and approved enhancement projects.

This allocation is included in the Statement of Comprehensive Income before arriving at the "Net Result" on the basis that the allocation is earned in return for the health services provided on behalf of the NSW Ministry of Health. Allocations are normally recognised upon the receipt of cash.

General operating expenses/revenues of Calvary Mater Hospital (Affiliated Health Organisation) have only been included in the Statement of Comprehensive Income prepared to the extent of the cash payments made to the Health Organisations concerned. The HNELHD is not deemed to own or control the various assets/liabilities of the aforementioned Health Organisations and such amounts have been excluded from the Statement of Financial Position. Any exceptions are specifically listed in the notes that follow.

j) Accounting for the Goods & Services Tax (GST)

Income, expenses and assets are recognised net of the amount of GST, except that the:

- * amount of GST incurred by the HNELHD as a purchaser, that is not recoverable from the Australian Taxation Office, is recognised as part of an asset's cost of acquisition or as part of an item of expense; and
- * receivables and payables are stated with the amount of GST included.

Cash flows are included in the Statement of Cash Flows on a gross basis. However, the GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the Australian Taxation Office are classified as operating cash flows.

k) Interstate Patient Flows

Interstate patient flows are funded through the State Pool, based on activity and consistent with the price determined in the service level agreement. The funding is recognised as recurrent allocation received from the immediate parent.

l) Acquisition of Property, Plant and Equipment

Property, plant and equipment acquired are initially recognised at cost and subsequently revalued at fair value less accumulated depreciation and impairment. Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire the asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the requirements of other Australian Accounting Standards.

Assets acquired at no cost, or for nominal consideration, are initially recognised at their fair value at the date of acquisition.

Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at measurement date.

Where payment for an asset is deferred beyond normal credit terms, its cost is the cash price equivalent, i.e. the deferred payment amount is effectively discounted over the period of credit.

Refer to Note 1(ae) for assets transferred as a result of equity transfer.

Land and buildings are owned by the Health Administration Corporation, an entity controlled by the immediate parent. Land and buildings which are operated/occupied by the HNELHD are deemed to be controlled by the HNELHD and are reflected as such in the financial statements.

Hunter New England Local Health District
Notes to and forming part of the Financial Statements
for the year ended 30 June 2018

1. **Statement of Significant Accounting Policies**

m) **Capitalisation Thresholds**

Property, plant and equipment and Intangibles costing \$10,000 and above individually (or forming part of a network costing more than \$10,000) are capitalised.

n) **Depreciation of Property, Plant and Equipment**

Depreciation is provided for on a straight-line basis for all depreciable assets so as to write off the depreciable amount of each asset as it is consumed over its useful life to the HNELHD. Land is not a depreciable asset. All material identifiable components of assets are depreciated over their useful lives.

Details of depreciation rates initially applied for major asset categories are as follows:

Artwork	5.0%
Buildings	2.5%
Infrastructure Systems	2.5%
Plant and Equipment	
- Computer Equipment	20.0%
- Electro Medical Equipment	
* Costing less than \$200,000	10.0%
* Costing more than or equal to \$200,000	12.5%
- Furniture, Fittings and Furnishings	5.0%
- Linen	25.0%
- Motor Vehicle Sedans	12.5%
- Motor Vehicles, Trucks & Vans	20.0%
- Office Equipment	10.0%
- Plant and Machinery	10.0%

"Infrastructure Systems" means assets that comprise public facilities and which provide essential services and enhance the productive capacity of the economy including roads, bridges, water infrastructure and distribution works, sewerage treatment plants, seawalls and water reticulation systems.

Depreciation rates are subsequently varied where changes occur in the assessment of the remaining useful life of the assets reported.

o) **Revaluation of Non-Current Assets**

Physical non-current assets are valued in accordance with the 'Valuation of Physical Non-Current Assets at Fair Value' Policy and Guidelines Paper (TPP 14-01). This policy adopts fair value in accordance with AASB 13 Fair Value Measurement, AASB 116 Property, Plant and Equipment and AASB 140 Investment Property.

Property, plant and equipment is measured at the highest and best use by market participants that is physically possible, legally permissible and financially feasible. The highest and best use must be available at a period that is not remote and takes into account the characteristics of the asset being measured, including any socio-political restrictions imposed by government. In most cases, after taking into account these considerations, the highest and best use is the existing use. In limited circumstances, the highest and best use may be a feasible alternative use, where there are no restrictions on use or where there is a feasible higher restricted alternative use.

Fair value of property, plant and equipment is based on a market participants' perspective, using valuation techniques (market approach, cost approach, income approach) that maximise relevant observable inputs and minimise unobservable inputs. Also refer Note 19 and Note 21 for further information regarding fair value.

To ensure that the carrying amount for each asset does not differ materially from its fair value at reporting date, indices are sourced. The indices reflect an assessment of movements made in the period between revaluations.

Non-specialised assets with short useful lives are measured at depreciated historical cost, as an approximation of fair value. The entity has assessed that any difference between fair value and depreciated historical cost is unlikely to be material.

When revaluing non-current assets using the cost approach, the gross amount and the related accumulated depreciation are separately restated.

For other assets valued using other valuation techniques, any balances of accumulated depreciation existing at the revaluation date in respect of those assets are credited to the asset accounts to which they relate. The net asset accounts are then increased or decreased by the revaluation increments or decrements.

Revaluation increments are credited directly to the revaluation surplus, except that, to the extent that an increment reverses a revaluation decrement in respect of that class of asset previously recognised as a loss in the net result, the increment is recognised immediately as a gain in the net result.

Hunter New England Local Health District
Notes to and forming part of the Financial Statements
for the year ended 30 June 2018

1. Statement of Significant Accounting Policies

Revaluation decrements are recognised immediately as a loss in the net result for the year, except that, to the extent that a credit balance exists in the revaluation surplus in respect of the same class of assets, they are debited directly to the revaluation surplus.

As a not-for-profit entity, revaluation increments and decrements are offset against one another within a class of non-current assets, but not otherwise.

Where an asset that has previously been revalued is disposed of, any balance remaining in the revaluation surplus in respect of that asset is transferred to accumulated funds.

p) Impairment of Property, Plant and Equipment

As a not-for-profit entity with no cash generating units, impairment under AASB 136 Impairment of Assets is unlikely to arise. As property, plant and equipment is carried at fair value or an amount that approximates fair value, impairment can only arise in the rare circumstances such as where the costs of disposal are material. Specifically, impairment is unlikely for not-for-profit entities given that AASB 136 Impairment of Assets modifies the recoverable amount test for non-cash generating assets of not-for-profit entities to the higher of fair value less costs of disposal and depreciated replacement cost, where depreciated replacement cost is also fair value.

q) Restoration Costs

On initial recognition, the present value of the expected cost for the restoration or cost of dismantling of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

r) Non-Current Assets (or disposal groups) Held for Sale

The HNELHD has certain non-current assets (or disposal groups) classified as held for sale, where their carrying amount will be recovered principally through a sale transaction, not through continuing use.

Non-current assets (or disposal groups) held for sale are recognised at the lower of carrying amount and fair value less costs of disposal. These assets are not depreciated while they are classified as held for sale.

s) Investment Properties

Investment property is held to earn rentals or for capital appreciation, or both. However, for not-for-profit entities, property held to meet service delivery objectives rather than to earn rental or for capital appreciation does not meet the definition of investment property and is accounted for under AASB 116, Property, Plant and Equipment.

The HNELHD does not have any property that meets the definition of Investment Property.

t) Intangible Assets

The HNELHD recognises intangible assets only if it is probable that future economic benefits will flow to the HNELHD and the cost of the asset can be measured reliably. Intangible assets are measured initially at cost.

Where an asset is acquired at no or nominal cost, the cost is its fair value as at the date of acquisition. All research costs are expensed. Development costs are only capitalised when certain criteria are met.

The useful lives of intangible assets are assessed to be finite.

The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period.

Intangible assets are subsequently measured at fair value only if there is an active market. As there is no active market for the HNELHD's intangible assets, the assets are carried at cost less any accumulated amortisation and impairment losses.

Computer software developed or acquired by HNELHD are recognised as intangible assets and are amortised over four years using the straight line method based on the useful life of the asset for both internally developed assets and direct acquisitions. Most computer software is acquired from the Health Administration Corporation, a controlled entity of the immediate parent.

Intangible assets are tested for impairment where an indicator of impairment exists. If the recoverable amount is less than its carrying amount the carrying amount is reduced to recoverable amount and the reduction is recognised as an impairment loss.

u) Maintenance

Day-to-day servicing costs or maintenance are charged as expenses as incurred except where they relate to the replacement of a part or component of an asset, in which case the costs are capitalised and depreciated.

Hunter New England Local Health District
Notes to and forming part of the Financial Statements
for the year ended 30 June 2018

1. Statement of Significant Accounting Policies

v) Leased Assets

A distinction is made between finance leases which effectively transfer from the lessor to the lessee substantially all the risks and rewards incidental to ownership of the leased assets, and operating leases under which the lessor effectively retains all such risks and rewards.

Where a non-current asset is acquired by means of a finance lease, at the commencement of the lease term, the asset is recognised at its fair value or, if lower, the present value of the minimum lease payments, at the inception of the lease. The corresponding liability is established at the same amount. Lease payments are allocated between the principal component and the interest expense.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

w) Inventories

Inventories held for distribution are stated at cost, adjusted when applicable, for any loss of service potential. Inventories (other than those held for distribution) are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average cost method.

Obsolete items are disposed of in accordance with instructions issued by the NSW Ministry of Health.

x) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These financial assets are recognised initially at fair value. Subsequent measurement is at amortised cost using the effective interest method, less an allowance for any impairment of receivables. Any changes are recognised in the Net Result when impaired, derecognised or through the amortisation process.

Short-term receivables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial.

y) Investments

Investments are initially recognised at fair value plus, in the case of investments not at fair value through profit or loss, transaction costs. The HNELHD determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this at each financial year end.

* The HNELHD subsequently measures investments classified as 'held for trading' or designated upon initial recognition "at fair value through profit or loss" at fair value.

Financial assets are classified as 'held for trading' if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading. Gains or losses on these assets are recognised in the net result for the year.

TCorpIM Funds investment facilities are managed by New South Wales Treasury Corporation, a controlled entity of the ultimate parent. The facilities are designated at fair value through profit or loss as the management and performance of these financial assets is undertaken on a fair value basis, in accordance with a documented risk management strategy. Information about these assets is provided internally to the HNELHD's key management personnel.

The risk management strategy of the HNELHD has been developed consistent with the investment powers granted under the provision of the Public Authorities (Financial Arrangements) Act 1987.

TCorpIM Funds investments are made in an effort to improve interest returns on cash balances otherwise available whilst also providing secure investments.

The movement in the fair value of the TCorpIM Funds investment incorporates distributions received as well as unrealised movements in fair value and is reported in the line item 'investment revenue'.

* Held-to-maturity investments – Non-derivative financial assets with fixed or determinable payments and fixed maturity that the HNELHD has the positive intention and ability to hold to maturity are classified as 'held-to-maturity'.

These investments are measured at amortised cost using the effective interest method. Changes are recognised in the net result for the year when impaired, derecognised or through the amortisation process.

* Available-for-sale investments - Any investments that do not fall into any other category are accounted for as available-for-sale investments and measured at fair value. Gains or losses on available-for-sale investments are recognised in other comprehensive income until disposed or impaired, at which time the cumulative gain or loss previously recognised in other comprehensive income is recognised in the net result for the year. However, interest calculated using the effective interest method and dividends are recognised in the net result for the year.

Hunter New England Local Health District
Notes to and forming part of the Financial Statements
for the year ended 30 June 2018

1. Statement of Significant Accounting Policies

Purchases or sales of investments under contract that require delivery of the asset within the timeframe established by convention or regulation are recognised on the trade date; i.e. the date the HNELHD commits to purchase or sell the asset.

The fair value of investments that are traded at fair value in an active market is determined by reference to quoted current bid prices at the close of business on the Statement of Financial Position date.

z) Impairment of Financial Assets

All financial assets, except those measured at fair value through profit and loss, are subject to an annual review for impairment. An allowance for impairment is established when there is objective evidence that the entity will not be able to collect all amounts due.

For certain categories of financial assets, such as trade receivables, the entity first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. Assets are assessed for impairment on a collective basis if they were assessed not to be impaired individually.

For financial assets carried at amortised cost, the amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the impairment loss is recognised in the net result for the year.

Any reversals of impairment losses are reversed through the net result for the year, where there is objective evidence. Reversals of impairment losses of financial assets carried at amortised cost cannot result in a carrying amount that exceeds what the carrying amount would have been had there not been an impairment loss.

aa) Derecognition of Financial Assets and Financial Liabilities

A financial asset is derecognised when the contractual rights to the cash flows from the financial assets expire, or if the HNELHD transfers the financial asset:

- * where substantially all the risks and rewards have been transferred; or
- * where the HNELHD has not transferred substantially all the risks and rewards, if the HNELHD has not retained control.

Where the HNELHD has neither transferred nor retained substantially all the risks and rewards or transferred control, the asset is recognised to the extent of the HNELHD's continuing involvement in the asset.

A financial liability is derecognised when the obligation specified in the contract is discharged or cancelled or expires.

ab) Payables

These amounts represent liabilities for goods and services provided to the HNELHD and other amounts. Payables are recognised initially at fair value.

Subsequent measurement is at amortised cost using the effective interest method. Short-term payables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial.

Payables are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the HNELHD.

ac) Borrowings

Loans are not held for trading or designated at fair value through profit or loss and are recognised at amortised cost using the effective interest rate method. Gains or losses are recognised in the net result for the year on derecognition.

Borrowings include finance lease liabilities. The finance lease liability is determined in accordance with AASB 117 Leases.

ad) Fair Value Hierarchy

A number of the HNELHD's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. When measuring fair value, the valuation technique used maximises the use of relevant observable inputs and minimises the use of unobservable inputs. Under AASB 13 Fair Value Measurement, the HNELHD categorises, for disclosure purposes, the valuation techniques based on the inputs used in the valuation techniques as follows:

- * Level 1 – quoted prices in active markets for identical assets / liabilities that the entity can access at the measurement date.
- * Level 2 – inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly.
- * Level 3 – inputs that are not based on observable market data (unobservable inputs).

The HNELHD recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Refer to Note 21 and Note 37 for further disclosures regarding fair value measurements of non-financial and financial assets.

Hunter New England Local Health District
Notes to and forming part of the Financial Statements
for the year ended 30 June 2018

1. Statement of Significant Accounting Policies

ae) Equity Transfers

The transfer of net assets between entities as a result of an administrative restructure, transfers of programs/functions and parts thereof between entities controlled by the ultimate parent are recognised as an adjustment to "Accumulated Funds". This treatment is consistent with AASB 1004 Contributions and Australian Accounting Interpretation 1038 Contributions by Owners Made to Wholly-Owned Public Sector Entities.

Transfers arising from an administrative restructure involving not-for-profit entities and for-profit government entities are recognised at the amount at which the asset was recognised by the transferor immediately prior to the restructure. Subject to below, in most instances this will approximate fair value.

All other equity transfers are recognised at fair value, except for intangibles. Where an intangible has been recognised at (amortised) cost by the transferor because there is no active market, the HNELHD recognises the asset at the transferor's carrying amount. Where the transferor is prohibited from recognising internally generated intangibles, the HNELHD does not recognise that asset.

af) Equity and Reserves

(i) Accumulated Funds

The category "accumulated funds" includes all current and prior period retained funds.

(ii) Revaluation Surplus

The revaluation surplus is used to record increments and decrements on the revaluation of non-current assets. This accords with the HNELHD's policy on the revaluation of property, plant and equipment as discussed in Note 1(o).

(iii) Separate Reserves

Separate reserve accounts are recognised in the financial statements only if such accounts are required by specific legislation or Australian Accounting Standards.

ag) Trust Funds

The HNELHD receives monies in a trustee capacity for various trusts as set out in Note 28.

As the HNELHD performs only a custodial role in respect of these monies, and because the monies cannot be used for the achievement of the HNELHD's own objectives, these funds are not recognised in the financial statements.

ah) Adjusted Budget Amounts

NSW Health's budget is shown at a consolidated level when presented in parliament each year (i.e. in the NSW Government Budget Papers). The HNELHD's budget is not presented in parliament, therefore, AASB 1055 Budgetary Reporting is not applicable. Unlike the requirement in AASB 1055 Budgetary Reporting to present original budget information, the HNELHD's financial statements present adjusted budget information. The adjusted budgeted amounts are drawn from the initial Service Agreements between the HNELHD and the NSW Ministry of Health at the beginning of the financial year, as well as any adjustments for the effects of additional supplementation provided in accordance with delegations to derive a final budget at year end (i.e. adjusted budget). The budget amounts are not subject to audit and, accordingly, the relevant column entries in the financial statements are denoted as "Unaudited".

Major variances between the original budgeted amounts and the actual amounts disclosed in the primary financial statements are explained in Note 36.

ai) Emerging Asset

The HNELHD's emerging interest in the Mater Public Private Partnership has been valued in accordance with the NSW Ministry of Health's policy for Accounting for Privately Financed Projects. This policy required the HNELHD to initially determine the estimated written down replacement cost by reference to the project's historical cost escalated by a construction index and the asset's estimated working life. The estimated written down replacement cost was then allocated on a systematic basis over the concession period of 25 years using the annuity method and the Government Bond rate of 5.6% at commencement of the concession period.

Hunter New England Local Health District
Notes to and forming part of the Financial Statements
for the year ended 30 June 2018

1. Statement of Significant Accounting Policies

a) Changes in Accounting Policy, including new or revised Australian Accounting Standards

(i) Effective for the first time in 2017-18

The accounting policies applied in 2017-18 are consistent with those of the previous financial year except as a result of new or revised Australian Accounting Standards that have been applied for the first time as follows:

AASB 2016-2 Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 107 Statement of Cash Flows applies to annual periods beginning on or after 1 January 2017. The standard amends AASB 107 Statement of Cash Flows to require additional disclosures for financing activities in the Statement of Cash Flows. A reconciliation of liabilities arising from financing activities has been added to Note 33 of these financial statements.

(ii) Issued but not yet effective

NSW public sector entities are not permitted to early adopt new Australian Accounting Standards, unless NSW Treasury determines otherwise. The following new Australian Accounting Standards, excluding standards not considered applicable or material to the HNELHD have not been applied and are not yet effective. The possible impact of these Accounting Standards in the period of initial application includes:

AASB 9 Financial Instruments applies to annual periods beginning on or after 1 January 2018. AASB 9 Financial Instruments will replace AASB 139 Financial Instruments: Recognition and Measurement and establishes new principles for the financial reporting of financial assets, financial liabilities and hedge accounting. AASB 9 Financial Instruments also introduces a forward-looking 'expected credit losses' impairment model, which may impact the timing and amount of impairment recognition.

AASB 16 Leases replaces all existing leases requirements and applies to annual periods beginning on or after 1 January 2019. For lessees, the distinction between operating and finance leases will no longer exist. Instead, AASB 16 Leases will require lessees to account for practically all leases under a single on-balance sheet model in a similar way to finance leases under AASB 117 Leases. The standard includes two recognition exemptions for lessees – leases of 'low value' assets (e.g. personal computers below \$10,000) and short term leases (i.e. leases with a lease term of 12 months or less). At the commencement of a lease, a lessee will recognise a liability representing its obligation to make future lease payments and an asset representing its right of use to the underlying asset for the lease term. Lessees will be required to separately recognise interest expense on the lease liability and depreciation expense on the Right of Use asset rather than operating lease expense.

The lease expense recognition pattern for leases will generally be accelerated as compared to today. Some key balance sheet metrics may also be impacted. Also, the statement of cash flows for lessees will be affected as payments for the principal portion of the lease liability will be presented within financing activities.

Lessor accounting is substantially unchanged from today's accounting under AASB 117 Leases. Lessors will continue to classify all leases using the same classification as in AASB 117 Leases and distinguish between two types of leases: operating and finance leases.

The standard permits two methods of adoption: full retrospective – by retrospectively adjusting each prior reporting period presented and recognising the cumulative effect of initially applying the new requirements at the start of the earliest period, which would be 1 July 2018; or modified retrospective – by recognising the cumulative effect of initially applying the new requirements at the initial application, which would be 1 July 2019. NSW Treasury has mandated modified retrospective application of this accounting standard.

AASB 15 Revenue from Contracts with Customers (and associated amending standards AASB 2014-5, AASB 2015-8, AASB 2016-3, AASB 2016-7 and AASB 2016-8) applies to annual periods beginning on or after 1 January 2019 for not-for-profit entities. AASB 15 Revenue from Contracts with Customers establishes a contract-based five-step analysis of transactions to determine the nature, amount and timing of revenue arising from contracts with customers. This new standard requires revenue to be recognised when control of the goods or services are transferred to the customer at the transaction price. This may impact the timing of recognising certain revenue currently recognised by reference to the stage of completion of the transaction.

AASB 1058 Income of Not-for-Profit Entities applies to not-for-profit entities and is effective for annual periods beginning on or after 1 January 2019. This standard requires entities to recognise income where the consideration to acquire an asset, including cash, is significantly less than the fair value principally to enable the entity to further its objectives. Under this standard, the timing of income recognition may be impacted depending on whether there is a liability or other performance obligation associated with the acquired asset, including cash. AASB 1058 Income of Not-for-Profit Entities also requires government agencies to recognise income for volunteer services received if the fair value of those services can be measured reliably and the services would have been purchased if they had not been donated. This is consistent with current practice under AASB 1004 Contributions and is not expected to materially impact these financial statements.

Hunter New England Local Health District
Notes to and forming part of the Financial Statements
for the year ended 30 June 2018

1. **Statement of Significant Accounting Policies**

AASB 1059 Service Concession Arrangements is applicable to public sector entities only and requires the grantor to recognise a service concession asset in a service concession arrangement where it controls the asset. A corresponding financial liability and/or grant of right liability is also recognised depending on the nature of the consideration exchanged. Service concession assets (including those provided by the operator, an upgrade to or a major component replacement of an existing asset of the grantor; and existing assets of the grantor – also applicable to previously unrecognised intangible assets except goodwill) are initially measured at current replacement cost based on AASB 13 Fair Value Measurement principles. They are subsequently accounted for under AASB 116 Property, Plant & Equipment or AASB 138 Intangible Assets. Service concession liabilities are initially measured at the same amount as the service concession asset and subsequently measured using either the “financial liability” model applying AASB 9 Financial Instruments or, the “grant of right” model under AASB 1059 Service Concession Arrangements. AASB 1059 Service Concession Arrangements requires retrospective application.

Overview of Assessment Activities

NSW Health designed a project roadmap to implement the above five new accounting standards by its application date. The project consists of 4 phases: Scoping, Data gathering, In Depth Analysis and Implementation. Scoping phase was completed and data gathering has begun. An external project consultant and project manager will be appointed, and various steering committees and project teams will be internally formed as part of the implementation project. Central high level estimates on the impact of the new accounting standards were also calculated and reported to NSW Treasury by the central team at the NSW Ministry of Health. Further details are available in the NSW Ministry of Health’s consolidated financial statements.

We are continuously analysing and assessing the impact of the new accounting standards. This includes changes to our accounting policies, internal and external reporting requirements, IT systems, business processes and associated internal controls with the objectives of quantifying the expected first time adoption impacts as well as supporting ongoing compliance with the new accounting requirements.

Potential Impact on The HNELHD’s Financial Report

While the consolidated entity is yet to undertake a detailed assessment of the classification and measurement of all of the accounting standards, the following general impacts are expected from the work conducted so far:

Leases

- * The total assets and liabilities on the balance sheet will increase. Net total assets are expected to decrease due to a reduction of the capitalised asset being on a straight line basis whilst the liability reduces the principal amount of repayments. Net current assets will also show a decrease due to an element of the liability being disclosed as a current liability.
- * Interest expenses will increase due to the unwinding of the effective interest rate implicit in the lease. Interest expense will be greater earlier in a lease life due to the higher principal value causing profit variability over the course of the lease life. This effect may be partially mitigated due to the number of leases held in the entity at different stages of their lease terms.
- * Depreciation expense will be booked on Right of Use assets, which will be on a straight-line basis.
- * Operating cash flows will be higher as repayment of the principal portion of all lease liabilities will be classified as financing activities.

Revenue and Income of Not-for-Profit Entities

- * The deferral of some revenues of The HNELHD.
- * Impact on the estimates and judgements involved in the unbilled revenue process.
- * Specific quantitative and qualitative disclosures may be required under AASB 15 Revenue from Contracts with Customers.

Financial Instruments

- * The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred impairment losses. This may result in earlier recognition of credit loss provisions.

Service Concession Arrangements

- * No significant impact expected on The HNELHD.

Application Date

The HNELHD plans to adopt the new standards on the required effective date in line with the NSW Treasury’s instructions.

Hunter New England Local Health District
Notes to and forming part of the Financial Statements
for the year ended 30 June 2018

PARENT			CONSOLIDATION	
2018 \$000	2017 \$000		2018 \$000	2017 \$000
		2. Employee Related Expenses		
-----	-----	Salaries and Wages (including annual leave and ADO)	1,139,598	1,089,976
-----	-----	Superannuation - Defined Benefit Plans	10,999	12,321
-----	-----	Superannuation - Defined Contribution Plans	99,173	93,614
-----	-----	Long Service Leave	48,684	21,163
-----	-----	Redundancies	628	938
-----	-----	Workers' Compensation Insurance	10,361	9,593
-----	-----	Fringe Benefits Tax	104	104
<hr/>	<hr/>		<hr/>	<hr/>
-----	-----		1,309,547	1,227,709
<hr/>	<hr/>		<hr/>	<hr/>
		The amounts below are capitalised and do not form part of the above total employee related costs:		
-----	-----	Employee Related Expenses Capitalised - Land and Buildings	562	675
<hr/>	<hr/>		<hr/>	<hr/>
-----	-----		562	675
<hr/>	<hr/>		<hr/>	<hr/>
		3. Personnel Services		
1,139,598	1,089,976	Salaries and Wages	-----	-----
99,173	93,614	Superannuation - Defined Contribution Plans	-----	-----
4,668	(347)	Long Service Leave	-----	-----
628	938	Redundancies	-----	-----
10,361	9,593	Workers' Compensation Insurance	-----	-----
104	104	Fringe Benefits Tax	-----	-----
<hr/>	<hr/>		<hr/>	<hr/>
1,254,532	1,193,878		-----	-----
<hr/>	<hr/>		<hr/>	<hr/>
		Personnel services of Hunter New England Local Health District was provided by its controlled entity, Hunter New England Local Health District Special Purpose Service Entity.		
		The amounts below are capitalised and do not form part of the above total personnel services:		
562	675	Personnel Services Expenses Capitalised - Land and Buildings	-----	-----

Hunter New England Local Health District
Notes to and forming part of the Financial Statements
for the year ended 30 June 2018

PARENT			CONSOLIDATION	
2018	2017		2018	2017
\$000	\$000		\$000	\$000
4. Other Expenses				
269	273	Advertising	269	273
218	205	Auditor's Remuneration - Audit of Financial Statements	218	205
9,903	7,895	Blood and Blood Products	9,903	7,895
82	83	Consultancies	82	83
78,105	19,859	Domestic Supplies and Services	78,105	19,859
53,849	55,232	Drug Supplies	53,849	55,232
39,538	94,028	Food Supplies	39,538	94,028
14,588	13,316	Fuel, Light and Power	14,588	13,316
32,562	28,639	Patient Transport Costs	32,562	28,639
19,293	16,959	Information Management Expenses	19,293	16,959
2,597	2,700	Insurance	2,597	2,700
55,360	72,393	Maintenance (See 4(b) below)	55,360	72,393
99,588	94,015	Medical and Surgical Supplies	99,588	94,015
3,653	4,199	Motor Vehicle Expenses	3,653	4,199
6,798	6,738	Postal and Telephone Costs	6,798	6,738
4,855	4,526	Printing and Stationery	4,855	4,526
2,647	2,304	Rates and Charges	2,647	2,304
6,424	7,111	Rental	6,424	7,111
81,258	75,688	Specialised Services (Dental, Radiology, Pathology, Allied Health)	81,258	75,688
8,719	9,115	Staff Related Costs	8,719	9,115
12,712	11,472	Travel Related Costs	12,712	11,472
42,263	35,954	Other (See 4(a) below)	42,263	35,954
<u>575,281</u>	<u>562,704</u>		<u>575,281</u>	<u>562,704</u>

Hunter New England Local Health District
Notes to and forming part of the Financial Statements
for the year ended 30 June 2018

PARENT			CONSOLIDATION	
2018	2017		2018	2017
\$000	\$000		\$000	\$000
4. Other Expenses				
a) Other Includes:				
16,277	16,500	Corporate Support Services	16,277	16,500
1,685	1,443	Courier and Freight	1,685	1,443
5,117	4,095	Isolated Patient Travel and Accommodation Assistance Scheme	5,117	4,095
204	491	Legal Services	204	491
862	701	Membership/Professional Fees	862	701
116	560	Motor Vehicle Operating Lease Expense - Minimum Lease Payments	116	560
6,106	4,720	Public Private Partnership Contracted Services	6,106	4,720
447	687	Other Operating Lease Expense - Minimum Lease Payments	447	687
412	321	Quality Assurance/Accreditation	412	321
914	856	Security Services	914	856
10,123	5,580	Other Miscellaneous	10,123	5,580
<u>42,263</u>	<u>35,954</u>		<u>42,263</u>	<u>35,954</u>
b) Reconciliation of Total Maintenance				
14,127	14,504	Maintenance Contracts	14,127	14,504
26,778	39,257	New/Replacement Equipment under \$10,000	26,778	39,257
14,447	18,617	Repairs Maintenance/Non Contract	14,447	18,617
8	15	Other	8	15
55,360	72,393	Maintenance Expense - Contracted Labour and Other (Non-Employee Related in Note 4)	55,360	72,393
9,481	9,762	Employee Related/Personnel Services Maintenance Expense included in Notes 2 and 3	9,481	9,762
<u>64,841</u>	<u>82,155</u>		<u>64,841</u>	<u>82,155</u>

In 2017/2018 and 2016/2017 "Auditor's Remuneration" was paid to The Audit Office of New South Wales, an entity controlled by the ultimate parent.

In 2017/2018 and 2016/2017 "Patient Transport Costs" were paid to Health Administration Corporation, which is an entity controlled by the immediate parent.

In 2017/2018 and 2016/2017 the majority of 'Information Management Expenses' were paid to Health Administration Corporation, an entity controlled by the immediate parent.

In 2017/2018 and 2016/2017 the majority of 'Domestic Supplies and Services', 'Food Supplies', 'Corporate Support Services', were paid to Health Administration Corporation, an entity controlled by the immediate parent.

In 2017/2018 and 2016/2017 the majority of 'Specialised Service' expenses were paid to the Health Administration Corporation, an entity controlled by the immediate parent.

Hunter New England Local Health District
Notes to and forming part of the Financial Statements
for the year ended 30 June 2018

PARENT			CONSOLIDATION	
2018	2017		2018	2017
\$000	\$000		\$000	\$000
5. Depreciation and Amortisation				
57,545	56,772	Depreciation - Buildings	57,545	56,772
23,518	20,964	Depreciation - Plant and Equipment	23,518	20,964
3,834	4,030	Depreciation - Infrastructure Systems	3,834	4,030
348	237	Amortisation - Leasehold Improvements	348	237
344	-----	Amortisation - Intangible Assets	344	-----
<u>85,589</u>	<u>82,003</u>		<u>85,589</u>	<u>82,003</u>
6. Grants and Subsidies				
5,385	5,761	Non-Government Organisations	5,385	5,761
706	831	Grants to Research Organisations	706	831
50	-----	Grants paid to entities controlled by the immediate parent	50	-----
125	9	Other Grants	125	9
<u>6,266</u>	<u>6,601</u>		<u>6,266</u>	<u>6,601</u>
7. Finance Costs				
7,631	8,868	Public Private Partnership Lease Interest Charges	7,631	8,868
234	18	Interest on Loans	234	18
-----	2	Other Interest Charges	-----	2
<u>7,865</u>	<u>8,888</u>		<u>7,865</u>	<u>8,888</u>
8. Payments to Affiliated Health Organisations				
(a) Recurrent Sourced				
134,432	129,810	Calvary Mater Newcastle	134,432	129,810
<u>134,432</u>	<u>129,810</u>		<u>134,432</u>	<u>129,810</u>
(b) Capital Sourced				
2,250	5,966	Calvary Mater Newcastle	2,250	5,966
<u>2,250</u>	<u>5,966</u>		<u>2,250</u>	<u>5,966</u>
<u>136,682</u>	<u>135,776</u>		<u>136,682</u>	<u>135,776</u>

Hunter New England Local Health District
Notes to and forming part of the Financial Statements
for the year ended 30 June 2018

PARENT			CONSOLIDATION	
2018	2017		2018	2017
\$000	\$000		\$000	\$000
9. Sale of Goods and Services				
a) Sale of Goods comprise the following:-				
247	224	Pharmacy Sales	247	224
7,750	7,776	Sale of Prosthesis	7,750	7,776
441	436	Other	441	436
b) Rendering of Services comprise the following:-				
		Patient Fees		
100,534	95,398	- Inpatient Fees	100,534	95,398
2,215	2,647	- Nursing Home Fees	2,215	2,647
6,323	5,790	- Non Inpatient Fees	6,323	5,790
24,262	26,098	Department of Veterans' Affairs	24,262	26,098
228	261	Staff-Meals and Accommodation	228	261
24,689	25,472	Infrastructure Fees - Monthly Facility Charge	24,689	25,472
5,749	4,853	Infrastructure Fees - Annual Charge	5,749	4,853
5,319	5,849	Car Parking	5,319	5,849
1,307	1,243	Child Care Fees	1,307	1,243
9,062	9,818	Clinical Services (excluding Clinical Drug Trials)	9,062	9,818
4,757	4,936	Commercial Activities	4,757	4,936
388	403	Fees for Medical Records	388	403
5	4	Information Retrieval	5	4
19,006	21,722	Highly Specialised Drugs	19,006	21,722
17	-----	Meals on Wheels	17	-----
21,863	19,660	Motor Accident Authority Third Party	21,863	19,660
324	415	Private Use of Motor Vehicles	324	415
695	642	Salary Packaging Fee	695	642
5,821	6,118	Services Provided to Non NSW Health Organisations	5,821	6,118
336	167	Shared Corporate Services	336	167
4,991	4,948	Multi Purpose Service Centre Fees	4,991	4,948
13,278	12,119	Other	13,278	12,119
<u>259,607</u>	<u>256,999</u>		<u>259,607</u>	<u>256,999</u>
<p>In 2017/2018 and 2016/2017 the majority of 'Shared Corporate Services' revenue was earned from entities controlled by the immediate parent.</p> <p>In 2017/2018 and 2016/2017 the majority of 'Motor Accident Authority Third Party' revenue was received from State Insurance Regulatory Authority (SIRA) an entity controlled by the ultimate parent.</p>				
10. Investment Revenue				
1,927	1,914	Interest	1,927	1,914
<u>1,927</u>	<u>1,914</u>		<u>1,927</u>	<u>1,914</u>

Hunter New England Local Health District
Notes to and forming part of the Financial Statements
for the year ended 30 June 2018

PARENT			CONSOLIDATION	
2018	2017		2018	2017
\$000	\$000		\$000	\$000
11. Grants and Other Contributions				
1,332	1,016	Clinical Drug Trials	1,332	1,016
18,121	20,481	Commonwealth Government Grants	18,121	20,481
3,331	3,532	Industry Contributions/Donations	3,331	3,532
10,371	9,542	Cancer Institute Grants	10,371	9,542
		Grants & Contributions received from entities controlled by the ultimate parent		
33,071	20,976		33,071	20,976
		Grants & Contributions received from entities controlled by the immediate parent		
5,208	1,944		5,208	1,944
877	2,144	Research Grants	877	2,144
9,616	5,200	Other Grants	9,616	5,200
<u>81,927</u>	<u>64,835</u>		<u>81,927</u>	<u>64,835</u>
<p>The Cancer Institute is an entity controlled by the immediate parent.</p> <p>In 2017/2018 and 2016/2017 the majority of grants that were received from entities controlled by the ultimate parent were received from Crown Finance Entity.</p> <p>In 2017/2018 the majority of grants that were received from entities controlled by the immediate parent were received from Health Administration Corporation. In 2016/2017 the majority were received from Health Education and Training Institute and Health Administration.</p>				
12. Acceptance by the Crown Entity of Employee Benefits				
The following liabilities and expenses have been assumed by the Crown				
-----	-----	Superannuation-defined benefit	10,999	12,321
-----	-----	Long Service Leave	44,016	21,510
<u>-----</u>	<u>-----</u>		<u>55,015</u>	<u>33,831</u>
13. Other Income				
Other Income comprises the following:-				
4	-----	Bad Debts Recovered	4	-----
1,492	1,413	Commissions	1,492	1,413
484	819	Conference and Training Fees	484	819
257	742	Insurance Refunds	257	742
2,302	2,065	Lease and Rental	2,302	2,065
80	66	Sale of Merchandise, Old Wares and Books	80	66
36	31	Sponsorship	36	31
3,359	7,580	Treasury Managed Fund Hindsight Adjustment	3,359	7,580
3,248	2,402	Other	3,248	2,402
<u>11,262</u>	<u>15,118</u>		<u>11,262</u>	<u>15,118</u>

Hunter New England Local Health District
Notes to and forming part of the Financial Statements
for the year ended 30 June 2018

PARENT			CONSOLIDATION	
2018	2017		2018	2017
\$000	\$000		\$000	\$000
		14. Gain / (Loss) on Disposal		
24,169	33,794	Property, Plant and Equipment	24,169	33,794
<u>(18,026)</u>	<u>(27,347)</u>	Accumulated Depreciation	<u>(18,026)</u>	<u>(27,347)</u>
6,143	6,447	Written Down Value	6,143	6,447
4,339	5,156	Proceeds from Disposal	4,339	5,156
		Gain / (Loss) on Disposal of Property, Plant and Equipment		
<u>(1,804)</u>	<u>(1,291)</u>		<u>(1,804)</u>	<u>(1,291)</u>
		Total Gain / (Loss) on Disposal		
<u>(1,804)</u>	<u>(1,291)</u>		<u>(1,804)</u>	<u>(1,291)</u>
		15. Other Gains / (Losses)		
<u>(1,698)</u>	<u>(1,204)</u>	Impairment of Receivables	<u>(1,698)</u>	<u>(1,204)</u>
<u>(1,698)</u>	<u>(1,204)</u>		<u>(1,698)</u>	<u>(1,204)</u>

Hunter New England Local Health District
Notes to and forming part of the Financial Statements
for the year ended 30 June 2018

PARENT			CONSOLIDATION	
2018	2017		2018	2017
\$000	\$000		\$000	\$000
16. Cash and Cash Equivalents				
19,019	33,252	Cash at Bank and On Hand	19,019	33,252
79,720	59,120	Short Term Deposits	79,720	59,120
<u>98,739</u>	<u>92,372</u>		<u>98,739</u>	<u>92,372</u>

For the purposes of the Statement of Cash Flows, cash and cash equivalents include cash at bank, cash on hand, short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value, and net of outstanding bank overdraft.

Cash & cash equivalent assets recognised in the Statement of Financial Position are reconciled at the end of the financial year to the Statement of Cash Flows as follows:

98,739	92,372	Cash and Cash Equivalents (per Statement of Financial Position)	98,739	92,372
<u>98,739</u>	<u>92,372</u>	Closing Cash and Cash Equivalents (per Statement of Cash Flows)	<u>98,739</u>	<u>92,372</u>

Refer to Note 37 for details regarding credit risk, liquidity risk and market risk arising from financial instruments.

Hunter New England Local Health District
Notes to and forming part of the Financial Statements
for the year ended 30 June 2018

PARENT			CONSOLIDATION	
2018 \$000	2017 \$000		2018 \$000	2017 \$000
		17. Receivables		
		Current		
26,730	26,864	Sale of Goods and Services	26,730	26,864
4,568	12,593	Intra Health Receivables	4,568	12,593
16,372	16,569	Goods and Services Tax	16,372	16,569
4,981	3,547	Other Debtors	4,981	3,547
52,651	59,573	Sub Total	52,651	59,573
(1,763)	(1,614)	Less Allowance for Impairment	(1,763)	(1,614)
50,888	57,959	Sub Total	50,888	57,959
12,265	8,821	Prepayments	12,265	8,821
63,153	66,780		63,153	66,780
63,153	66,780		63,153	66,780
<p>In 2017/2018 Intra Health Receivables include amounts receivable from entities controlled by the immediate parent. The majority of the balance at reporting date was receivable from Health Administration Corporation, Cancer Institute, Central Coast Local Health District and Mid North Coast Local Health District.</p> <p>In 2016/2017 Intra Health Receivables include amounts receivable from entities controlled by the immediate parent. The majority of the balance at reporting date was receivable from Health Administration Corporation.</p>				
<p>a) Movement in the Allowance for Impairment</p>				
		Sale of Goods and Services		
(1,453)	(1,516)	Balance at Commencement of Reporting Period	(1,453)	(1,516)
1,488	1,243	Amounts written off during the year	1,488	1,243
(1,668)	(1,180)	(Increase) / decrease in Allowance Recognised in the Net Result	(1,668)	(1,180)
(1,633)	(1,453)	Balance at 30 June 2018	(1,633)	(1,453)
<p>b) Movement in the Allowance for Impairment</p>				
		Other Debtors		
(161)	(97)	Balance at Commencement of Reporting Period	(161)	(97)
61	(40)	Amounts written off during the year	61	(40)
(30)	(24)	(Increase) / decrease in Allowance Recognised in the Net Result	(30)	(24)
(130)	(161)	Balance at 30 June 2018	(130)	(161)
(1,763)	(1,614)		(1,763)	(1,614)
(1,763)	(1,614)		(1,763)	(1,614)
<p>c) The current sale of goods and services balances above include the following patient fee receivables:</p>				
		(Current) include:		
2,835	2,052	Patient Fees - Compensable	2,835	2,052
1,112	1,236	Patient Fees - Ineligible	1,112	1,236
15,866	16,573	Patient Fees - Inpatient & Other	15,866	16,573
19,813	19,861		19,813	19,861
19,813	19,861		19,813	19,861

Details regarding credit risk, liquidity risk and market risk, including financial assets that are either past due or impaired are disclosed in Note 37.

Hunter New England Local Health District
Notes to and forming part of the Financial Statements
for the year ended 30 June 2018

PARENT			CONSOLIDATION	
2018 \$000	2017 \$000		2018 \$000	2017 \$000
		18. Inventories		
		Drugs		
2,792	2,494		2,792	2,494
2,792	2,494		2,792	2,494

Hunter New England Local Health District
Notes to and forming part of the Financial Statements
for the year ended 30 June 2018

PARENT			CONSOLIDATION	
2018	2017		2018	2017
\$000	\$000		\$000	\$000
19. Property, Plant and Equipment				
Land and Buildings - Fair Value				
2,629,415	2,548,133	Gross Carrying Amount	2,629,415	2,548,133
1,368,562	1,314,097	Less: Accumulated Depreciation and Impairment	1,368,562	1,314,097
<u>1,260,853</u>	<u>1,234,036</u>	Net Carrying Amount	<u>1,260,853</u>	<u>1,234,036</u>
Plant and Equipment - Fair Value*				
279,683	262,652	Gross Carrying Amount	279,683	262,652
137,818	129,284	Less: Accumulated Depreciation and Impairment	137,818	129,284
<u>141,865</u>	<u>133,368</u>	Net Carrying Amount	<u>141,865</u>	<u>133,368</u>
Infrastructure Systems - Fair Value				
161,772	161,771	Gross Carrying Amount	161,772	161,771
85,811	81,976	Less: Accumulated Depreciation and Impairment	85,811	81,976
<u>75,961</u>	<u>79,795</u>	Net Carrying Amount	<u>75,961</u>	<u>79,795</u>
Leasehold Improvements - Fair Value*				
5,947	5,419	Gross Carrying Amount	5,947	5,419
3,412	3,064	Less: Accumulated Depreciation and Impairment	3,412	3,064
<u>2,535</u>	<u>2,355</u>	Net Carrying Amount	<u>2,535</u>	<u>2,355</u>
<u>1,481,214</u>	<u>1,449,554</u>	Total Property, Plant and Equipment At Net Carrying Amount	<u>1,481,214</u>	<u>1,449,554</u>

* For non-specialised assets with short useful lives, recognition at depreciated historical cost is regarded as an acceptable approximation of fair value, in accordance with Treasury Policy Paper 14-01.

Hunter New England Local Health District
Notes to and forming part of the Financial Statements
for the year ended 30 June 2018

PARENT & CONSOLIDATION

19. Property, Plant and Equipment - Reconciliation

A reconciliation of the carrying amount for each class of property, plant and equipment is set out below:

	Land and Buildings \$000	Plant and Equipment \$000	Infrastructure Systems \$000	Leasehold Improvements \$000	Total \$000
2018					
Net carrying amount at start of year	1,234,036	133,368	79,795	2,355	1,449,554
Additions	85,634	34,367	----	528	120,529
Reclassifications to Intangibles	----	(1,500)	----	----	(1,500)
Disposals	(720)	(5,423)	----	----	(6,143)
Transfers within NSW Health Entities through Statement of Comprehensive Income	----	4,019	----	----	4,019
Depreciation Expense	(57,545)	(23,518)	(3,834)	(348)	(85,245)
Reclassifications	(552)	552	----	----	----
Net carrying amount at end of year	1,260,853	141,865	75,961	2,535	1,481,214

	Land and Buildings \$000	Plant and Equipment \$000	Infrastructure Systems \$000	Leasehold Improvements \$000	Total \$000
2017					
Net carrying amount at start of year	1,228,384	114,172	78,388	3,265	1,424,209
Additions	68,404	44,455	----	(673)	112,186
Disposals	(593)	(5,854)	----	----	(6,447)
Transfers within NSW Health Entities through Statement of Comprehensive Income	----	307	----	----	307
Net Revaluation Increment Less Revaluation Decrements Recognised in Reserves	1,200	----	102	----	1,302
Depreciation Expense	(56,772)	(20,964)	(4,030)	(237)	(82,003)
Reclassifications	(6,587)	1,252	5,335	----	----
Net carrying amount at end of year	1,234,036	133,368	79,795	2,355	1,449,554

Further details regarding the fair value measurement of property, plant and equipment are disclosed in Note 21.

- (i) Land and Buildings include land owned by the Health Administration Corporation but controlled by the HNELHD [see note 1(i)].
- (ii) Indices provided by Aon Risk Services Australia Limited were not applied as they were deemed immaterial.
- (ii) To ensure the land, buildings and infrastructure systems materially reflect the carrying value since the last revaluation, assets have had a factor applied in relation to the movement in the market and variation in the building and infrastructure systems costs. The adjustment has been performed on a gross basis in accordance with note 1(o).

The following table details the indices applied to Land, Buildings and Infrastructure Systems as determined by Aon Risk Services Australia Limited :

Year	Land	Buildings	Infrastructure Systems
2017/18	N/A	N/A	N/A
2016/17	N/A	N/A	N/A

Hunter New England Local Health District
Notes to and forming part of the Financial Statements
for the year ended 30 June 2018

PARENT			CONSOLIDATION	
2018	2017		2018	2017
\$000	\$000		\$000	\$000
		20. Intangible Assets		
		Intangibles		
2,071	----	Cost (Gross Carrying Amount)	2,071	----
344	----	Less Accumulated Amortisation and Impairment	344	----
<u>1,727</u>	<u>-----</u>	Net Carrying Amount	<u>1,727</u>	<u>-----</u>
<u>1,727</u>	<u>-----</u>	Total Intangible Assets at Net Carrying Amount	<u>1,727</u>	<u>-----</u>

PARENT & CONSOLIDATION

20. Intangible Assets - Reconciliation

	Total \$000
2018	
Net carrying amount at start of year	----
Additions (From Internal Development or Acquired Separately)	571
Reclassifications from Plant & Equipment	1,500
Amortisation (Recognised in Depreciation and Amortisation)	(344)
Net carrying amount at end of year	1,727

	Total \$000
2017	
Net carrying amount at start of year	----
Additions (From Internal Development or Acquired Separately)	----
Reclassifications from Plant & Equipment	----
Amortisation (Recognised in Depreciation and Amortisation)	----
Net carrying amount at end of year	-----

Hunter New England Local Health District
Notes to and forming part of the Financial Statements
for the year ended 30 June 2018

PARENT & CONSOLIDATION

21. Fair Value Measurement of Non-Financial Assets

Fair value measurements recognised in the Statement of Financial Position are categorised into the following levels.

a) Fair Value Hierarchy

2018	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total \$000
Property, Plant and Equipment (Note 19)				
- Land and Buildings	----	9,435	1,032,994	1,042,429
- Infrastructure Systems	----	----	75,961	75,961
	-----	-----	-----	-----
	<u>-----</u>	<u>9,435</u>	<u>1,108,955</u>	<u>1,118,390</u>

There were no transfers between level 1 and 2 during the year ended 30 June 2018.

Work in Progress and Newly Completed Projects are carried at cost, therefore excluded from figures above and as a result will not agree to Note 19.

2017	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total \$000
Property, Plant and Equipment (Note 19)				
- Land and Buildings	----	9,605	1,089,043	1,098,648
- Infrastructure Systems	----	----	79,795	79,795
	-----	-----	-----	-----
	<u>-----</u>	<u>9,605</u>	<u>1,168,838</u>	<u>1,178,443</u>

There were no transfers between level 1 and 2 during the year ended 30 June 2017.

Work in Progress and Newly Completed Projects are carried at cost, therefore excluded from figures above and as a result will not agree to Note 19.

b) Valuation Techniques, Inputs and Processes

For land, buildings and infrastructure systems the HNELHD obtains external valuations by independent valuers at least every three years. The last revaluation was performed by Aon Risk Services Australia Limited for the 2015/16 financial year. Aon Risk Services Australia Limited is an independent entity and is not an associated entity of the HNELHD.

At the end of each reporting period a fair value assessment is made on any movements since the last revaluation, and a determination as to whether any adjustments need to be made. These adjustments are made by way of application of indices, refer note 19 reconciliation.

The non-current assets categorised in a) above have been measured as either level 2 or level 3 based on the following valuation techniques and inputs:

Hunter New England Local Health District
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PARENT & CONSOLIDATION

21. Fair Value Measurement of Non-Financial Assets

For land, the valuation by the valuers is made on a market approach, comparing similar assets (not identical) and observable inputs. The most significant input is price per square metre.

All commercial and non-restricted land is included in Level 2 as these land valuations have a high level of observable inputs although these lands are not identical.

The majority of the restricted land has been classified as level 3 as, although observable inputs have been used, a significant level of professional judgement is required to adjust inputs in determining the land valuations. Certain parcels of land have zoning restrictions, for example hospital grounds, and values are adjusted accordingly.

For buildings and infrastructure, many assets are of a specialised nature or use, and thus the most appropriate valuation method is depreciated replacement cost. These assets are included as level 3 as these assets have a high level of unobservable inputs. However, residential properties are valued on a market approach and included in level 2.

Non-Current Assets Held for Sale is a non-recurring item that is measured at fair value less cost to sell, which is less than its carrying amount. These assets are categorised as level 2.

Hunter New England Local Health District
Notes to and forming part of the Financial Statements
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PARENT & CONSOLIDATION

21. Fair Value Measurement of Non-Financial Assets

c) Reconciliation of Recurring Level 3 Fair Value Measurements

2018	Land and Buildings \$000	Infrastructure Systems \$000	Other Assets \$000	Total Level 3 Recurring \$000
Fair value as at 1 July 2017	1,089,043	79,795	-----	1,168,838
Disposals	(720)	-----	-----	(720)
Depreciation	(55,329)	(3,834)	-----	(59,163)
Fair value as at 30 June 2018	<u>1,032,994</u>	<u>75,961</u>	<u>-----</u>	<u>1,108,955</u>

There were no transfers between Level 1 or 2 during the year.

2017	Land and Buildings \$000	Infrastructure Systems \$000	Other Assets \$000	Total Level 3 Recurring \$000
Fair value as at 1 July 2016	1,145,636	78,388	-----	1,224,024
Additions	-----	5,335	-----	5,335
Revaluation increments / decrements recognised in other comprehensive income – included in line item 'Changes in revaluation surplus of property, plant and equipment'	1,196	102	-----	1,298
Disposals	(518)	-----	-----	(518)
Depreciation	(56,075)	(4,030)	-----	(60,105)
Prior Year Adjustment	(1,196)	-----	-----	(1,196)
Fair value as at 30 June 2017	<u>1,089,043</u>	<u>79,795</u>	<u>-----</u>	<u>1,168,838</u>

There were no transfers between Level 1 or 2 during the year.

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PARENT & CONSOLIDATION

22. Restricted Assets

The HNELHD's financial statements include the following assets which are restricted for stipulated purposes and/or by externally imposed conditions, eg. donor requirements. The assets are only available for application in accordance with the terms of the donor restrictions.

Category	Opening Equity 1 July 2017 \$000	Expense 2018 \$000	Revenue 2018 \$000	Closing Equity 30 June 2018 \$000
Community Welfare	1,426	2,317	2,763	1,872
Facility Improvements	12,246	2,266	19,905	29,885
Holds Funds in Perpetuity	36	----	23	59
Patient Welfare	14,413	4,255	5,879	16,037
Private Practice Disbursements (No.2 Accounts)	22,767	4,094	6,149	24,822
Public Contributions	1,340	45	113	1,408
Research	11,536	4,181	3,650	11,005
Staff Welfare	692	312	157	537
Training and Education incl. Conferences	7,418	1,213	1,445	7,650
Other	(43)	----	----	(43)
	71,831	18,683	40,084	93,232

Restricted Financial Asset categories have been expanded in the 2017/18 financial year to provide more clarity to the users of the financial statements. As a result, comparative figures have been adjusted to conform to the current year's presentation.

Restricted assets are held for the following purpose and cannot be used for any other purpose.

Category	Purpose
Community Welfare	Improvements to service access, health literacy, public and preventative health care.
Facility Improvements	Repairs, maintenance, renovations and/or new equipment or building related expenditure.
Holds Funds in Perpetuity	Donor has explicitly requested be invested permanently and not otherwise expended.
Patient Welfare	Improvements such as medical needs, financial needs and standards for patients' privacy and dignity.
Private Practice Disbursements (No.2 Accounts)	Staff specialists' private practice arrangements to improve the level of clinical services provided.
Public Contributions	Donations or legacies received without any donor-specified conditions as to its use.
Research	Research to gain knowledge, understanding and insight.
Staff Welfare	Staff benefits such as staff recognition awards, functions and staff amenities improvements.
Training and Education incl. Conferences	Professional training, education and conferences.
Other	Doesn't meet the definition of any of the above categories.

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PARENT			CONSOLIDATION	
2018	2017		2018	2017
\$000	\$000		\$000	\$000
23. Payables				
Current				
----	----	Accrued Salaries, Wages and On-Costs	29,717	29,642
----	----	Taxation and Payroll Deductions	7,647	7,238
37,364	36,880	Accrued Liability - Purchase of Personnel Services	----	----
70,919	70,500	Creditors	70,919	70,500
		Other Creditors		
1,916	463	- Capital Works	1,916	463
17,823	15,504	- Payables to entities controlled by the immediate parent	17,823	15,504
46,472	49,673	- Other	46,472	49,673
<u>174,494</u>	<u>173,020</u>		<u>174,494</u>	<u>173,020</u>

In 2017/2018 and 2016/2017 the majority of 'Payables to entities controlled by the immediate parent' relate to balances payable to the Health Administration Corporation, an entity controlled by the immediate parent.

In 2017/2018 and 2016/2017 the majority of 'Other Creditors - Capital Works' relate to balances payable to Health Administration Corporation, an entity controlled by the immediate parent.

Details regarding credit risk, liquidity risk and market risk, including a maturity analysis of the above payables are disclosed in Note 37.

24. Borrowings

Current				
774	730	Other Loans and Deposits	774	730
8,214	13,843	Public Private Partnership	8,214	13,843
<u>8,988</u>	<u>14,573</u>		<u>8,988</u>	<u>14,573</u>
Non-Current				
5,875	6,649	Other Loans and Deposits	5,875	6,649
70,407	78,621	Public Private Partnership	70,407	78,621
<u>76,282</u>	<u>85,270</u>		<u>76,282</u>	<u>85,270</u>

In 2017/2018 and in 2016/2017 'Other Loans and Deposits' include some balances due to the Crown Finance Entity which is controlled by the ultimate parent.

No assets have been pledged as security/collateral for liabilities and there are no restrictions on any title to property.

Final Repayment of loan is scheduled for June 2027 for other loans and deposits.

Final repayment to Novacare for Calvary Mater Newcastle Hospital Public Private Partnership is 2033/34.

Details regarding credit risk, liquidity risk and market risk, including a maturity analysis of the above borrowings are disclosed in Note 37.

Hunter New England Local Health District
Notes to and forming part of the Financial Statements
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PARENT			CONSOLIDATION	
2018	2017		2018	2017
\$000	\$000		\$000	\$000
		25. Provisions		
		Current		
----	----	Annual Leave - Short Term Benefit	127,055	120,890
----	----	Annual Leave - Long Term Benefit	42,199	38,767
----	----	Long Service Leave Consequential On-Costs	31,158	26,863
----	----	Provision for Other Employee Benefits*	3,411	3,276
203,823	189,796	Provision for Personnel Services Liability	----	----
<u>203,823</u>	<u>189,796</u>		<u>203,823</u>	<u>189,796</u>
		*ADO liabilities have been reclassified from 'Other' to 'Provision for Other Employee Benefits'. Prior year comparatives have been restated as a result.		
		Non-Current		
----	----	Long Service Leave Consequential On-Costs	2,709	2,336
2,709	2,336	Provision for Personnel Services Liability	----	----
759	737	Other	759	737
<u>3,468</u>	<u>3,073</u>		<u>3,468</u>	<u>3,073</u>
		Aggregate Employee Benefits and Related On-Costs		
----	----	Provisions - Current	203,823	189,796
----	----	Provisions - Non-Current	2,709	2,336
----	----	Accrued Salaries, Wages and On-Costs (Note 23)	37,364	36,880
243,896	229,012	Liability - Purchase of Personnel Services	----	----
<u>243,896</u>	<u>229,012</u>		<u>243,896</u>	<u>229,012</u>
		26. Other Liabilities		
		Current		
381	264	Income in Advance	381	264
<u>381</u>	<u>264</u>		<u>381</u>	<u>264</u>
		Non-Current		
255	270	Income in Advance	255	270
<u>255</u>	<u>270</u>		<u>255</u>	<u>270</u>

Hunter New England Local Health District
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PARENT			CONSOLIDATION	
2018 \$000	2017 \$000		2018 \$000	2017 \$000
27. Commitments for Expenditure				
a) Capital Commitments				
Aggregate capital expenditure for the acquisition of land and buildings, plant and equipment, infrastructure systems, and intangible assets, contracted for at balance date and not provided for:				
29,847	52,173	Within one year	29,847	52,173
1,320	5,515	Later than one year and not later than five years	1,320	5,515
<u>31,167</u>	<u>57,688</u>	Total Capital Expenditure Commitments (Including GST)	<u>31,167</u>	<u>57,688</u>
In 2017/2018 and 2016/2017 the majority of 'capital commitments' contracted but not provided for related to capital works overseen by the Health Administration Corporation, an entity controlled by the immediate parent.				
b) Operating Lease Commitments				
Future non-cancellable operating lease rentals not provided for and payable:				
2,889	2,907	Within one year	2,889	2,907
10,801	10,605	Later than one year and not later than five years	10,801	10,605
12,016	14,853	Later than five years	12,016	14,853
<u>25,706</u>	<u>28,365</u>	Total Operating Lease Commitments (Including GST)	<u>25,706</u>	<u>28,365</u>
The operating lease commitments above are for property, motor vehicles, information technology, medical equipment and other equipment.				
c) Contingent Asset Related to Commitments for Expenditure				
The total 'Capital Expenditure Commitments' and 'Operating Lease Commitments' of \$56.87M as at 30 June 2018 includes input tax credits of \$5.17M that are expected to be recoverable from the Australian Taxation Office (2017 \$7.8M).				

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PARENT		CONSOLIDATION	
2018	2017	2018	2017
\$000	\$000	\$000	\$000

d) Calvary Mater Newcastle Hospital Public, Private Partnership (PPP)

In 2005-06, the Health Administration Corporation entered into a contract with a private sector provider, NovaCare Project Partnership for financing, design, construction and commissioning of a new Mater Hospital, a mental health facility and refurbishment of existing buildings, and facilities management and delivery of ancillary non-clinical services on the site until November 2033. The redevelopment was completed in three stages. Stage 1 was completed in January 2008 followed by Stage 2 in February 2009. Construction of Stage 3 was completed on 16 June 2009.

When Stage 1 construction was completed in January 2008, the former Hunter New England Area Health Service (HNEAHS) transferred the Mater hospital to Calvary Mater Newcastle and recognised the transfer as a grant expense of \$71.33M. The recognition was based on the fact that services are delivered by Little Company of Mary Health Care being a Third Schedule Hospital health care provider which is outside the accounting control of either the former HNEAHS or the Ministry of Health. Upon completion of the Project, the former HNEAHS transferred the other parts of the new Hospital and recognised the transfer of a grant expense of \$35.48M in June 2009.

The former HNEAHS recognised the new mental health facility as an asset of \$39.29M. The refurbished Convent and McAuley buildings at the Mater hospital site as occupied by the former HNEAHS, was also recognised as an asset and offsetting liability of \$11.08M. The basis for the accounting treatment is that services will be delivered by the former HNEAHS on the site of Mater Hospital for the duration of the Head Lease of these facilities until November 2033.

In addition, the former Hunter New England Area Health Service recognised the liability to NovaCare, payable over the period to 2033, for the construction of both hospitals. The liability transferred from the former HNEAHS to the HNELHD on 1 January 2011.

An estimate of the commitments is as follows:

(i) Minimum lease payment commitments in relation to finance leases are payable as follows:

14,900	22,017	Not later than one year	14,900	22,017
32,341	38,854	Later than one year and not later than five years	32,341	38,854
100,828	109,216	Later than five years	100,828	109,216
<u>148,069</u>	<u>170,087</u>	Minimum Lease Payments	<u>148,069</u>	<u>170,087</u>
(69,448)	(77,623)	Less: Future Finance Charges	(69,448)	(77,623)
<u>78,621</u>	<u>92,464</u>	Present Value of Minimum Lease Payments	<u>78,621</u>	<u>92,464</u>

(ii) The present value of finance lease commitment is as follows:

8,214	13,843	Not later than one year	8,214	13,843
8,042	13,699	Later than one year and not later than five years	8,042	13,699
62,365	64,922	Later than five years	62,365	64,922
<u>78,621</u>	<u>92,464</u>	Present Value of Minimum Lease Payments	<u>78,621</u>	<u>92,464</u>

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28. Trust Funds

The HNELHD holds trust funds of \$6.3 million which are held for the safe keeping of patients' monies, deposits on hired items of equipment and Private Practice Trusts.

These funds are excluded from the financial statements as the HNELHD cannot use them for the achievement of its objectives. The following is a summary of the transactions in the trust account.

	Patient Trust		Refundable Deposits		Private Practice Trust Funds		Third Party Funds		Unclassified		Total	
	2018 \$000	2017 \$000	2018 \$000	2017 \$000	2018 \$000	2017 \$000	2018 \$000	2017 \$000	2018 \$000	2017 \$000	2018 \$000	2017 \$000
Balance at the beginning of the financial year	2,947	1,925	233	228	2,682	2,420	-----	-----	-----	-----	5,862	4,573
Revenue	41	1,726	2,094	41	42,703	40,599	32	-----	-----	-----	44,870	42,366
Expenses	(1,453)	(704)	(200)	(36)	(42,770)	(40,337)	(27)	-----	-----	-----	(44,450)	(41,077)
Balance at the end of the financial year	<u>1,535</u>	<u>2,947</u>	<u>2,127</u>	<u>233</u>	<u>2,615</u>	<u>2,682</u>	<u>5</u>	<u>-----</u>	<u>-----</u>	<u>-----</u>	<u>6,282</u>	<u>5,862</u>

Trust Fund categories have been expanded in the 2017/18 financial year to provide more clarity to the users of the financial statements. As a result, comparative figures have been adjusted to conform to the current year's presentation.

The following list provides a brief description of the purpose of the trust fund categories.

Category	Purpose
Patient Trust	The safe custody of patients' valuables including monies.
Refundable Deposit	A sum of money held in trust as a security deposit.
Private Practice Trusts	The revenue derived from private patient and other billable services provided by Staff Specialists.
Third Party Funds	A sum of money held in trust on behalf of external parties, e.g. external foundations, volunteer groups and auxiliaries.

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29. Contingent Liabilities and Assets

a) Calvary Mater Hospital Public Private Partnership (PPP)

The liability to pay Novacare for the redevelopment of the Mater Hospital is based on a financing arrangement involving CPI-linked finance and fixed finance. An interest rate adjustment will be made as appropriate for the CPI-linked interest component over the project term. The estimated value of the contingent liability or contingent asset is unable to be fully determined because of uncertain future events.

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30. Interests in associates

Set out below are the associates of HNELHD as at 30 June 2018 which, in the opinion of management, are material to the group. The proportion of ownership interest held by the group equals the voting rights held by the group.

Name of entity	Place of business and country of incorporation	Class of shares	Ownership interest held by HNELHD		Nature of relationship	Measurement method	Carrying Amount	
			2018	2017			2018	2017
			%	%			\$000	\$000
Hunter Medical Research Institute	Australia	Not applicable	25	25	Associate	Equity method	-	-

Hunter Medical Research Institute is a company limited by guarantee, whose constitution prohibits the distribution of funds to its members. Accordingly the carrying amount has been equity accounted at nil value and as such no financial information has been disclosed. Hunter Medical Research Institute has a 31 December reporting period.

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PARENT			CONSOLIDATION	
2018	2017		2018	2017
\$000	\$000		\$000	\$000
31. Reconciliation of Cash Flows from Operating Activities to Net Result				
137,699	105,639	Net Cash Flows from Operating Activities	137,699	105,639
(85,589)	(82,003)	Depreciation and Amortisation	(85,589)	(82,003)
(1,698)	(1,204)	Impairment of Receivables	(1,698)	(1,204)
(102)	106	(Increase) / Decrease Income in Advance	(102)	106
(14,421)	(7,181)	(Increase) / Decrease in Provisions	(14,421)	(7,181)
(921)	3,012	Increase / (Decrease) in Prepayments and Other Assets	(921)	3,012
(2,183)	(41,063)	(Increase) / Decrease in Payables from Operating Activities	(2,183)	(41,063)
(1,804)	(1,291)	Net Gain / (Loss) on Sale of Property, Plant and Equipment	(1,804)	(1,291)
4,019	306	Assets donated or brought to account for the first time	4,019	306
<u>35,000</u>	<u>(23,679)</u>	Net Result	<u>35,000</u>	<u>(23,679)</u>
32. Non-Cash Financing and Investing Activities				
4,019	307	Assets Received by Donation	4,019	307
<u>4,019</u>	<u>307</u>		<u>4,019</u>	<u>307</u>

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33. Changes in Liabilities arising from Financing Activities

	2017	Cash Flow	Non-cash Changes Other	2018
	\$000	\$000	\$000	\$000
Borrowings and Advances	99,843	(14,571)	(2)	85,270

34. 2017/18 Voluntary Services

It is considered impracticable and immaterial to quantify the monetary value of voluntary services provided to the HNELHD. Services provided include:

- Chaplaincies and Pastoral Care
- Pink Ladies / Hospital Auxiliaries
- Patient Support Groups
- Community Organisations
- Patient & Family Support
- Patient Services, Fund Raising
- Practical Support to Patients and Relatives
- Counselling, Health Education, Transport, Home Help & Patient Activities

35. Unclaimed Monies

All money and personal effects of patients which are left in the custody of the HNELHD by any patient who is discharged or dies in the hospital and which are not claimed by the person lawfully entitled thereto within a period of twelve months are recognised as the property of the HNELHD.

All such money and the proceeds of the realisation of any personal effects are lodged to the credit of the Samaritan Fund which is used specifically for the benefit of necessitous patients or necessitous outgoing patients.

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PARENT AND CONSOLIDATION

36. Adjusted Budget Review - Parent and Consolidated

Net Result

The actual Net Result was higher than adjusted budget by \$2 million, primarily due to:

Expenses \$5.0M favourable

A significant factor in this was Workers Compensation Insurance premium favourability of \$4M.

Income \$1.0M unfavourable

Primarily due to \$1.9M unfavourability in Government payments and contributions mainly due to timing of capital funding. Favourability in Other Revenue due to favourable TMF Hindsight refund was partly offset unfavourability in Patient Fees.

Gain/(Loss) on disposal and Other Gains/(Losses) \$1.9M unfavourable

Assets and Liabilities

Current assets are over budget by \$3.1M

Cash is \$15.3M above budget and receivables \$12.5M below budget from operating activities and timing of payments and receipts whilst remaining predominately within terms.

Non Current Assets are \$5.8M above budget.

Primarily due to plant and equipment purchases.

Current Liabilities are \$6.1M above budget.

Primarily due to borrowings \$2.0M higher than budget and provisions \$5.1M higher than budgeted.

Non Current Liabilities are \$0.7M higher than budget due to higher than budget borrowing costs.

Total equity is \$2.1M unfavourable to budget.

Cash Flows

Net increase in cash was \$15.3M above budget. Cash flows from Operating Activities were \$19.4M above budget with favourability in both payments and receipts. Cash flows from Investing Activities was \$6.7M higher than budget predominately from higher purchases. Cash flows from Financing Activities was \$2.5M favourable.

Movements in the level of the NSW Ministry of Health Recurrent Allocation that have occurred since the time of the initial allocation on 01/07/2017 are as follows:

	\$000
Initial Allocation, including escalation, excluding award increases	1,684,666
Escalations and Growth Funding	75,580
Special Projects	11,768
Keep them safe	5,576
Mental Health	2,766
N&M	1,500
Winter funding	851
Other Misc Special Projects	1,075
Cash Adj for LFI Projects	15,000
Additional Costs Of Winter 2017	3,058
External wall cladding	2,963
IPTAAS	2,641
Prior Year Revenue Washups	2,220
VMO FFS	1,667
NSW Rural Procedural Training Program	1,234
Rural Obstetric and Anaesthetic Incentive Grants	995
Integrated Care	950
Voluntary Red	627
Finalisation of FY18 Recurrent Subsidy	(2,899)
Scheme NDIS	(1,869)
Other Misc	4,345
Balance as per Statement of Comprehensive Income	<u><u>1,802,946</u></u>

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37. Financial Instruments

The HNELHD's principal financial instruments are outlined below. These financial instruments arise directly from the HNELHD's operations or are required to finance its operations. The HNELHD does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The HNELHD's main risks arising from financial instruments are outlined below, together with the HNELHD's objectives, policies and processes for measuring and managing risk. Further quantitative and qualitative disclosures are included throughout these financial statements.

The Chief Executive has overall responsibility for the establishment and oversight of risk management and reviews and agrees policies for managing each of these risks. Risk management policies are established to identify and analyse the risks faced by the HNELHD, to set risk limits and controls and to monitor risks. Compliance with policies is reviewed on a continuous basis.

(a) Financial Instrument Categories

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Financial Assets Class:	Category	Carrying Amount	
		2018 \$000	2017 \$000
Cash and Cash Equivalents (note 16)	N/A	98,739	92,372
Receivables (note 17)*	Loans and receivables (at amortised cost)	34,516	41,390
		133,255	133,762
Financial Liabilities			
Borrowings (note 24)	Financial liabilities measured at amortised cost	85,270	99,843
Payables (note 23)**	Financial liabilities measured at amortised cost	166,847	165,782
		252,117	265,625

Notes

* Excludes statutory receivables and prepayments (i.e. not within scope of AASB7 Financial Instruments Disclosures).

**Excludes statutory payables and unearned revenue (i.e. not within scope of AASB7 Financial Instruments Disclosures).

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37. Financial Instruments

(b) Credit Risk

Credit risk arises when there is the possibility that the counterparty will default on their contractual obligations, resulting in a financial loss to the HNELHD. The maximum exposure to credit risk is generally represented by the carrying amount of the financial assets (net of any allowance for impairment).

Credit risk arises from financial assets of the HNELHD, including cash, receivables and authority deposits. No collateral is held by the HNELHD. The HNELHD has not granted any financial guarantees.

Credit risk associated with the HNELHD's financial assets, other than receivables, is managed through the selection of counterparties and establishment of minimum credit rating standards. Authority deposits held with NSW TCorp are guaranteed by the State.

Cash

Cash comprises cash on hand and bank balances deposited within the NSW Treasury banking system. Interest is earned on daily bank balances at rates of approximately 2.43% in 2017/18 compared to 2.57% in the previous year.

The TCorpIM Funds Investment facility is discussed in paragraph (d) below.

Receivables - trade debtors

All trade debtors are recognised as amounts receivable at balance date. Collectability of trade debtors is reviewed on an ongoing basis. Procedures as established in the NSW Ministry of Health Accounting Manual for Public Health Organisations and Fee Procedures Manual are followed to recover outstanding amounts, including letters of demand. Debts which are known to be uncollectable are written off. An allowance for impairment is raised when there is objective evidence that the HNELHD will not be able to collect all amounts due. This evidence includes past experience and current and expected changes in economic conditions and debtor credit ratings. No interest is earned on trade debtors.

The HNELHD is not materially exposed to concentrations of credit risk to a single trade debtor or group of debtors. Based on past experience, debtors that are not past due are not considered impaired.

In addition Patient Fees Compensables are frequently not settled within 6 months of the date of the service provision due to the length of time it takes to settle legal claims. Most of the HNELHD's debtors are health insurance companies or compensation insurers settling claims in respect of inpatient treatments.

Financial assets that are past due or impaired could be either 'Sales of Goods and Services' or 'Other Debtors' in the 'Receivables' category of the Statement of Financial Position. Patient Fees Ineligibles represent the majority of financial assets that are past due or impaired.

	2018	2017
	\$000	\$000
Neither past due nor impaired	28,359	36,697
Past due but not impaired ^{1,2}		
< 3 months overdue	4,666	3,286
3 - 6 months overdue	608	581
> 6 months overdue	883	826
Impaired ^{1,2}		
< 3 months overdue	16	17
3 - 6 months overdue	164	282
> 6 months overdue	1,583	1,315
Total^{1,2}	36,279	43,004

Notes

1 Each column in the table reports "gross receivables".

2 The ageing analysis excludes statutory receivables, as these are not within the scope of AASB 7 Financial Instruments Disclosures. Therefore, the "total" will not reconcile to the receivables total recognised in the statement of financial position.

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37. Financial Instruments

(c) Liquidity Risk

Liquidity risk is the risk that the HNELHD will be unable to meet its payment obligations when they fall due. The HNELHD continuously manages risk through monitoring future cash flows and maturities planning to ensure adequate holding of high quality liquid assets. The objective is to maintain a balance between continuity of funding and flexibility through effective management of cash, investments and liquid assets and liabilities.

The HNELHD has negotiated no loan outside of arrangements with the NSW Ministry of Health or NSW Treasury.

During the current and prior years, there were no defaults of loans payable. No assets have been pledged as collateral.

The HNELHD has exposure to liquidity risk. However, the risk is minimised by the service agreement with the NSW Ministry of Health, as the annual service agreement requires local management to control its financial liquidity and in particular meet benchmarks for the payment of creditors. Where the HNELHD fails to meet service agreement performance standards, the Ministry as the state manager can take action in accordance with annual performance framework requirements, including providing financial support and increased management interaction (refer Note 1).

The liabilities are recognised for amounts due to be paid in the future for goods or services received, whether or not invoiced. Amounts owing to suppliers (which are unsecured) are settled in accordance with the policy set by the NSW Ministry of Health in accordance with NSW Treasury Circular 11/12. For small business suppliers, where terms are not specified, payment is made not later than 30 days from date of receipt of a correctly rendered invoice. For other suppliers, if trade terms are not specified, payment is made no later than the end of the month following the month in which an invoice or a statement is received.

For small business suppliers, where payment is not made within the specified time period, simple interest must be paid automatically unless an existing contract specifies otherwise.

For other suppliers, where settlement cannot be effected in accordance with the above, e.g. due to short term liquidity constraints, contact is made with creditors and terms of payment are negotiated to the satisfaction of both parties.

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37. Financial Instruments

The table below summarises the maturity profile of the HNELHD's financial liabilities together with the interest rate exposure.

Maturity Analysis and interest rate exposure of financial liabilities

	Interest Rate Exposure			Maturity Dates		
	Nominal Amount ¹	Fixed Interest Rate	Non - Interest Bearing	< 1 Yr	1-5 Yr	> 5Yr
	\$000	\$000	\$000	\$000	\$000	\$000
2018						
Payables:						
- Creditors ²	166,847	-----	166,847	166,847	-----	-----
Borrowings:						
- Loans and Deposits	7,582	7,582	-----	964	3,345	3,273
- Public Private Partnership	148,069	148,069	-----	14,900	32,341	100,828
	<u>322,498</u>	<u>155,651</u>	<u>166,847</u>	<u>182,711</u>	<u>35,686</u>	<u>104,101</u>
2017						
Payables:						
- Creditors ²	165,782	-----	165,782	165,782	-----	-----
Borrowings:						
- Loans and Deposits	8,545	8,545	-----	964	3,491	4,090
- Public Private Partnership	170,087	170,087	-----	22,017	38,854	109,215
	<u>344,414</u>	<u>178,632</u>	<u>165,782</u>	<u>188,763</u>	<u>42,345</u>	<u>113,305</u>

Notes:

1 The amounts disclosed are the contractual undiscounted cash flows of each class of financial liabilities based on the earliest date on which the HNELHD can be required to pay. The tables include both interest and principal cash flows and therefore will not reconcile to the Statement of Financial Position.

2 Excludes statutory payables and unearned revenue (i.e. not within scope of AASB7 Financial Instruments Disclosures). Prior year comparatives have been restated to include Accrued Salaries Wages, On-Costs and Payroll Deductions.

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37. Financial Instruments

(d) Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The HNELHD's exposures to market risk are primarily through interest rate risk on the HNELHD's borrowings and other price risks associated with the movement in the unit price of the TCorpIM Funds investment facilities. The HNELHD has no exposure to foreign currency risk and does not enter into commodity contracts.

The effect on net result and equity due to a reasonably possible change in risk variable is outlined in the information below, for interest rate risk and other price risk. A reasonably possible change in risk variable has been determined after taking into account the economic environment in which the HNELHD operates and the time frame for the assessment (i.e. until the end of the next annual reporting period). The sensitivity analysis is based on risk exposures in existence at the Statement of Financial Position date. The analysis is performed on the same basis for 2017. The analysis assumes that all other variables remain constant.

Interest rate risk

Exposure to interest rate risk arises primarily through the HNELHD's interest bearing liabilities.

However, the HNELHD is not permitted to borrow external to the NSW Ministry of Health (except energy loans which are negotiated through NSW Treasury).

Both NSW Treasury and NSW Ministry of Health loans are set at fixed rates and therefore are generally not affected by fluctuations in market rates. The HNELHD does not account for any fixed rate financial instruments at fair value through profit or loss or as available-for-sale. Therefore, for these financial instruments, a change of interest rates would not affect net result or equity.

A reasonably possible change of +/-1% is used consistent with current trends in interest rates (based on official RBA interest rate volatility over the last five years). The basis will be reviewed annually and amended where there is a structural change in the level of interest rate volatility.

The HNELHD's exposure to interest rate risk is set out below.

	Carrying Amount	-1% Net Result	Equity	+1% Net Result	Equity
	\$000	\$000	\$000	\$000	\$000
2018					
Financial Assets					
Cash and Cash Equivalents	98,739	(987)	(987)	987	987
Receivables	34,516	----	----	----	----
Financial Liabilities					
Payables*	166,847	----	----	----	----
Borrowings	85,270	853	853	(853)	(853)
2017					
Financial Assets					
Cash and Cash Equivalents	92,372	(924)	(924)	924	924
Receivables	41,390	----	----	----	----
Financial Liabilities					
Payables*	165,782	----	----	----	----
Borrowings	99,843	998	998	(998)	(998)

*Excludes statutory payables and unearned revenue (i.e. not within scope of AASB7 Financial Instruments Disclosures).

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(e) Fair Value Measurement

(i) Fair value compared to carrying amount

Financial instruments are generally recognised at cost, with the exception of the TCorpIM Funds investment facilities, which are measured at fair value.

The amortised cost of financial instruments recognised in the Statement of Financial Position approximates the fair value, because of the short term nature of many of the financial instruments.

Therefore the fair value of the financial instruments do not differ from the carrying amount.

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38. Related Party Transactions

PARENT AND CONSOLIDATION

Key management personnel compensation is as follows:

	2018	2017
	\$000	\$000
Short-term employee benefits	521	397
Post-employment benefits	22	30
Other long-term benefits	----	----
Termination benefits	----	----
	<u>543</u>	<u>427</u>

During the financial year, Hunter New England Local Health District obtained key management personnel services from the immediate parent and incurred \$0.499M (2017: \$0.377M) for these services.

Compensation for the Minister for Health is paid by the Legislature and is not reimbursed by the Ministry of Health and its controlled entities. Accordingly no such amounts are included in the key management personnel compensation disclosures above.

Remuneration for the Secretary and Deputy Secretaries are paid by the Ministry of Health and is not reimbursed by the health entities. Accordingly no such amounts are included in the key management personnel compensation disclosures above.

Transactions with key management personnel and their close family members

There were no transactions with key management personnel and their close family members (2017: \$Nil).

Transactions with ultimate parent

There were no transactions with the ultimate parent during the financial year (2017: \$Nil).

39. Events After the Reporting Period

No matters have arisen subsequent to reporting date that would require these financial statements to be amended.

END OF AUDITED FINANCIAL STATEMENTS

