



INDEPENDENT AUDITOR'S REPORT

Illawarra Shoalhaven Local Health District

To Members of the New South Wales Parliament

Opinion

I have audited the accompanying financial statements of the Illawarra Shoalhaven Local Health District (the District), which comprise the Statement of Comprehensive Income for the year ended 30 June 2020, the Statement of Financial Position as at 30 June 2020, 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 2020, 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 (including Independence Standards)' (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 39. 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.

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.

The scope of my audit does not include, nor 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

Delegate of the Auditor-General for New South Wales

23 September 2020
SYDNEY

Illawarra Shoalhaven Local Health District

Certification of the Financial Statements

for the year ended 30 June 2020



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

1. The financial statements of Illawarra Shoalhaven Local Health District for the year ended 30 June 2020 have been prepared in accordance with:
 - a. Australian Accounting Standards (AAS) (which include Australian Accounting Interpretations);
 - b. the requirements of the *Public Finance and Audit Act 1983* (the Act), the *Public Finance and Audit Regulation 2015*; and
 - c. NSW Treasurer's Directions issued under the Act.
2. The financial statements exhibit a true and fair view of the financial position and the financial performance of Illawarra Shoalhaven Local Health District; and
3. We are not aware of any circumstances which would render any particulars in the financial statements to be misleading or inaccurate.

A handwritten signature in black ink that reads "Margot K Mains".

Margot Mains
Chief Executive
16 September 2020

A handwritten signature in black ink that reads "Abbas Alibhai".

Abbas Alibhai
Executive Director Finance
16 September 2020

Illawarra Shoalhaven Local Health District

Statement of Comprehensive Income for the year ended 30 June 2020

	Notes	Consolidated Actual 2020 \$000	Consolidated Budget ¹ 2020 \$000	Consolidated Actual 2019 \$000	Parent Actual 2020 \$000	Parent Actual 2019 \$000
Continuing operations						
Expenses excluding losses						
Employee related expenses	2	712,256	698,005	683,966	-	-
Personnel services	3	-	-	-	679,549	642,569
Visiting medical officers	4	48,951	46,799	47,208	48,951	47,208
Other expenses	5	258,481	256,547	256,981	258,481	256,981
Depreciation and amortisation	6	37,583	35,909	32,596	37,583	32,596
Grants and subsidies	7	5,783	5,536	5,237	5,783	5,237
Finance costs	8	391	287	155	391	155
Total expenses excluding losses		1,063,445	1,043,083	1,026,143	1,030,738	984,746
Revenue						
NSW Ministry of Health recurrent allocations	10	869,924	855,592	819,755	869,924	819,755
NSW Ministry of Health capital allocations	10	29,043	29,489	41,964	29,043	41,964
Acceptance by the Crown Entity of employee benefits	14	32,707	32,674	41,397	-	-
Sale of goods and services	11	-	-	110,855	-	110,855
Sale of goods and services from contracts with customers	11	104,182	111,532	-	104,182	-
Investment revenue	12	462	1,068	832	462	832
Grants and other contributions	13	15,853	16,140	16,812	15,853	16,812
Other income	15	3,392	1,129	2,652	3,392	2,652
Total revenue		1,055,563	1,047,624	1,034,267	1,022,856	992,870
Operating result		(7,882)	4,541	8,124	(7,882)	8,124
Gains / (losses) on disposal	16	(2,709)	-	(77)	(2,709)	(77)
Impairment losses on financial assets	19	(674)	(2)	(692)	(674)	(692)
Net result from continuing operations	37	(11,265)	4,539	7,355	(11,265)	7,355
Net result		(11,265)	4,539	7,355	(11,265)	7,355
Other comprehensive income						
<i>Items that will not be reclassified to net result in subsequent periods</i>						
Changes in revaluation surplus of property, plant and equipment	21	(2,118)	-	-	(2,118)	-
Changes in revaluation surplus of other assets	24	(9)	-	7	(9)	7
Total other comprehensive income		(2,127)	-	7	(2,127)	7
TOTAL COMPREHENSIVE INCOME		(13,392)	4,539	7,362	(13,392)	7,362

¹ Unaudited adjusted budget, see Note 39.

The accompanying notes form part of these financial statements.

Illawarra Shoalhaven Local Health District
Statement of Financial Position as at 30 June 2020

	Notes	Consolidated Actual 2020 \$000	Consolidated Budget ¹ 2020 \$000	Consolidated Actual 2019 \$000	Parent Actual 2020 \$000	Parent Actual 2019 \$000
ASSETS						
Current assets						
Cash and cash equivalents	18	39,640	37,667	37,316	39,640	37,316
Receivables	19	19,837	20,262	21,584	19,837	21,584
Inventories	20	9,466	9,059	9,059	9,466	9,059
		68,943	66,988	67,959	68,943	67,959
Non-current assets held for sale	25	1,374	-	-	1,374	-
Total current assets		70,317	66,988	67,959	70,317	67,959
Non-current assets						
Receivables	19	2,268	-	-	2,268	-
Property, plant & equipment	21					
- Land and buildings		536,543	535,509	531,535	536,543	531,535
- Plant and equipment		42,968	49,955	46,020	42,968	46,020
- Infrastructure systems		56,247	56,029	58,688	56,247	58,688
Total property, plant & equipment		635,758	641,493	636,243	635,758	636,243
Right-of-use assets	22	14,626	13,518	-	14,626	-
Intangible assets	23	138	36	66	138	66
Other non-current assets	24	-	230	223	-	223
Total non-current assets		652,790	655,277	636,532	652,790	636,532
Total assets		723,107	722,265	704,491	723,107	704,491
LIABILITIES						
Current liabilities						
Payables	28	60,643	56,173	57,588	60,643	57,588
Contract liabilities	29	797	-	-	797	-
Borrowings	30	5,664	3,193	464	5,664	464
Provisions	31	107,087	97,696	95,282	107,087	95,282
Other current liabilities	32	-	5	-	-	-
Total current liabilities		174,191	157,067	153,334	174,191	153,334
Non-current liabilities						
Borrowings	30	13,567	14,640	4,253	13,567	4,253
Provisions	31	1,495	1,495	1,355	1,495	1,355
Other non-current liabilities	32	8,823	-	-	8,823	-
Total non-current liabilities		23,885	16,135	5,608	23,885	5,608
Total liabilities		198,076	173,202	158,942	198,076	158,942
Net assets		525,031	549,063	545,549	525,031	545,549
EQUITY						
Reserves		109,478	111,956	111,957	109,478	111,957
Accumulated funds		415,553	437,107	433,592	415,553	433,592
Total Equity		525,031	549,063	545,549	525,031	545,549

¹ Unaudited adjusted budget, see Note 39.

The accompanying notes form part of these financial statements.

Illawarra Shoalhaven Local Health District
Statement of Changes in Equity for the year ended 30 June 2020

PARENT AND CONSOLIDATION

	Notes	Accumulated Funds \$000	Asset Revaluation \$000	Total \$000
Balance at 1 July 2019		433,592	111,957	545,549
Changes in accounting policy	1(g)	(7,126)	-	(7,126)
Restated balance at 1 July 2019		426,466	111,957	538,423
Net result for the year		(11,265)	-	(11,265)
Other comprehensive income:				
Net change in revaluation surplus of property, plant and equipment	21	-	(2,118)	(2,118)
Net change in revaluation surplus of other assets	24	-	(9)	(9)
Reclassification of revaluation increments / (decrements) to accumulated funds on disposal of assets		352	(352)	-
Total other comprehensive income		352	(2,479)	(2,127)
Total comprehensive income for the year		(10,913)	(2,479)	(13,392)
Balance at 30 June 2020		415,553	109,478	525,031

	Notes	Accumulated Funds \$000	Asset Revaluation \$000	Total \$000
Balance at 1 July 2018		425,131	111,950	537,081
Changes in accounting policy (AASB 9)		278	-	278
Restated balance at 1 July 2018		425,409	111,950	537,359
Net result for the year		7,355	-	7,355
Other comprehensive income:				
Net change in revaluation surplus of other assets	24	-	7	7
Total other comprehensive income		-	7	7
Total Comprehensive Income for the Year		7,355	7	7,362
Transactions with owners in their capacity as owners				
Increase / (decrease) in net assets from equity transfers	40	828	-	828
Balance at 30 June 2019		433,592	111,957	545,549

The accompanying notes form part of these financial statements.

Illawarra Shoalhaven Local Health District
Statement of Cash Flows for the year ended 30 June 2020

	Notes	Consolidated Actual 2020 \$000	Consolidated Budget ¹ 2020 \$000	Consolidated Actual 2019 \$000	Parent Actual 2020 \$000	Parent Actual 2019 \$000
CASH FLOWS FROM OPERATING ACTIVITIES						
Payments						
Employee related		(675,729)	(672,375)	(646,251)	-	-
Suppliers for goods and services		(340,030)	(337,863)	(332,832)	(340,030)	(332,832)
Grants and subsidies		(6,428)	(6,181)	(5,803)	(6,428)	(5,803)
Finance costs		(391)	(287)	(155)	(391)	(155)
Personnel services		-	-	-	(675,729)	(646,251)
Total payments		(1,022,578)	(1,016,706)	(985,041)	(1,022,578)	(985,041)
Receipts						
NSW Ministry of Health recurrent allocations		869,924	855,592	819,755	869,924	819,755
NSW Ministry of Health capital allocations		29,043	29,489	41,964	29,043	41,964
Reimbursements from the Crown Entity		11,979	11,979	12,110	11,979	12,110
Sale of goods and services		109,341	113,775	111,038	109,341	111,038
Interest received		462	1,068	832	462	832
Grants and other contributions		18,305	16,728	18,134	18,305	18,134
Other		28,630	29,965	29,521	28,630	29,521
Total receipts		1,067,684	1,058,596	1,033,354	1,067,684	1,033,354
NET CASH FLOWS FROM OPERATING ACTIVITIES	37	45,106	41,890	48,313	45,106	48,313
CASH FLOWS FROM INVESTING ACTIVITIES						
Proceeds from sale of property, plant and equipment		298	-	106	298	106
Purchases of property, plant and equipment and intangibles		(38,286)	(38,128)	(55,064)	(38,286)	(55,064)
NET CASH FLOWS FROM INVESTING ACTIVITIES		(37,988)	(38,128)	(54,958)	(37,988)	(54,958)
CASH FLOWS FROM FINANCING ACTIVITIES						
Repayment of borrowings and advances		(464)	(464)	(447)	(464)	(447)
Payment of principal portion of lease liabilities		(4,330)	(2,947)	-	(4,330)	-
NET CASH FLOWS FROM FINANCING ACTIVITIES		(4,794)	(3,411)	(447)	(4,794)	(447)
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		2,324	351	(7,092)	2,324	(7,092)
Opening cash and cash equivalents	18	37,316	37,316	44,408	37,316	44,408
CLOSING CASH AND CASH EQUIVALENTS	18	39,640	37,667	37,316	39,640	37,316

¹ Unaudited adjusted budget, see Note 39.

The accompanying notes form part of these financial statements.

Illawarra Shoalhaven Local Health District

Notes to and forming part of the Financial Statements

for the year ended 30 June 2020

1. Statement of Significant Accounting Policies

a) Reporting entity

Illawarra Shoalhaven Local Health District (ISLHD) was established under the provisions of the Health Services Act 1997 with effect from 1 January 2011.

ISLHD 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).

ISLHD, 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 27), which, while containing assets which are restricted for specified uses by the grantor or the donor, are nevertheless controlled by the parent entity.
- * Illawarra Shoalhaven Local Health District Special Purpose Service Entity, which was established as a Division of the ISLHD on 1 January 2011 in accordance with the Health Services Act 1997. This Division provides personnel services to enable ISLHD 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 2020 have been authorised for issue by the Chief Executive on 16 September 2020.

b) Basis of preparation

ISLHD's financial statements are general purpose financial statements which have been prepared on an accrual basis and in accordance with applicable Australian Accounting Standards (AAS) (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 Act) and the Public Finance and Audit Regulation 2015, and the NSW Treasurer's Directions issued under the Act. The financial statements comply with the NSW Treasury mandates circular for NSW General Government Sector Entities.

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

In alignment with the approach of other States and Territories, and following a recommendation by the National Cabinet of Commonwealth, the 2020-21 NSW Budget has been deferred until 17 November 2020. On this basis, the Secretary of NSW Health, the Chair of Illawarra Shoalhaven Local Health District Board and the Chief Executive, through an interim Service Agreement, have agreed to service and funding levels for the forward financial year. The interim Service Agreement provides for 48 per cent of the LHD's annual funding.

When the NSW Budget is handed down in November 2020-21, the interim Service Agreement and funding arrangements will be replaced with a full-year 2020-21 Service Agreement and budget. The Service Agreement sets out the level of financial resources for public health services under ISLHD's control and the source of these funds. By agreement, the Service Agreement requires local management to control its financial liquidity and in particular meet benchmarks for the payment of creditors. Where ISLHD fails to meet Service Agreement performance standards, the NSW Ministry of Health as the state manager will take action in accordance with annual performance framework requirements, including financial support and increased management interaction by the NSW Ministry of Health

Illawarra Shoalhaven Local Health District

Notes to and forming part of the Financial Statements

for the year ended 30 June 2020

1. Statement of Significant Accounting Policies (continued)

Following the Novel Coronavirus (COVID-19) pandemic in late February 2020, ISLHD has seen a decline in normal hospital activities. Restrictions were imposed by the Australian Government resulting in the suspension of non-urgent elective surgeries to ensure increased capacity across the health system. Critical resources were reassigned to plan and prepare for possible surges as a result of the outbreak. The unprecedented measures undertaken by both the Australian and State governments to contain the spread of COVID-19, have resulted in significant impacts to the economy and within the health sector.

Despite the impact of COVID-19, the going concern assumption remains appropriate. Reasons for this include:

- * Allocated funds, combined with other revenues earned, are adequate to pay debts as and when they become due and payable.
- * ISLHD has the capacity to review the timing of NSW Ministry of Health allocation cash flows to ensure that debts can be paid when they become due and payable.
- * ISLHD has developed an Efficiency and Improvement Plan (EIP) which identifies revenue improvement and cost saving strategies. Benefits from the EIP are retained by ISLHD and assist in meeting its overall budget target. The EIP is monitored and evaluated by the NSW Ministry of Health throughout the financial year.
- * The Commonwealth has entered a National Partnership Agreement, in response to the COVID-19 pandemic, with States and Territories, including NSW. The Agreement will deliver funding to public hospitals and provide stability and certainty of funding while ensuring access to new life saving therapies in public hospitals. ISLHD is subject to additional NSW Ministry of Health recurrent and capital allocations to provide for costs incurred related to COVID-19 activities and to ensure debts can be paid as and when they become due and payable.

Property, plant and equipment, assets held for sale and certain financial assets and liabilities 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, which is ISLHD's presentation and functional currency.

c) Statement of Compliance

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

d) 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 ISLHD 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.

Illawarra Shoalhaven Local Health District

Notes to and forming part of the Financial Statements

for the year ended 30 June 2020

1. Statement of Significant Accounting Policies (continued)

e) Foreign currency translation

Transactions in foreign currencies are recorded using the spot rate at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the end of the reporting date.

Differences arising on settlement or translation of monetary items are recognised in net result.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e. translation differences on items whose fair value gain or loss is recognised in other comprehensive income or net results are also recognised in other comprehensive income or net results, respectively).

f) 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.

g) Changes in accounting policy, including new or revised Australian Accounting Standards

(i) Effective for the first time in 2019-20

The accounting policies applied in 2019-20 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:

ISLHD applied AASB 15 Revenue from Contracts with Customers, AASB 1058 Income of Not-for-Profit Entities, and AASB 16 Leases for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

Several other amendments and interpretations apply for the first time in 2019-20, but do not have an impact on the financial statements of ISLHD.

AASB 15 Revenue from Contracts with Customers (AASB 15)

AASB 15 supersedes AASB 111 Construction Contracts, AASB 118 Revenue and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. AASB 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which ISLHD expects to be entitled in exchange for transferring goods or services to a customer.

AASB 15 requires ISLHD to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires relevant disclosures.

In accordance with the transition provisions in AASB 15, ISLHD has adopted AASB 15 retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application, i.e. 1 July 2019. ISLHD has used the transitional practical expedient permitted by the standard to reflect the aggregate effect of all of the modifications that occur before 1 July 2018 when:

- * identifying the satisfied and unsatisfied performance obligations;
- * determining the transaction price; and
- * allocating the transaction price to the satisfied and unsatisfied performance obligations.

The impact of applying the above practical expedients is not expected to significantly affect the financial statements.

Illawarra Shoalhaven Local Health District

Notes to and forming part of the Financial Statements

for the year ended 30 June 2020

1. Statement of Significant Accounting Policies (continued)

The effect of adopting AASB 15 is as follows:

PARENT AND CONSOLIDATED

Impact on the Statement of Comprehensive Income (increase/(decrease)):

		30 June 2020 AASB 15	30 June 2020 Without adoption of AASB 15	30 June 2020 Impact of AASB 15
	Notes	\$'000	\$'000	\$'000
Revenue				
Sale of goods and services from contracts with customers		104,182	104,182	-
Grants and other contributions	(a)(b)	10,444	10,153	291
Net Result		114,626	114,335	291

Impact on the Statement of Financial Position (increase/(decrease)):

PARENT AND CONSOLIDATED

		30 June 2020 AASB 15	30 June 2020 Without adoption of AASB 15	30 June 2020 Impact of AASB 15
	Notes	\$'000	\$'000	\$'000
Assets				
Other receivables	(a)	306	-	306
Total assets		306	-	306
Liabilities				
Contract liabilities	(b)	797	-	797
Other liabilities		-	782	(782)
Total liabilities		797	782	15
Equity				
Accumulated funds		(491)	(782)	291
Total adjustments to equity		(491)	(782)	291

The adoption of AASB 15 did not have an impact on Other Comprehensive Income and the Statement of Cash Flows for the financial year.

The nature of these adjustments is described below:

- Income from grants were previously recognised upon receipt of cash. Under the new revenue recognition requirements of AASB 15, income should be recognised when a performance obligation, by transferring a promised good or service, is satisfied. This may be at a point in time or over time. This has led to the accrual of grant income where the entity has satisfied its obligations promised in the contract with the customer.
- Income from grants were previously recognised upon receipt of cash. Under the new revenue recognition requirements of AASB 15, income should be recognised when a performance obligation, by transferring a promised good or service, is satisfied. This may be at a point in time or over time. This has led to a deferral of grant income where the entity has not yet satisfied its obligations promised in the contract with the customer.

The reason for the changes in grants and other contributions is due to the non-recurring nature of grants and contributions received and varying nature of performance obligations across grant contracts resulting in different timing of revenue received.

Illawarra Shoalhaven Local Health District

Notes to and forming part of the Financial Statements

for the year ended 30 June 2020

1. Statement of Significant Accounting Policies (continued)

AASB 1058 Income of Not-for-Profit Entities (AASB 1058)

AASB 1058 replaces most of the existing requirements in AASB 1004 Contributions. The scope of AASB 1004 is now limited mainly to contributions by owners (including parliamentary appropriations that satisfy the definition of a contribution by owners), administrative arrangements and liabilities of government departments assumed by other entities.

AASB 1058 applies to income with a donation component, i.e. transactions where the consideration to acquire an asset is significantly less than fair value principally to enable a not-for-profit entity to further its objectives; and volunteer services. AASB 1058 adopts a residual approach, meaning that entities first apply other applicable Australian Accounting Standards (e.g. AASB 1004, AASB 15, AASB 16, AASB 9, AASB 137) to a transaction before recognising income.

Not-for-profit entities need to determine whether a transaction is/contains a donation (accounted for under AASB 1058) or a contract with a customer (accounted for under AASB 15).

AASB 1058 requires recognition of receipt of an asset, after the recognition of any related amounts in accordance with other Australian Accounting Standards, as income:

- * when the obligations under the transfer is satisfied, for transfers to enable an entity to acquire or construct a recognisable non-financial asset that will be controlled by ISLHD.
- * immediately, for all other income within the scope of AASB 1058.

In accordance with the transition provisions in AASB 1058, ISLHD has adopted AASB 1058 retrospectively with the cumulative effect of initially applying the standard at the date of initial application, i.e. 1 July 2019. ISLHD has adopted the practical expedient in AASB 1058 whereby existing assets acquired for consideration significantly less than fair value principally to enable ISLHD to further its objectives, are not restated to their fair value.

The effect of adopting AASB 1058 is as follows:

PARENT AND CONSOLIDATED

Impact on the Statement of Comprehensive Income (increase/(decrease)):

		30 June 2020 AASB 1058	30 June 2020 Without adoption of AASB 1058	30 June 2020 Impact of AASB 1058
	Notes	\$'000	\$'000	\$'000
Revenue				
Grants and other contributions	(a)	5,409	7,106	(1,697)
Operating result		5,409	7,106	(1,697)
Net Result		5,409	7,106	(1,697)

Illawarra Shoalhaven Local Health District

Notes to and forming part of the Financial Statements

for the year ended 30 June 2020

1. Statement of Significant Accounting Policies (continued)

Impact on the Statement of Financial Position (increase/(decrease)):

PARENT AND CONSOLIDATED

		30 June 2020 AASB 1058	30 June 2020 Without adoption of AASB 1058	30 June 2020 Impact of AASB 1058
	Notes	\$'000	\$'000	\$'000
Liabilities				
Other liabilities	(a)	8,823	-	8,823
Total liabilities		8,823	-	8,823
Equity				
Accumulated funds		(8,823)	-	(8,823)
Total adjustments to equity		(8,823)	-	(8,823)

The adoption of AASB 1058 did not have an impact on Other Comprehensive Income and the Statement of Cash Flows for the financial year.

The nature of these adjustments is described below:

- (a) Income from grants to construct non-financial assets to be controlled by the entity were previously recognised upon receipt of cash. Under the new revenue recognition requirements of AASB 1058, income should have been recognised over time as the non-financial assets are being constructed. This has led to the deferral of grant income where the entity has not yet satisfied its obligations to construct the assets.

The reason for the changes in grants and other contributions is due to the timing of revenue received to construct non-financial assets to be controlled by the entity.

AASB 16 Leases

AASB 16 supersedes AASB 117 Leases, Interpretation 4 Determining whether an Arrangement contains a Lease, Interpretation 115 Operating Leases – Incentives and Interpretation 127 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the Statement of Financial Position.

Lessor accounting

Lessor accounting under AASB 16 is substantially unchanged from AASB 117. Lessors will continue to classify leases as either operating or finance leases using similar principles as in AASB 117. Therefore, AASB 16 does not have a significant impact for leases where the entity is the lessor.

Illawarra Shoalhaven Local Health District

Notes to and forming part of the Financial Statements

for the year ended 30 June 2020

1. Statement of Significant Accounting Policies (continued)

Lessee accounting

AASB 16 requires ISLHD to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under AASB 117. As the lessee, ISLHD recognises a lease liability and right-of-use asset at the inception of the lease. The lease liability is measured at the present value of the future lease payments, discounted using the interest rate implicit in the lease, or the lessee's incremental borrowing rate if the interest rate implicit in the lease cannot be readily determined. The corresponding right-of-use asset is measured at the value of the lease liability adjusted for lease payments before inception, lease incentives, initial direct costs and estimates of costs for dismantling and removing the asset or restoring the site on which it is located.

ISLHD has adopted the partial retrospective option in AASB 16, where the cumulative effect of initially applying AASB 16 is recognised on 1 July 2019 and the comparatives for the year ended 30 June 2019 are not restated.

In relation to leases that had previously been classified as 'operating leases' under AASB 117, a lease liability is recognised at 1 July 2019 at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 1.53%.

The corresponding right-of-use asset is initially recorded on transition at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the Statement of Financial Position as at 30 June 2019.

ISLHD elected to use the practical expedient to expense lease payments for lease contracts that, at their commencement date, have a lease term of 12 months or less and do not contain a purchase option (short-term leases), and lease contracts for which the underlying asset is valued at \$10,000 or under when new (low-value assets).

In applying AASB 16 for the first time, ISLHD has used the following practical expedients permitted by the standard:

- * not reassess whether a contract is, or contains, a lease at 1 July 2019, for those contracts previously assessed under AASB 117 and Interpretation 4;
- * applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- * relying on its previous assessment on whether leases are onerous immediately before the date of initial application as an alternative to performing an impairment review;
- * not recognise a lease liability and right-of-use-asset for short-term leases that end within 12 months of the date of initial application;
- * excluding the initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- * using hindsight in determining the lease term where the contract contained options to extend or terminate the lease.

Illawarra Shoalhaven Local Health District
Notes to and forming part of the Financial Statements
for the year ended 30 June 2020

1. Statement of Significant Accounting Policies (continued)

The effect of adopting AASB 16 on the Statement of Financial Position as at 1 July 2019 is, as follows:

PARENT AND CONSOLIDATED

	1 July 2019
	\$'000
Assets	
Right-of-use assets	13,517
Total assets	13,517
Liabilities	
Borrowings	13,517
Total liabilities	13,517
	-

The lease liabilities as at 1 July 2019 can be reconciled to the operating lease commitments as of 30 June 2019 as follows:

PARENT AND CONSOLIDATED

	1 July 2019
	\$'000
Operating lease commitments as at 30 June 2019 (GST included)	43,608
(Less): GST included in operating lease commitments	3,931
Operating lease commitments as at 30 June 2019 (GST excluded)	39,677
Weighted average incremental borrowing rate as at 1 July 2019	1.53%
Discounted operating lease commitments as at 1 July 2019	34,294
(Less): commitments relating to short-term leases	520
(Less): commitments including service charges	27,776
Add : contracts re-assessed as lease contracts	7,519
Lease liabilities as at 1 July 2019	13,517

The difference between the operating lease commitments disclosed in applying AASB 117 at the end of the annual reporting period immediately preceding the date of initial application (i.e. 30 June 2019), discounted using the incremental borrowing rate at the date of initial application; and lease liabilities recognised in the Statement of Financial Position at the date of initial application (i.e 1 July 2019) is the result of \$0.520 million of commitments being short term leases, \$27.776 million of commitments not meeting the definition of a right of use asset and an additional \$7.519 million of commitments now assessed as lease contracts which were not at 30 June 2019.

(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 ISLHD have not been applied and are not yet effective. The possible impact of these Accounting Standards in the period of initial application includes:

Illawarra Shoalhaven Local Health District

Notes to and forming part of the Financial Statements

for the year ended 30 June 2020

1. Statement of Significant Accounting Policies (continued)

AASB 1059 Service Concession Arrangements

AASB 1059 Service Concession Arrangements is applicable to public sector entities only and is effective for annual periods beginning on or after 1 January 2020. This standard 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

ISLHD has completed its impact assessment of AASB 1059 by reviewing all material arrangements where the private sector is performing any services on behalf of ISLHD. Any identified arrangements have been assessed whether it falls within the scope of AASB 1059. If it does meet the scoping guidelines of AASB 1059, financial impacts were calculated.

Upon review, ISLHD has not identified any arrangements in scope of AASB 1059.

Illawarra Shoalhaven Local Health District
Notes to and forming part of the Financial Statements
for the year ended 30 June 2020

2. Employee related expenses

	Consolidated 2020 \$000	Consolidated 2019 \$000	Parent 2020 \$000	Parent 2019 \$000
Salaries and wages (including annual leave and ADO)	615,500	578,340	-	-
Superannuation - defined benefit plans	3,994	4,381	-	-
Superannuation - defined contribution plans	53,819	50,540	-	-
Long service leave	30,464	39,622	-	-
Redundancies	443	758	-	-
Workers' compensation insurance	8,028	10,335	-	-
Fringe benefits tax	8	(10)	-	-
	712,256	683,966	-	-

Employee related costs of \$612 thousand (2019: \$Nil) have been capitalised in property, plant and equipment and intangible assets and are therefore excluded from the above.

3. Personnel services

	Consolidated 2020 \$000	Consolidated 2019 \$000	Parent 2020 \$000	Parent 2019 \$000
Salaries and wages (including annual leave and ADO)	-	-	615,500	578,340
Superannuation - defined contribution plans	-	-	53,819	50,540
Long service leave	-	-	1,751	2,606
Redundancies	-	-	443	758
Workers' compensation insurance	-	-	8,028	10,335
Fringe benefits tax	-	-	8	(10)
	-	-	679,549	642,569

Personnel services of Illawarra Shoalhaven Local Health District were provided by its controlled entity, Illawarra Shoalhaven Local Health District Special Purpose Service Entity.

Personnel services of \$612 thousand (2019: \$Nil) have been capitalised in property, plant and equipment and intangible assets and are excluded from the above.

4. Visiting medical officers

Visiting medical officers (VMOs) enhance full-time medical specialist services by providing speciality input in a number of disciplines throughout ISLHD's hospitals. VMO expenses of \$48.951 million (2019: \$47.208 million) represent part of the day-to-day running costs incurred in the normal operations of ISLHD. These costs are expensed as incurred.

Illawarra Shoalhaven Local Health District
Notes to and forming part of the Financial Statements
for the year ended 30 June 2020

5. Other expenses

	Consolidated 2020 \$000	Consolidated 2019 \$000	Parent 2020 \$000	Parent 2019 \$000
Advertising	144	243	144	243
Auditor's remuneration - audit of financial statements	192	187	192	187
Blood and blood products	5,614	5,408	5,614	5,408
Consultancies	619	897	619	897
Contractors	904	271	904	271
Domestic supplies and services	12,214	10,981	12,214	10,981
Drug supplies	33,878	35,491	33,878	35,491
Food supplies	20,883	19,708	20,883	19,708
Fuel, light and power	5,750	5,820	5,750	5,820
Patient transport costs	14,143	12,846	14,143	12,846
Information management expenses	18,836	17,504	18,836	17,504
Insurance	1,182	998	1,182	998
Maintenance (see Note 5(b))	20,445	17,663	20,445	17,663
Medical and surgical supplies	45,722	46,859	45,722	46,859
Motor vehicle expenses	1,234	1,313	1,234	1,313
Postal and telephone costs	2,036	1,642	2,036	1,642
Printing and stationery	1,792	1,864	1,792	1,864
Rates and charges	995	876	995	876
Rental	-	5,066	-	5,066
Hosted services purchased from entities controlled by the immediate parent	9,735	9,570	9,735	9,570
Specialised services (dental, radiology, pathology, renal and allied health)	38,005	34,314	38,005	34,314
Staff related costs	4,281	5,319	4,281	5,319
Travel related costs	2,955	4,290	2,955	4,290
Other (see Note 5(a))	16,922	17,851	16,922	17,851
	258,481	256,981	258,481	256,981

The majority of the costs in relation to drug supplies and medical and surgical supplies expenses relate to the consumption of inventory held by ISLHD.

Illawarra Shoalhaven Local Health District
Notes to and forming part of the Financial Statements
for the year ended 30 June 2020

5. Other expenses (continued)

	Consolidated 2020 \$000	Consolidated 2019 \$000	Parent 2020 \$000	Parent 2019 \$000
(a) Other				
Contract for patient services	2,743	4,503	2,743	4,503
Corporate support services	5,992	6,321	5,992	6,321
Courier and freight	645	570	645	570
Isolated patient travel and accommodation assistance scheme	731	589	731	589
Legal services	261	240	261	240
Membership/professional fees	508	403	508	403
Quality assurance / accreditation	238	163	238	163
Security services	162	29	162	29
Motor vehicle operating lease expense - minimum lease payments	-	1,161	-	1,161
Other operating lease expense - minimum lease payments	-	1,720	-	1,720
Expenses relating to short-term leases	2,347	-	2,347	-
Expenses relating to leases of low-value assets	430	-	430	-
Other miscellaneous	2,865	2,152	2,865	2,152
	16,922	17,851	16,922	17,851
(b) Reconciliation of total maintenance				
Maintenance contracts	7,333	7,586	7,333	7,586
New / replacement equipment under \$10,000	8,405	5,933	8,405	5,933
Repairs maintenance / non contract	4,702	4,088	4,702	4,088
Other	5	56	5	56
Maintenance expense - contracted labour and other (non-employee related) in Note 5	20,445	17,663	20,445	17,663
Employee related/personnel services maintenance	2,312	2,194	2,312	2,194
	22,757	19,857	22,757	19,857

Illawarra Shoalhaven Local Health District

Notes to and forming part of the Financial Statements

for the year ended 30 June 2020

5. Other expenses (continued)

Recognition and Measurement

Maintenance expense

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

Operating expenses

Operating expenses generally represent the day-to-day running costs incurred in the normal operations of ISLHD. These costs are expensed as incurred. The recognition and measurement policy for non-employee related expenses is detailed in Note 28.

Insurance

ISLHD'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 NSW Self Insurance Corporation (SiCorp), a controlled entity of the ultimate parent.

Lease expense

Lease expense (up to 30 June 2019)

Operating leases

Up to 30 June 2019, operating lease payments are recognised as an operating expense in the Statement of Comprehensive Income on a straight-line basis over the lease term. An operating lease is a lease other than a finance lease.

Lease expense (from 1 July 2019)

From 1 July 2019, ISLHD recognises the lease payments associated with the following types of leases as an expense on a straight-line basis:

- Leases that meet the definition of short-term. i.e. where the lease term at commencement of the lease is 12 months or less. This excludes leases with a purchase option.
- Leases of assets that are valued at \$10,000 or under when new.

Variable lease payments are not included in the measurement of the lease liability (i.e. variable lease payments that do not depend on an index or a rate, initially measured using the index or rate as at the commencement date). These payments are recognised in the period in which the event or condition that triggers those payments occurs.

Illawarra Shoalhaven Local Health District
Notes to and forming part of the Financial Statements
for the year ended 30 June 2020

6. Depreciation and amortisation

	Consolidated 2020 \$000	Consolidated 2019 \$000	Parent 2020 \$000	Parent 2019 \$000
Depreciation - buildings	20,988	20,867	20,988	20,867
Depreciation - plant and equipment	9,224	9,022	9,224	9,022
Depreciation - infrastructure systems	2,659	2,661	2,659	2,661
Depreciation - right-of-use buildings	2,592	-	2,592	-
Depreciation - right-of-use plant and equipment	2,090	-	2,090	-
Amortisation - intangible assets	30	46	30	46
	37,583	32,596	37,583	32,596

Refer to Note 21 Property, plant and equipment, Note 22 Leases, and Note 23 Intangible assets for recognition and measurement policies on depreciation and amortisation.

7. Grants and subsidies

	Consolidated 2020 \$000	Consolidated 2019 \$000	Parent 2020 \$000	Parent 2019 \$000
Non-government organisations	4,224	4,231	4,224	4,231
Grants to research organisations	1,207	569	1,207	569
Grants paid to entities controlled by the immediate parent	321	327	321	327
Other grants	31	110	31	110
	5,783	5,237	5,783	5,237

Recognition and Measurement

Grants 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.

Illawarra Shoalhaven Local Health District
Notes to and forming part of the Financial Statements
for the year ended 30 June 2020

8. Finance costs

	Consolidated 2020 \$000	Consolidated 2019 \$000	Parent 2020 \$000	Parent 2019 \$000
Interest expense from lease liabilities	254	-	254	-
Interest expense from financial liabilities at amortised cost	137	155	137	155
	391	155	391	155

Recognition and Measurement

Finance costs consist of interest and other costs incurred in connection with the borrowing of funds. Borrowing 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.

Illawarra Shoalhaven Local Health District

Notes to and forming part of the Financial Statements

for the year ended 30 June 2020

9. Revenue

Recognition and Measurement

Until 30 June 2019, income is recognised in accordance with AASB 111 Construction Contracts, AASB 118 Revenue and AASB 1004 Contributions.

From 1 July 2019, income is recognised in accordance with the requirements of AASB 15 Revenue from Contracts with Customers (AASB 15) or AASB 1058 Income of Not-for-Profit Entities (AASB 1058), dependent on whether there is a contract with a customer defined by AASB 15.

Under the GSF Act 2018, ISLHD's own source revenue (which includes but is not limited to receipts from NSW Ministry of Health recurrent and capital allocations, patient fees, non-patient fees, grants and other contributions, other ancillary services, and proceeds from the sale of property, plant and equipment) meets the definition of deemed appropriation money under the GSF Act (Section 4.7).

Deemed appropriation money is money received directly by ISLHD which forms part of the consolidated fund and is not appropriated to ISLHD by an Act.

10. NSW Ministry of Health allocations

Payments are made by the immediate parent as per the Service Agreement to ISLHD and adjusted for approved supplementations, mostly for salary agreements and approved enhancement projects. The Service Agreement between the immediate parent and ISLHD does not contain sufficiently specific enforceable performance obligations as defined by AASB 15 and are therefore recognised upon the receipt of cash, in accordance with AASB 1058.

ISLHD recognised additional NSW Ministry of Health recurrent allocations of \$13.324 million and NSW Ministry of Health capital allocations of \$2.830 million to cover costs incurred with preparation, diagnosis and treatment of COVID-19 patients.

Interstate patient flows are funded through the NSW State Pool Account, based on activity and consistent with the price determined in cross border agreements. The funding is also recognised as part of the NSW Ministry of Health recurrent allocation from the immediate parent.

Illawarra Shoalhaven Local Health District

Notes to and forming part of the Financial Statements

for the year ended 30 June 2020

11. Sale of goods and services / Sale of goods and services from contracts with customers

(a) Sale of goods comprise the following:

	Consolidated 2020 \$000	Consolidated 2019 \$000	Parent 2020 \$000	Parent 2019 \$000
Pharmacy sales	486	511	486	511
Sale of prosthesis	2,859	2,721	2,859	2,721
Other	33	47	33	47
	3,378	3,279	3,378	3,279

(b) Rendering of services comprise the following:

Patients

Patient Fees:

- Inpatient fees	37,618	42,529	37,618	42,529
- Nursing home fees	1,148	893	1,148	893
- Non inpatient fees	2,226	2,190	2,226	2,190
Department of Veterans' Affairs	10,283	12,870	10,283	12,870
Highly specialised drugs	18,166	18,663	18,166	18,663
Motor Accident Authority third party	4,126	3,827	4,126	3,827
Patient transport fees	23	23	23	23

Staff

Private use of motor vehicles	232	290	232	290
Salary packaging fee	362	354	362	354
Meals and accommodation	84	93	84	93
Child care fees	445	567	445	567

General community

Car parking	2,323	2,494	2,323	2,494
Clinical services (excluding clinical drug trials)	-	53	-	53
Commercial activities	1,052	409	1,052	409
Fees for conferences and training	257	212	257	212
Fees for medical records	146	152	146	152
Information retrieval	3	9	3	9

Non-NSW Health entities

Services to other organisations	833	1,078	833	1,078
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Entities controlled by the immediate parent

Hosted service revenues	560	557	560	557
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Other

Infrastructure fees - annual charge	3,679	3,891	3,679	3,891
Infrastructure fees - monthly facility charge	17,084	16,357	17,084	16,357
Other	154	65	154	65

	100,804	107,576	100,804	107,576
	104,182	110,855	104,182	110,855

Recognition and Measurement

Sale of goods (until 30 June 2019)

Revenue from the sale of goods is recognised when ISLHD transfers the significant risks and rewards of ownership of the goods, usually on delivery of the goods.

Illawarra Shoalhaven Local Health District

Notes to and forming part of the Financial Statements

for the year ended 30 June 2020

11. Sale of goods and services / Sale of goods and services from contracts with customers (continued)

Recognition and Measurement (continued)

Sale of goods from contracts with customers (from 1 July 2019)

Revenue from the sale of goods is recognised when ISLHD satisfies a performance obligation by transferring the promised goods. Sale of goods comprises of pharmacy sales, sale of prosthesis and other items. ISLHD typically satisfies its performance obligations when the control of goods is transferred to the customer. The payments are typically due when invoiced.

Revenue from these sales is recognised based on the price specified in the contract, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. No element of financing is deemed present as the sales are made with a short credit term. No volume discount or warranty is provided on the sale.

Rendering of services (until 30 June 2019)

Revenue is recognised when the service is provided or by reference to the type and stage of services provided to date.

Rendering of services from contracts with customers (from 1 July 2019)

Revenue from rendering of services is recognised when ISLHD satisfies the performance obligation by transferring the promised services. Revenue is typically recognised as follows:

i. 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.

ii. 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 ISLHD 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.

iii. 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 admitted day patients, non admitted patients or patients on discharge. Revenue is recognised when the drugs have been provided to the patient.

iv. 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. ISLHD recognises the revenue on an accrual basis from the time the patient is treated or admitted into hospital.

v. 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.

Revenue is measured at the transaction price agreed under various contracts. No element of financing is deemed present as payments are due when the service is provided.

Refer to Note 29 for the disclosure of the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied (or partially unsatisfied) at the end of the reporting period, and when ISLHD expects to recognise the unsatisfied portion as revenue.

Illawarra Shoalhaven Local Health District
Notes to and forming part of the Financial Statements
for the year ended 30 June 2020

12. Investment revenue

	Consolidated 2020 \$000	Consolidated 2019 \$000	Parent 2020 \$000	Parent 2019 \$000
Interest income from financial assets at amortised cost	196	301	196	301
Net gain / (loss) from TCorp IM Funds measured at fair value through profit or loss	266	531	266	531
	462	832	462	832

Recognition and Measurement

Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit impaired. For financial assets that become credit impaired the effective interest rate is applied to the amortised cost of the financial asset (i.e. after deducting the loss allowance for expected credit losses).

Illawarra Shoalhaven Local Health District
Notes to and forming part of the Financial Statements
for the year ended 30 June 2020

13. Grants and other contributions

	Consolidated 2020 \$000	Consolidated 2019 \$000	Parent 2020 \$000	Parent 2019 \$000
Clinical drug trials	-	1,444	-	1,444
Commonwealth government grants	-	5,022	-	5,022
Commonwealth teaching hospital grants	-	1,035	-	1,035
Cancer Institute grants received from an entity controlled by the immediate parent	-	1,373	-	1,373
Grants & contributions received from entities controlled by the ultimate parent	-	2,700	-	2,700
Grants & contributions received from entities controlled by the immediate parent	-	2,041	-	2,041
Research grants	-	207	-	207
Other grants	-	1,735	-	1,735
Other grants with sufficiently specific performance obligations				
Cancer Institute grants received from an entity controlled by the immediate parent	1,191	-	1,191	-
Clinical trials and research grants	1,662	-	1,662	-
Commonwealth government grants received for community based services	3,038	-	3,038	-
Commonwealth government grants other	1,051	-	1,051	-
Grants from entities controlled by the ultimate parent	13	-	13	-
Other grants	2,553	-	2,553	-
Grants without specific performance obligations				
Other grants from entities controlled by the immediate parent	4,501	-	4,501	-
Donations	1,844	1,255	1,844	1,255
	15,853	16,812	15,853	16,812

Illawarra Shoalhaven Local Health District

Notes to and forming part of the Financial Statements

for the year ended 30 June 2020

13. Grants and other contributions (continued)

Recognition and Measurement

Grants and other contributions (until 30 June 2019)

Income from grants (other than contributions by owners) is recognised when the entity obtains control over the contribution. ISLHD is deemed to have assumed control when the grant is received or receivable.

Contributions are recognised at their fair value. Contributions of services are recognised when and only when a fair value of those services can be reliably determined and the services would be purchased if not donated.

Grants and other contributions (from 1 July 2019)

Income from grants to acquire / construct a recognisable non-financial asset to be controlled by ISLHD is recognised when ISLHD satisfies its obligations under the transfer. ISLHD satisfies the performance obligation under the transfer over time as the non-financial assets are being constructed. The percentage of cost incurred is used to recognise income, because this most closely reflects the progress to completion.

Revenue from grants with sufficiently specific performance obligations is recognised when ISLHD satisfies a performance obligation by transferring the promised goods or services. ISLHD typically receives grants in respect of research, clinical drug trials and other community, health and wellbeing related projects. ISLHD uses various methods to recognise revenue over time, depending on the nature and terms and conditions of the grant contract. The payments are typically based on agreed timetable or on achievement of different milestones set up in the contract.

Revenue from these grants is recognised based on the grant amount specified in the funding agreement/funding approval, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. No element of financing is deemed present as funding payments are usually received in advance or shortly after the relevant obligation is satisfied.

Refer to Note 29 for the transaction price allocated to the performance obligations that have not been satisfied at the end of the year and when it is expected to be recognised as revenue.

Income from grants without sufficiently specific performance obligations is recognised when ISLHD obtains control over the granted assets (e.g. cash).

Volunteer services

Receipt of volunteer services is recognised when and only when the fair value of those services can be reliably determined and the services would have been purchased if not donated. Volunteer services recognised are measured at fair value. ISLHD receives volunteer services for the below activities:

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

Illawarra Shoalhaven Local Health District

Notes to and forming part of the Financial Statements

for the year ended 30 June 2020

14. Acceptance by the Crown Entity of employee benefits

The following liabilities and expenses have been assumed by the Crown Entity:

	Consolidated 2020 \$000	Consolidated 2019 \$000	Parent 2020 \$000	Parent 2019 \$000
Superannuation - defined benefit plans	3,994	4,381	-	-
Long service leave provision	28,713	37,016	-	-
	32,707	41,397	-	-

15. Other income

	Consolidated 2020 \$000	Consolidated 2019 \$000	Parent 2020 \$000	Parent 2019 \$000
Other income comprises the following:				
Commissions	76	84	76	84
Insurance refunds	293	321	293	321
Rental income				
- other rental income	343	461	343	461
Property not previously recognised	123	-	123	-
Sale of merchandise, old wares and books	73	80	73	80
Sponsorship	20	19	20	19
Treasury Managed Fund hindsight adjustment	-	1,132	-	1,132
Other	2,464	555	2,464	555
	3,392	2,652	3,392	2,652

Recognition and Measurement

Other Income

Other income includes income of \$2.268 million arising from the recognition of the present value of the lease receivable relating to Grand Pacific Health at Scenic Drive Nowra.

Illawarra Shoalhaven Local Health District

Notes to and forming part of the Financial Statements

for the year ended 30 June 2020

16. Gains / (losses) on disposal

	Consolidated 2020 \$000	Consolidated 2019 \$000	Parent 2020 \$000	Parent 2019 \$000
Property, plant and equipment	11,070	1,994	11,070	1,994
<i>Less: accumulated depreciation</i>	8,063	1,811	8,063	1,811
Written down value	3,007	183	3,007	183
<i>Less: proceeds from disposal</i>	298	106	298	106
Gain / (Loss) on disposal of property, plant and equipment	(2,709)	(77)	(2,709)	(77)
Total gains / (losses) on disposal	(2,709)	(77)	(2,709)	(77)

17. Conditions and restrictions on income of not-for-profit entities

ISLHD receives various types of grants and donations from different grantors / donors, some of which may not have enforceable performance obligations. ISLHD determines the grantor / donor expectations in determining the externally imposed restrictions and discloses them in accordance with different types of restrictions. The types of restrictions and income earned with restrictions are detailed in Note 27 Restricted assets.

Illawarra Shoalhaven Local Health District

Notes to and forming part of the Financial Statements

for the year ended 30 June 2020

18. Cash and cash equivalents

	Consolidated 2020 \$000	Consolidated 2019 \$000	Parent 2020 \$000	Parent 2019 \$000
Cash at bank and on hand	16,000	13,941	16,000	13,941
Short term deposits	23,640	23,375	23,640	23,375
	39,640	37,316	39,640	37,316

For the purposes of the Statement of Cash Flows, cash and cash equivalents includes cash at bank, cash on hand, short-term deposits with original maturities of three months or less, which are subject to an insignificant risk of changes in value.

Cash and 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:

Cash and cash equivalents (per Statement of Financial Position)	39,640	37,316	39,640	37,316
Closing cash and cash equivalents (per Statement of Cash Flows)	39,640	37,316	39,640	37,316

Refer to Note 41 for details regarding credit risk, liquidity risk and market risk arising from financial instruments.

Most cash and cash equivalents held by ISLHD are restricted assets and are not held for operating and capital expenditure.

HealthShare NSW, a controlled entity of the immediate parent makes all payments to employees and most payments to suppliers of goods and services and grants and subsidies on behalf of ISLHD. These payments are reported as expenses and operating cash outflows in the financial statements of ISLHD.

HealthShare NSW receives payments directly from the NSW Ministry of Health on behalf of ISLHD to fund these payments. These payments are reported as revenue (NSW Ministry of Health recurrent allocations) and operating cash inflows in the financial statements of ISLHD when HealthShare NSW makes these payments on behalf of ISLHD.

Health Infrastructure, a controlled entity of the immediate parent makes most payments to purchase property, plant and equipment on behalf of ISLHD. These payments are reported as additions to property, plant and equipment and investing cash outflows in the financial statements of ISLHD.

Health Infrastructure receives payments directly from the NSW Ministry of Health on behalf of ISLHD to fund these payments. These payments are reported as revenue (NSW Ministry of Health capital allocations) and operating cash inflows in the financial statements of ISLHD.

Illawarra Shoalhaven Local Health District
Notes to and forming part of the Financial Statements
for the year ended 30 June 2020

19. Receivables

	Consolidated 2020 \$000	Consolidated 2019 \$000	Parent 2020 \$000	Parent 2019 \$000
Current				
Trade receivables from contracts with customers	7,041	-	7,041	-
Sale of goods and services	-	11,745	-	11,745
Intra health receivables	1,855	1,870	1,855	1,870
Goods and Services Tax	2,510	2,572	2,510	2,572
Other receivables	6,344	2,727	6,344	2,727
Sub total	17,750	18,914	17,750	18,914
<i>Less: Allowance for expected credit losses*</i>				
- Trade receivables from contracts with customers	(313)	-	(313)	-
- Sale of goods and services	-	(570)	-	(570)
- Other receivables	(48)	(2)	(48)	(2)
Sub total	17,389	18,342	17,389	18,342
Prepayments	2,448	3,242	2,448	3,242
	19,837	21,584	19,837	21,584

(a) * Movement in the allowance for expected credit losses

	Consolidated 2020 \$000	Consolidated 2019 \$000	Parent 2020 \$000	Parent 2019 \$000
Trade receivables from contracts with customers				
Balance at the beginning of the year	(570)	-	(570)	-
Amounts written off during the year	854	-	854	-
(Increase) / decrease in allowance recognised in the net result ¹	(597)	-	(597)	-
Balance at the end of the year	(313)	-	(313)	-
Sale of goods and services				
Balance at the beginning of the year	-	(394)	-	(394)
Amounts written off during the year	-	506	-	506
(Increase) / decrease in allowance recognised in the net result ¹	-	(682)	-	(682)
Balance at the end of the year	-	(570)	-	(570)
Other receivables				
Balance at the beginning of the year	(2)	(2)	(2)	(2)
Amounts written off during the year	31	10	31	10
(Increase) / decrease in allowance recognised in the net result	(77)	(10)	(77)	(10)
Balance at the end of the year	(48)	(2)	(48)	(2)
	(361)	(572)	(361)	(572)

	Consolidated 2020 \$000	Consolidated 2019 \$000	Parent 2020 \$000	Parent 2019 \$000
Non-current				
Other receivables	2,268	-	2,268	-
	2,268	-	2,268	-

¹ Includes impairment loss of \$597 thousand (2019: \$682 thousand) recognised on receivables from contracts with customers.

Illawarra Shoalhaven Local Health District

Notes to and forming part of the Financial Statements

for the year ended 30 June 2020

19. Receivables (continued)

(b) The current and non-current trade receivables from contracts with customers balances above include the following patient fee receivables:

Current and non-current include:

	Consolidated 2020 \$000	Consolidated 2019 \$000	Parent 2020 \$000	Parent 2019 \$000
Patient fees - compensable	685	1,125	685	1,125
Patient fees - ineligible	504	1,177	504	1,177
Patient fees - inpatient & other	4,913	6,814	4,913	6,814
	6,102	9,116	6,102	9,116

Details regarding credit risk, liquidity risk and market risk, including financial assets that are either past due or impaired are disclosed in Note 41.

	Consolidated 2020 \$000	Parent 2020 \$000
Contract receivables (included in Note 19)	9,306	9,306
	9,306	9,306

Recognition and Measurement

All 'regular way' purchases or sales of receivables are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of receivables that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Receivables are initially recognised at fair value plus any directly attributable transaction costs. Trade receivables that do not contain a significant financing component are measured at the transaction price.

Subsequent measurement

Financial assets at amortised cost

ISLHD holds receivables with the objective to collect the contractual cash flows and therefore measures them at amortised cost using the effective interest method, less any impairment. Changes are recognised in the net result for the year when impaired, derecognised or through the amortisation process.

Impairment

ISLHD recognises an allowance for expected credit losses (ECLs) for all debt financial assets not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows and the cash flows that ISLHD expects to receive, discounted at the original effective interest rate.

For trade receivables, ISLHD applies a simplified approach in calculating ECLs. ISLHD recognises a loss allowance based on lifetime ECLs at each reporting date. ISLHD has established a provision matrix based on its historical credit loss experience for trade receivables, adjusted for forward looking factors specific to the receivable.

For lease receivables, ISLHD applies the simplified approach permitted by AASB 9 Financial Instruments, where the loss allowance is based on lifetime ECLs.

Illawarra Shoalhaven Local Health District
Notes to and forming part of the Financial Statements
for the year ended 30 June 2020

20. Inventories

	Consolidated 2020 \$000	Consolidated 2019 \$000	Parent 2020 \$000	Parent 2019 \$000
Current				
Drug supplies	3,015	3,047	3,015	3,047
Medical and surgical supplies	5,756	5,322	5,756	5,322
Other including goods in transit	695	690	695	690
	9,466	9,059	9,466	9,059

Recognition and Measurement

Inventories held for distribution are stated at cost, adjusted when applicable, for any loss of service potential. A loss of service potential is identified and measured based on the existence of a current replacement cost that is lower than the carrying amount. 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.

Illawarra Shoalhaven Local Health District
Notes to and forming part of the Financial Statements
for the year ended 30 June 2020

21. Property, plant and equipment

(a) Total property, plant and equipment

PARENT AND CONSOLIDATION

	Land and Buildings \$000	Plant and Equipment ¹ \$000	Infrastructure Systems \$000	Total \$000
As at 30 June 2020				
Gross carrying amount	977,262	99,119	106,558	1,182,939
Less: accumulated depreciation and impairment	440,719	56,151	50,311	547,181
Net carrying amount	536,543	42,968	56,247	635,758
As at 30 June 2019				
Gross carrying amount	953,643	100,200	106,340	1,160,183
Less: accumulated depreciation and impairment	422,108	54,180	47,652	523,940
Net carrying amount	531,535	46,020	58,688	636,243

¹ 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.

(a) Total property, plant and equipment - reconciliation

PARENT AND CONSOLIDATION

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	Total \$000
Year ended 30 June 2020				
Net carrying amount at beginning of year	531,535	46,020	58,688	636,243
Additions	29,088	9,579	218	38,885
Reclassification to assets held for sale	(1,374)	-	-	(1,374)
Disposals	-	(3,007)	-	(3,007)
Net revaluation increments less revaluation decrements	(2,118)	-	-	(2,118)
Depreciation expense	(20,988)	(9,224)	(2,659)	(32,871)
Reclassifications	400	(400)	-	-
Net carrying amount at end of year	536,543	42,968	56,247	635,758

Further details regarding the fair value measurement of property, plant and equipment are disclosed in Note 26.

Illawarra Shoalhaven Local Health District

Notes to and forming part of the Financial Statements

for the year ended 30 June 2020

21. Property, plant and equipment (continued)

(a) Total property, plant and equipment - reconciliation (continued)

PARENT AND CONSOLIDATION

	Land and Buildings \$000	Plant and Equipment \$000	Infrastructure Systems \$000	Total \$000
Year ended 30 June 2019				
Net carrying amount at beginning of year	500,478	52,155	61,349	613,982
Additions	51,451	3,642	-	55,093
Reclassification to intangibles	-	(90)	-	(90)
Disposals	-	(183)	-	(183)
Transfers within NSW Health entities through Statement of Comprehensive Income	-	(9)	-	(9)
Depreciation expense	(20,867)	(9,022)	(2,661)	(32,550)
Reclassifications	473	(473)	-	-
Net carrying amount at end of year	531,535	46,020	58,688	636,243

Further details regarding the fair value measurement of property, plant and equipment are disclosed in Note 26.

(b) Property, plant and equipment held and used by ISLHD

PARENT AND CONSOLIDATION

ISLHD has no property, plant and equipment where it is the lessor under operating leases. All property, plant and equipment balances are for items held and used by ISLHD.

Recognition and Measurement

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.

Health Administration Corporation, a controlled entity of the immediate parent, manages the approved major capital works program for the NSW Ministry of Health and its controlled entities. Health Administration Corporation receives NSW Ministry of Health Capital Allocations and grants on behalf of ISLHD and makes payments to contractors and suppliers. Health Administration Corporation initially records all costs incurred as work in progress or expenses and subsequently transfers to ISLHD. The costs are then accordingly reflected in ISLHD financial statements. ISLHD acquires most assets in this manner.

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.

Assets acquired at no cost, or for nominal consideration, are initially recognised at their fair value at the date of acquisition (see also assets transferred as a result of an equity transfer - Note 40).

Land and buildings are owned by the Health Administration Corporation. Land and buildings which are operated/occupied by ISLHD are deemed to be controlled by ISLHD and are reflected as such in the financial statements.

Illawarra Shoalhaven Local Health District

Notes to and forming part of the Financial Statements

for the year ended 30 June 2020

21. Property, plant and equipment (continued)

Capitalisation thresholds

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

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 ISLHD. 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:

	Useful lives
Buildings	40 years
Buildings - leasehold improvements	2-5 years
Plant and equipment	4-20 years
Infrastructure Systems	40 years

'Plant and equipment' comprises, among others, medical, computer and office equipment, motor vehicles, furniture and fittings.

'Infrastructure Systems' comprises public facilities 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.

The estimated useful lives, residual values and depreciation methods are reviewed at the end of each reporting period and adjusted if appropriate.

Right-of-use assets acquired by lessees (under AASB 16 from 1 July 2019)

From 1 July 2019, AASB 16 Leases (AASB 16) requires a lessee to recognise a right-of-use asset for most leases. ISLHD has elected to present right-of-use assets separately in the Statement of Financial Position.

Therefore, at that date property, plant and equipment recognised under leases previously treated as finance leases under AASB 117 are derecognised. The right-of-use assets arising from these leases are recognised and included in the separate line item together with those arising from leases previously treated as operating leases under AASB 117.

Further information on leases is contained in Note 22.

Subsequent to the adoption of AASB 16, ISLHD, as a lessee, recognises a right-of-use asset at cost and a corresponding lease liability at the lease commencement date. Right-of-use assets that do not meet the definition of investment properties are included in Property, Plant and Equipment under the corresponding asset categories. Further information on right-of-use assets is contained in Note 22.

Illawarra Shoalhaven Local Health District

Notes to and forming part of the Financial Statements

for the year ended 30 June 2020

21. Property, plant and equipment (continued)

Revaluation of property, plant and equipment

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 to Note 26 for further information regarding fair value.

Revaluations are made with sufficient regularity to ensure the carrying amount of each asset in the class does not differ materially from its fair value at reporting date. ISLHD conducts a comprehensive revaluation at least every three years for its land and buildings and infrastructure. Interim desktop revaluations are conducted between comprehensive revaluations for those assets, where cumulative changes to indicators suggest fair value may differ materially from carrying value. ISLHD uses an independent professionally qualified valuer for such revaluations.

The last comprehensive revaluation was completed on 30 June 2018 and was based on an independent assessment.

Interim revaluations are conducted between comprehensive revaluations where cumulative changes to indicators suggest fair value may differ materially from carrying value.

An interim management revaluation was completed on 31 December 2019 as a result of a cumulative increase in indicators of 10% for land and buildings and 10% for infrastructure. ISLHD used an external professionally qualified valuer to conduct the interim revaluation. Indicators provided by Opteon Solutions were not applied as they were deemed immaterial.

Due to the COVID-19 pandemic in early 2020, ISLHD management performed an additional assessment to determine if the fair value of its property plant and equipment as at 30 June 2020 materially differed from the carrying value. Management concluded that there is no definitive or conclusive market evidence to support any material adjustments. No adjustments were applied as a result.

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

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 recognised in other comprehensive income and credited to revaluation surplus in equity. However, to the extent that an increment reverses a revaluation decrement in respect of the same class of asset previously recognised as a loss in the net result, the increment is recognised immediately as a gain in the net result.

Revaluation decrements are recognised immediately as a loss in the net result, except to the extent that it offsets an existing revaluation surplus on the same class of assets, in which case, the decrement is 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.

When revaluing non-current assets using the cost approach, the gross amount and the related accumulated depreciation are separately restated. Where the income approach or market approach is used, accumulated depreciation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Illawarra Shoalhaven Local Health District

Notes to and forming part of the Financial Statements

for the year ended 30 June 2020

21. Property, plant and equipment (continued)

Revaluation of property, plant and equipment (continued)

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.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted if appropriate.

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.

ISLHD assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, ISLHD estimates the asset's recoverable amount. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Specialised assets held for continuing use of their service capacity are rarely sold and their cost of disposal is typically negligible. Their recoverable amount is expected to be materially the same as fair value, where they are regularly revalued under AASB 13.

As a not-for-profit entity, an impairment loss is recognised in the net result to the extent the impairment loss exceeds the amount in the revaluation surplus for the class of asset.

After an impairment loss has been recognised, it is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in net result and is treated as a revaluation increase. However, to the extent that an impairment loss on the same class of asset was previously recognised in net result, a reversal of that impairment loss is also recognised in net result.

Derecognition of property, plant and equipment

Property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset and are included in the consolidated Statement of Comprehensive Income.

Illawarra Shoalhaven Local Health District

Notes to and forming part of the Financial Statements

for the year ended 30 June 2020

22. Leases

(a) Entity as a lessee

ISLHD leases various property, equipment and motor vehicles. Lease contracts are typically made for fixed periods of 1 to 15 years, but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants but leased assets may not be used as security for borrowing purposes. ISLHD does not provide residual value guarantees in relation to leases.

Extension and termination options are included in a number of property and equipment leases. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by ISLHD and not by the respective lessor. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

Potential future cash outflows of \$3.97 million have not been included in the lease liability because it is not reasonably certain that the leases will be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

During the current financial year, the financial effect of revising lease terms to reflect the effect of exercising extensions and termination options was an increase in recognised lease liabilities and right-of-use assets of \$Nil.

From 1 July 2019, AASB 16 Leases (AASB 16) requires a lessee to recognise a right-of-use asset and a corresponding lease liability for most leases.

ISLHD has elected to recognise payments for short-term leases and low value leases as expenses on a straight line basis, instead of recognising a right-of-use asset and lease liability. Short-term leases are leases with a lease term of 12 months or less. Low value assets are assets with a fair value of \$10,000 or less when new and comprise mainly of small office and medical equipment items.

Right-of-use assets under leases

The following table presents right-of-use assets. There are no right-of-use assets that meet the definition of investment property.

PARENT AND CONSOLIDATION

	Land and Buildings \$'000	Plant and Equipment \$'000	Total \$'000
2020			
Balance at 1 July 2019	7,616	5,901	13,517
Additions	578	5,204	5,782
Reassessments	9	-	9
Depreciation expense	(2,592)	(2,090)	(4,682)
Balance at 30 June 2020	5,611	9,015	14,626

Illawarra Shoalhaven Local Health District
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for the year ended 30 June 2020

22. Leases (continued)

(a) Entity as a lessee (continued)

Lease liabilities

The following table presents liabilities under leases.

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	Total \$'000
2020	
Balance at 1 July 2019	13,517
Additions	5,782
Interest expenses	254
Payments	(4,584)
Other adjustments	9
Balance at 30 June 2020	14,978

The following amounts were recognised in the Statement of Comprehensive Income for the year ended 30 June 2020 in respect of leases where ISLHD is the lessee:

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	Total \$'000
2020	
Depreciation expense of right-of-use assets	4,682
Interest expense on lease liabilities	254
Expenses relating to short-term leases	2,347
Expenses relating to leases of low-value assets	431
Total amount recognised in the statement of comprehensive income	7,714

ISLHD had total cash outflows for leases of \$4,584 thousand for the year ended 30 June 2020.

Illawarra Shoalhaven Local Health District

Notes to and forming part of the Financial Statements

for the year ended 30 June 2020

22. Leases (continued)

(a) Entity as a lessee (continued)

Future minimum lease payments under non-cancellable leases as at 30 June 2019 are, as follows:

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	Operating leases 2019 \$'000
Within one year	5,679
Later than one year and not later than five years	10,740
Later than five years	27,189
Total (including GST)	43,608
Less: GST recoverable from the Australian Taxation Office	3,931
Total (excluding GST)	39,677

Leases at significantly below market terms and conditions principally to enable the entity to further its objectives

ISLHD has entered into an arrangement with the Department of Education for the use of a community dental clinic. The arrangement has no formal end date and specifies lease payments of \$Nil per annum. The leased premises is used by ISLHD to provide community dental health services. Community health buildings account for a small portion of the similar assets ISLHD is using for the purpose of providing various community health services. Therefore it does not have a significant impact on ISLHD's operations.

Recognition and Measurement (under AASB 16 from 1 July 2019)

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

ISLHD recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets, except for short-term leases and leases of low-value assets.

Illawarra Shoalhaven Local Health District

Notes to and forming part of the Financial Statements

for the year ended 30 June 2020

22. Leases (continued)

(a) Entity as a lessee (continued)

i. Right-of-use assets

ISLHD recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are initially measured at the amount of initial measurement of the lease liability (refer (ii) below), adjusted by any lease payments made at or before the commencement date, lease incentives, any initial direct costs incurred, and estimated costs of dismantling and removing the asset or restoring the site.

The right-of-use assets are subsequently measured at cost. They are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

	Useful lives
Buildings	1 to 15 years
Motor vehicles and other equipment	1 to 12 years

If ownership of the leased asset transfers to ISLHD at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are also subject to impairment. ISLHD assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, ISLHD estimates the asset's recoverable amount. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. After an impairment loss has been recognised, it is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the net result.

ii. Lease liabilities

At the commencement date of the lease, ISLHD recognises lease liabilities measured at the present value of lease payments to be made over the lease term. Lease payments include:

- fixed payments (including in substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- exercise price of a purchase option reasonably certain to be exercised by ISLHD; and
- payments of penalties for terminating the lease, if the lease term reflects ISLHD exercising the option to terminate.

Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for real estate leases, the incremental borrowing rate is used. ISLHD does not borrow funds in the market. Instead they receive an allocation of the appropriations from the Crown Entity and where the Crown Entity needs additional funding, Treasury Corporation (TCorp) goes to the market to obtain these funds. As a result, ISLHD is using TCorp rates as their incremental borrowing rates. These rates are published by NSW Treasury on a regular basis.

Illawarra Shoalhaven Local Health District

Notes to and forming part of the Financial Statements

for the year ended 30 June 2020

22. Leases (continued)

(a) Entity as a lessee (continued)

After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g. changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

ISLHD's lease liabilities are included in borrowings in Note 30.

iii. Short-term leases and leases of low-value assets

ISLHD applies the short-term lease recognition exemption to its short-term leases of buildings, machinery, motor vehicles and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low value assets are recognised as an expense on a straight-line basis over the lease term.

iv. Leases that have significantly below-market terms and conditions principally to enable the entity to further its objectives

The initial and subsequent measurement of right-of-use assets under leases at significantly below-market terms and conditions that are entered into principally to enable ISLHD to further its objectives is the same as normal right-of-use assets. They are measured at cost, subject to impairment.

Recognition and measurement (under AASB 117 until 30 June 2019)

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset (or assets), even if that asset (or those assets) is not explicitly specified in an arrangement.

Until 30 June 2019, a lease was classified at the inception date as a finance lease or an operating lease. A lease that transferred substantially all the risks and rewards incidental to ownership to ISLHD was classified as a finance lease.

Where a non-current asset was acquired by means of a finance lease, at the commencement of the lease, the asset was recognised at its fair value or, if lower, at the present value of the minimum lease payments. The corresponding liability was established at the same amount. Lease payments were apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges were recognised in finance costs in the Statement of Comprehensive Income.

Property, plant and equipment acquired under finance leases was depreciated over the useful life of the asset. However, if there is no reasonable certainty that ISLHD will obtain ownership by the end of the lease term, the asset was depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments were recognised as an operating expense in the Statement of Comprehensive Income on a straight-line basis over the lease term.

Illawarra Shoalhaven Local Health District

Notes to and forming part of the Financial Statements

for the year ended 30 June 2020

22. Leases (continued)

(b) Entity as a lessor

Grand Pacific Health has leased the building at Scenic Drive Nowra for 30 years with a 10 year option to renew, which is treated as a finance lease receivable. No lease payments are made during the period of the lease, with the building becoming ISLHD's asset at the end of the lease term.

Reconciliation of net investment in leases

PARENT AND CONSOLIDATION

	Total \$'000
Unguaranteed residual amounts - undiscounted	4,767
Less: unearned finance income	(2,499)
Net investment in finance lease	2,268

Recognition and Measurement

Lessor for finance leases

Leases that ISLHD transfers substantially all the risks and rewards incidental to ownership of an asset are classified as finance leases. From 1 July 2019, subleases are classified by reference to the right-of-use asset arising from the head lease, rather than by reference to the underlying asset.

At the lease commencement date, ISLHD recognises a receivable for assets held under a finance lease in its Statement of Financial Position at an amount equal to the net investment in the lease. The net investment in leases is classified as financial assets amortised cost and equals the lease payments receivable by a lessor and the unguaranteed residual value, plus initial direct costs, discounted using the interest rate implicit in the lease.

Finance income arising from finance leases is recognised over the lease term, based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the lease.

Illawarra Shoalhaven Local Health District

Notes to and forming part of the Financial Statements

for the year ended 30 June 2020

22. Leases (continued)

(b) Entity as a lessor (continued)

Lessor for operating leases

Future minimum rentals receivable (undiscounted) under non-cancellable operating lease as at 30 June 2020 are, as follows:

PARENT AND CONSOLIDATION

	2020	2019
	\$'000	\$'000
Within one year	407	108
Later than one year and not later than five years	314	87
Two to three years	314	-
Three to four years	314	-
Four to five years	78	-
Total (excluding GST)	1,427	195

Recognition and Measurement

Lessor for operating leases

An operating lease is a lease other than a finance lease. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the Statement of Comprehensive Income due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the underlying asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Illawarra Shoalhaven Local Health District

Notes to and forming part of the Financial Statements

for the year ended 30 June 2020

23. Intangible assets

	Consolidated 2020 \$000	Consolidated 2019 \$000	Parent 2020 \$000	Parent 2019 \$000
Cost (gross carrying amount)	1,294	1,192	1,294	1,192
Less: accumulated amortisation and impairment	1,156	1,126	1,156	1,126
Net carrying amount	138	66	138	66

PARENT AND CONSOLIDATION

A reconciliation of the carrying amount of intangibles at the beginning and end of the current reporting year is set out below:

	2020 \$000	2019 \$000
Year ended 30 June 2020		
Net carrying amount at beginning of year	66	22
Additions - acquired separately	102	-
Reclassifications from plant and equipment	-	90
Amortisation (recognised in depreciation and amortisation)	(30)	(46)
Net carrying amount at end of year	138	66

Recognition and Measurement

ISLHD recognises intangible assets only if it is probable that future economic benefits will flow to ISLHD 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. Following initial recognition, intangible assets are subsequently measured at fair value only if there is an active market. As there is no active market for ISLHD's intangible assets, the assets are carried at cost less any accumulated amortisation and impairment losses.

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.

ISLHD's intangible assets are amortised using the straight-line method over a period of five years.

Computer software developed or acquired by ISLHD are recognised as intangible assets. 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 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.

Illawarra Shoalhaven Local Health District

Notes to and forming part of the Financial Statements

for the year ended 30 June 2020

24. Other assets

	Consolidated 2020 \$000	Consolidated 2019 \$000	Parent 2020 \$000	Parent 2019 \$000
Non-current				
Emerging rights to assets	-	223	-	223
	-	223	-	223

PARENT AND CONSOLIDATION

A reconciliation of the carrying amount of other assets at the beginning and end of the current reporting year is set out below:

	2020 \$000	2019 \$000
Net carrying amount at beginning of period	223	210
Additions	-	6
Reclassifications to Lease Receivable	(214)	-
Net revaluation increment less revaluation decrement	(9)	7
Net carrying amount at end of period	-	223

Amounts recognised in other comprehensive income relating to emerging rights to assets

	Consolidated 2020 \$000	Consolidated 2019 \$000	Parent 2020 \$000	Parent 2019 \$000
Emerging rights to assets - asset revaluation	(9)	7	(9)	7
	(9)	7	(9)	7

Recognition and Measurement

ISLHD's emerging interest in the Grand Pacific Health Centre at 107 Scenic Drive, Nowra has been valued in accordance with the NSW Ministry of Health's policy for Accounting for Privately Financed Projects. This policy required ISLHD 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 30 years using the annuity method and the Government Bond rate of 2.98% at commencement of the concession period. The annual allocation is treated as an increase in emerging assets in the Statement of Financial Position and as revenue (disclosed as part of 'Other income') in the Statement of Comprehensive Income. During the year, the emerging asset balance was reassessed and reclassified to lease receivable (Note 19).

Illawarra Shoalhaven Local Health District

Notes to and forming part of the Financial Statements

for the year ended 30 June 2020

25. Non-current assets held for sale

	Consolidated 2020 \$000	Consolidated 2019 \$000	Parent 2020 \$000	Parent 2019 \$000
Assets held for sale				
Land and buildings	1,374	-	1,374	-
	1,374	-	1,374	-

Approval has been given by the Ministry of Health to sell the Kalparrin Mental Health Property at Fowlers Rd Dapto. The contract for sale with a preferred buyer is expected to be exchanged in July 2020 with settlement in September 2020. Approval has also been given to sell the Nowra Mental Health Group Home at Plunkett St Nowra. The property is being advertised for sale through a real estate agent with an auction date set for August 2020.

Further details regarding fair value measurement are disclosed in Note 26.

Recognition and Measurement

ISLHD has certain non-current assets classified as held for sale, where their carrying amount will be recovered principally through a sale transaction, not through continuing use. Non-current assets 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. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are continued to be recognised.

Illawarra Shoalhaven Local Health District
Notes to and forming part of the Financial Statements
for the year ended 30 June 2020

26. Fair value measurement of non-financial assets

PARENT AND CONSOLIDATION

Fair value measurement and hierarchy

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or in the absence of a principal market, in the most advantageous market for the asset or liability.

A number of ISLHD'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, ISLHD categorises, for disclosure purposes, the valuation techniques based on the inputs used in the valuation techniques as follows:

- Level 1 – quoted (unadjusted) 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).

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

(a) Fair value hierarchy

	Level 1	Level 2	Level 3	Total Fair Value
2020	\$000	\$000	\$000	\$000
Property, plant and equipment (Note 21)				
- Land and buildings	-	59,061	390,988	450,049
- Infrastructure systems	-	-	56,029	56,029
Non-current assets held for sale (Note 25)	-	1,374	-	1,374
	-	60,435	447,017	507,452

There were no transfers between level 1 and 2 during the year ended 30 June 2020.

The above figures exclude leasehold improvements, work in progress and newly completed projects which are carried at cost, and as a result they will not agree to Note 21.

	Level 1	Level 2	Level 3	Total Fair Value
2019	\$000	\$000	\$000	\$000
Property, plant and equipment (Note 21)				
- Land and buildings	-	61,208	406,884	468,092
- Infrastructure systems	-	-	58,688	58,688
Other assets (Note 24)				
- Emerging rights to assets	-	-	223	223
	-	61,208	465,795	527,003

There were no transfers between level 1 and 2 during the year ended 30 June 2019.

The above figures exclude leasehold improvements, work in progress and newly completed projects which are carried at cost, and as a result they will not agree to Note 21.

Illawarra Shoalhaven Local Health District

Notes to and forming part of the Financial Statements

for the year ended 30 June 2020

26. Fair value measurement of non-financial assets (continued)

(b) Valuation techniques, inputs and processes

For land, buildings and infrastructure systems ISLHD obtains external valuations by independent valuers at least every three years. The last revaluation was performed by Opteon Solutions for the 2017-18 financial year. Opteon Solutions is an independent entity and is not an associated entity of ISLHD.

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 21 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:

For land, the valuation by the valuer 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.

All 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 the lower of its fair value less cost to sell or its carrying amount. These assets are categorised as level 2.

The property market is being impacted by the significant uncertainty that the COVID-19 outbreak has caused. Sales evidence have been utilised across ISLHD to assess the land and non-specialised properties, in line with the valuation by the valuers made on a market approach.

Illawarra Shoalhaven Local Health District

Notes to and forming part of the Financial Statements

for the year ended 30 June 2020

26. Fair value measurement of non-financial assets (continued)

(c) Reconciliation of recurring Level 3 fair value measurements

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2020	Land and Buildings \$000	Infrastructure Systems \$000	Other Assets \$000	Total Level 3 Recurring \$000
Fair value as at 1 July 2019	406,884	58,688	223	465,795
Derecognition of finance lease assets on initial application of AASB 16	-	-	-	-
Adjusted fair value as at 1 July 2019	406,884	58,688	223	465,795
Additions	5,867	-	-	5,867
Revaluation increments / (decrements) recognised in other comprehensive income – included in line item 'Changes in revaluation surplus of other assets' (Note 24)	-	-	(9)	(9)
Transfers to Level 2	(933)	-	-	(933)
Depreciation expense	(20,830)	(2,659)	-	(23,489)
Reclassification of Emerging Asset to Lease	-	-	(214)	(214)
Fair value as at 30 June 2020	390,988	56,029	-	447,017

There were no transfers between level 1 and 2 during the year ended 30 June 2020.

PARENT AND CONSOLIDATION

2019	Land and Buildings \$000	Infrastructure Systems \$000	Other Assets \$000	Total Level 3 Recurring \$000
Fair value as at 1 July 2018	420,298	61,349	210	481,857
Additions	4,432	-	6	4,438
Revaluation increments / (decrements) recognised in other comprehensive income – included in line item 'Changes in revaluation surplus of other assets' (Note 24)	-	-	7	7
Depreciation expense	(20,537)	(2,661)	-	(23,198)
Reclassification	2,691	-	-	2,691
Fair value as at 30 June 2019	406,884	58,688	223	465,795

There were no transfers between level 1 and 2 during the year ended 30 June 2019.

Illawarra Shoalhaven Local Health District

Notes to and forming part of the Financial Statements

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27. Restricted assets

PARENT AND CONSOLIDATION

ISLHD'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. They consist of cash assets and rights and obligations to receive and make payments as at 30 June 2020.

Category	1 July 2019	Revenue	Expense	2020
	Opening			Closing
	\$000	\$000	\$000	\$000
Facility improvements	9,799	1,859	5	11,653
Patient welfare	4,141	1,251	1,486	3,906
Private practice disbursements (No.2 Accounts)	16,909	3,945	3,793	17,061
Public contributions	920	75	135	860
Research	2,117	1,223	973	2,367
Staff welfare	11	150	46	115
Training and education including conferences	1,851	134	176	1,809
	35,748	8,637	6,614	37,771

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

Category	Purpose
Facility improvements	Repairs, maintenance, renovations and/or new equipment or building related expenditure.
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 amenity improvements.
Training and education including conferences	Professional training, education and conferences.

Unclaimed monies

All money and personal effects of patients which are left in the custody of ISLHD 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 ISLHD.

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.

Illawarra Shoalhaven Local Health District
Notes to and forming part of the Financial Statements
for the year ended 30 June 2020

28. Payables

	Consolidated 2020 \$000	Consolidated 2019 \$000	Parent 2020 \$000	Parent 2019 \$000
Current				
Accrued salaries, wages and on-costs	25,383	20,575	-	-
Taxation and payroll deductions	2,809	2,745	-	-
Accrued liability - purchase of personnel services	-	-	28,192	23,320
Creditors	16,087	18,416	16,087	18,416
Other creditors				
- Payables to entities controlled by the immediate parent	8,693	9,952	8,693	9,952
- Other	7,671	5,900	7,671	5,900
	60,643	57,588	60,643	57,588

Details regarding credit risk, liquidity risk and market risk, including a maturity analysis of the above payables are disclosed in Note 41.

Recognition and Measurement

These amounts represent liabilities for goods and services provided to ISLHD and other amounts. Payables are recognised initially at fair value, net of directly attributable transaction costs.

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 ISLHD. Gains and losses are recognised in the net result when the liabilities are derecognised as well as through the amortisation process.

Illawarra Shoalhaven Local Health District

Notes to and forming part of the Financial Statements

for the year ended 30 June 2020

29. Contract liabilities

	Consolidated 2020 \$000	Consolidated 1 July 2019 adjusted for AASB 15 \$000	Parent 2020 \$000	Parent 1 July 2019 adjusted for AASB 15 \$000
Current				
Contract liabilities	797	-	797	-
	797	-	797	-

Recognition and Measurement

Contract liabilities relate to consideration received in advance from customers. The balance of the contract liabilities at the 30 June 2020 was impacted by the timing of payments received for grants and other contributions. The satisfaction of the specific performance obligations within the contract hadn't been met at the 30 June 2020. Revenue from the contract liabilities will be recognised when the specific performance obligations have been met.

The contract liability balance has increased during the year because of the timing of payments received during the year.

	Consolidated 2020 \$000	Parent 2020 \$000
Transaction price allocated to the remaining performance obligations from contracts with customers	797	797

The transaction price allocated to the remaining performance obligations relates to the following revenue classes and is expected to be recognised as follows:

Specific revenue class	2021 \$'000	2022 \$'000	2023 \$'000	≥ 2024 \$'000
Sales of goods and services from contracts with customers	797	-	-	-
	797	-	-	-

Illawarra Shoalhaven Local Health District
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30. Borrowings

	Consolidated 2020 \$000	Consolidated 2019 \$000	Parent 2020 \$000	Parent 2019 \$000
Current				
Other loans and deposits	478	464	478	464
Lease liability (see Note 22)	5,186	-	5,186	-
	5,664	464	5,664	464
Non-current				
Other loans and deposits	3,775	4,253	3,775	4,253
Lease liability (see Note 22)	9,792	-	9,792	-
	13,567	4,253	13,567	4,253

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

Final repayment of the loan is scheduled for 30 June 2028.

Other loans still to be extinguished represent monies to be repaid to the Crown Finance Entity, which is an entity controlled by the ultimate parent.

Details regarding credit risk, liquidity risk and market risk, including a maturity analysis of the above borrowings are disclosed in Note 41.

Recognition and Measurement

Financial liabilities at amortised cost

Borrowings classified as financial liabilities at amortised cost are initially measured at fair value, net of directly attributable transaction costs. These are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the net result when the liabilities are derecognised as well as through the amortisation process.

Finance lease liabilities are determined in accordance with AASB 117 Leases until 30 June 2019. From 1 July 2019, lease liabilities are determined in accordance with AASB 16.

Borrowings are classified as current liabilities unless ISLHD has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Refer to Note 41 (b) for derecognition policy.

Illawarra Shoalhaven Local Health District
Notes to and forming part of the Financial Statements
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30. Borrowings (continued)

Changes in liabilities arising from financing activities

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	Other loans and deposits \$000	Leases \$000	Total liabilities from financing activities \$000
1 July 2018	5,164	-	5,164
Cash flows	(447)	-	(447)
30 June 2019	4,717	-	4,717
Recognised on adoption of AASB 16	-	13,517	13,517
1 July 2019	4,717	13,517	18,234
Cash flows	(464)	(4,330)	(4,794)
New leases	-	5,791	5,791
30 June 2020	4,253	14,978	19,231

Details regarding credit risk, liquidity risk and market risk, including a maturity analysis of the above borrowings are disclosed in Note 41.

Illawarra Shoalhaven Local Health District
Notes to and forming part of the Financial Statements
for the year ended 30 June 2020

31. Provisions

	Consolidated 2020 \$000	Consolidated 2019 \$000	Parent 2020 \$000	Parent 2019 \$000
Current				
Employee benefits and related on-costs				
Annual leave - short term benefit	61,580	59,530	-	-
Annual leave - long term benefit	25,254	18,504	-	-
Long service leave consequential on-costs	17,197	15,586	-	-
Provision for other employee benefits	3,056	1,662	-	-
Provision for personnel services liability	-	-	107,087	95,282
Total current provisions	107,087	95,282	107,087	95,282
Non-current				
Employee benefits and related on-costs				
Long service leave consequential on-costs	1,495	1,355	-	-
Provision for personnel services liability	-	-	1,495	1,355
Total non-current provisions	1,495	1,355	1,495	1,355
Aggregate employee benefits and related on-costs				
Provisions - current	107,087	95,282	-	-
Provisions - non-current	1,495	1,355	-	-
Accrued salaries, wages and on-costs, taxation and payroll deductions (Note 28)	28,192	23,320	-	-
Liability - purchase of personnel services	-	-	136,774	119,957
	136,774	119,957	136,774	119,957

Recognition and Measurement

Employee benefits and other provisions

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, they are 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 18.4% are applied to the value of leave payable at 30 June 2020 (comparable on-costs for 30 June 2019 were 18.5%). ISLHD has assessed the actuarial advice based on the ISLHD'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 ISLHD does not expect to settle the liability within 12 months as ISLHD 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.

Illawarra Shoalhaven Local Health District

Notes to and forming part of the Financial Statements

for the year ended 30 June 2020

31. Provisions (continued)

Long service leave and superannuation

ISLHD'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. ISLHD 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 ISLHD.

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 the long-term 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.

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.

Other provisions

Other provisions are recognised when: ISLHD 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. When ISLHD expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented net of any reimbursement in the Statement of Comprehensive Income.

Any provisions for restructuring are recognised only when ISLHD has a detailed formal plan, and ISLHD has raised a valid expectation in those affected by the restructuring that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected.

If the effect of the time value of money is material, provisions are discounted at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time (i.e. unwinding of discount rate) is recognised as a finance cost.

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32. Other liabilities

	Consolidated 2020 \$000	Consolidated 2019 \$000	Parent 2020 \$000	Parent 2019 \$000
Non-current				
Liabilities under transfer to acquire or construct non-financial assets to be controlled by the entity	8,823	-	8,823	-
	8,823	-	8,823	-

Unearned revenue was derived from the following:

Over a number of financial years \$8.823 million has been received under the Radiation Oncology Health Program Grants 'ROHPG' Scheme. The funding received under the Scheme is to approved providers to contribute towards the purchase of high-cost eligible radiation therapy equipment in future financial years.

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Reconciliation of financial assets and corresponding liabilities arising from transfers to acquire or construct non-financial assets to be controlled by ISLHD.

	2020 \$'000
Opening balance of liabilities arising from transfers to acquire/construct non-financial assets to be controlled by the entity	-
<i>Add:</i> adjustments upon initial application of AASB 1058	7,126
Adjusted opening balance	7,126
<i>Add:</i> receipt of cash during the financial year	1,697
<i>Less:</i> income recognised during the financial year	-
Closing balance of liabilities arising from transfers to acquire / construct non-financial assets to be controlled by the entity	8,823

Refer to Note 13 for a description of ISLHD's obligations under transfers received to acquire or construct non-financial assets to be controlled by ISLHD.

Illawarra Shoalhaven Local Health District

Notes to and forming part of the Financial Statements

for the year ended 30 June 2020

33. Commitments

(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:

	Consolidated 2020 \$000	Consolidated 2019 \$000	Parent 2020 \$000	Parent 2019 \$000
Within one year	15,959	29,929	15,959	29,929
Later than one year and not later than five years	1,207	990	1,207	990
Total (including GST)	17,166	30,919	17,166	30,919

(b) Contingent asset related to commitments for expenditure

The total 'Capital expenditure commitments' of \$17.166 million as at 30 June 2020 includes input tax credits of \$1.561 million that are expected to be recoverable from the Australian Taxation Office (2019 \$2.811 million).

Output tax payable related to commitments for revenue

The 'Operating Lease Commitments (Entity as Lessor)' of \$1.569 million as at 30 June 2020 includes taxable sales of \$0.143 million that are expected to be payable to the Australian Taxation Office (2019: \$0.02 million). Refer to Note 22.

34. Contingent liabilities and assets

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(a) Contingent liabilities

ISLHD is not aware of any contingent liabilities at reporting date other than those disclosed in Note 33 (b).

(b) Contingent assets

Contingent assets relate to commitments for expenditure - refer Note 33 (b).

Illawarra Shoalhaven Local Health District

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35. Trust funds

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ISLHD holds trust funds of \$218,000 (2019: \$194,000) 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 ISLHD cannot use them for the achievement of its objectives. The following is a summary of the transactions in the trust account.

Category	1 July 2019			30 June 2020
	Opening equity \$'000	Revenue \$'000	Expense \$'000	Closing equity \$'000
Refundable Deposits	176	8	-	184
Private Patient Trust Funds	-	19,441	(19,441)	-
Third Party Funds	18	16	-	34
Total trust funds	194	19,465	(19,441)	218

Category	1 July 2018			30 June 2019
	Opening equity \$'000	Revenue \$'000	Expense \$'000	Closing equity \$'000
Refundable Deposits	186	12	(22)	176
Private Patient Trust Funds	-	19,472	(19,472)	-
Third Party Funds	9	9	-	18
Total trust funds	195	19,493	(19,494)	194

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

Category	Purpose
Refundable Deposits	A sum of money held in trust as a security deposit.
Private Patient Trust Funds	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.

Any amounts drawn down from trust funds under the private practice arrangements are not included in the key management personnel compensation amounts or disclosed as a related party transaction in Note 42.

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36. Interests in Associates

Set out below are the associates with ISLHD as at 30 June 2020 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	Ownership Interest Held by ISLHD		Nature of Relationship	Measurement Method	Associate Equity Carrying Amount		ISLHD Carrying Amount	
		2020	2019			2020	2019	2020	2019
		%	%			\$000	\$000	\$000	\$000
Illawarra Health & Medical Research Institute	Australia	50	50	Associate	Equity	1,822	1,800	-	-

Illawarra Health & 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. Illawarra Health & Medical Research Institute has a 30 June reporting period.

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for the year ended 30 June 2020

37. Reconciliation of cash flows from operating activities to net result

	Consolidated 2020 \$000	Consolidated 2019 \$000	Parent 2020 \$000	Parent 2019 \$000
Net cash used on operating activities	45,106	48,313	45,106	48,313
Depreciation and amortisation expense	(37,583)	(32,596)	(37,583)	(32,596)
Allowance for impairment	(674)	(692)	(674)	(692)
(Increase) / decrease in unearned revenue	(1,697)	-	(1,697)	-
Decrease / (increase) in provisions	(11,946)	(8,381)	(11,946)	(8,381)
Increase / (decrease) in prepayments and other assets	(444)	(2,014)	(444)	(2,014)
Decrease / (increase) in payables	(3,276)	2,776	(3,276)	2,776
Decrease / (increase) in contract liabilities	(797)	-	(797)	-
Net gain / (loss) on sale of property, plant and equipment	(2,709)	(77)	(2,709)	(77)
Non-cash revenue items	2,268	-	2,268	-
Assets donated or brought to account (Note 38)	701	20	701	20
Emerging assets recognised (Note 38)	(214)	6	(214)	6
Net result	(11,265)	7,355	(11,265)	7,355

38. Non-cash financing and investing activities

	Consolidated 2020 \$000	Consolidated 2019 \$000	Parent 2020 \$000	Parent 2019 \$000
Assets donated or brought to account	701	20	701	20
Property, plant and equipment acquired by a lease	5,782	-	5,782	-
Emerging rights to assets recognised	(214)	6	(214)	6
	6,269	26	6,269	26

Illawarra Shoalhaven Local Health District

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for the year ended 30 June 2020

39. Adjusted budget review

NSW Health's budget is shown at a consolidated level when presented in parliament each year (i.e. in the NSW Government Budget Papers). ISLHD'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, ISLHD's financial statements present adjusted budget information. The adjusted budgeted amounts are drawn from the initial Service Agreements between ISLHD 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 budget entries in the financial statements are unaudited.

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Net result

The actual Net Result was lower than adjusted budget by \$16 million, primarily due to:

- Unbudgeted COVID-19 costs which accounted for \$11.7 million of the \$20.4 million unfavourable expense budget variance.
- Increased Employee Related expenses (\$14.3 million) plus associated Visiting Medical Officers (\$1.8 million) were predominately a result of higher activity and District investment in specific clinical safety initiatives. These costs did slowdown in the last quarter as COVID-19 resulted in the suspension of elective surgery from March and a decrease in ED presentations. Goods and Services costs (the main component of Other Expenses) had a \$1.9 million unfavourable budget variance primarily as a result of increased activity, even though the last quarter saw a decrease in cost due to the COVID-19 pandemic.
- Revenue came in above budget by \$7.9 million but did not offset most of the unfavourable expense variances listed above. Losses on disposal of assets (\$2.7 million) which were unbudgeted and impairment loss variances (\$0.7 million) impacted the negative net result even further.

Assets and liabilities

Current assets are \$3.3 million above budget. Cash is \$1.9 million above budget which relates to additional funds in Special Purpose & Trust operating accounts. Assets held for sale of \$1.4 million has no budget. Non current assets are \$2.4 million below budget, with property plant & equipment being below budget by \$5.7 million which is due to disposal of medical imaging equipment and reclassification of properties as assets held for sale. Newly recognised lease receivable of \$2.3 million had no budget.

Total liabilities are \$24.9 million above budget. This includes \$9.6 million for unearned income received in advance which was not budgeted for following adoption of AASB15 and AAASB1058. Provisions are \$9.4 million above budget primarily due to the increase in annual leave with less leave taken during the COVID-19 pandemic and year end actuarial and salary increase adjustments.

Cash flows

Net cash flow from operating activities is \$3.2 million favourable to budget. This is due to an additional \$14.3 million in NSW Ministry of Health Recurrent Allocation funding. This is offset by additional additional cash payments for expenses of \$5.9 million.

Capital investment was in line with budget at \$38.2 million. Repayments for lease liabilities now recognised under new AASB16 Leases was above budget by \$1.4 million which is related to additional right of use property and medical imaging assets.

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Notes to and forming part of the Financial Statements

for the year ended 30 June 2020

39. Adjusted budget review (continued)

Movements in the level of the NSW Ministry of Health Recurrent Allocation that have occurred since the time of the initial allocation on 30 June 2019 are as follows:

	\$000
Initial allocation, 30 June 2019	803,036
Award increases	18,245
Special projects	
2019/20 Budget Relief - COVID-19 Response (May & June)	8,670
2019/20 Budget Relief 2nd Tranche - Various Initiatives	743
2019/20 Budget Relief 2nd Tranche - COVID	1,826
National Partnership Agreement on Adult Public Dental Services	3,200
Their Futures Matter - Original Keep Them Safe	2,189
Translational Research Grants rollover from FY19/20 to FY20/21	(204)
2019/20 TMF Budget Adjustments	443
Nurse and Midwifery	917
Towards Zero Suicides Initiatives	458
Out of Home Care Pathway Program (Their Futures Matter Funding)	188
Palliative Care - Flexible Funding Pool 2019-21	300
Palliative Care - Medical Specialist Positions	340
Round 3 Translational Research Grant Scheme	193
Round 4 - Translational Research Grant Scheme - Post Operative Delirium	124
Aged Care Assessment Program	297
Active Ageing Programs - Stepping on and Healthy and Active for life	101
Additional NWAU for Leading Better Value Care - Wound Management and Direct Access Colonoscopy Initiatives	148
Integrated Care Initiative - Figtree Integrated Care Centre	100
Transitional Research Grant - Border Line Personality Disorder	119
Budget retraction for MH Bushfire Recovery Clinician Positions	(101)
Extra funding for projects and programs under \$100,000 each	310
Other	
2019/20 Budget Relief	5,150
2019/20 Budget Relief Covid-19 Response (April 2020) - Revenue	2,828
2019/20 Creditor Adjustments	4,776
2019/20 Hospital Skills Program (HSP) Education Support Training	156
NSW Rural Generalist Medical and GP Procedural Training Program	236
Whole of Health	180
Workplace Culture & Safety	220
Voluntary Redundancy reimbursement	(133)
Isolated Patients Travel and Accommodation Assistance Scheme (IPTAAS)	126
Extra funding for projects and programs under \$100,000 each	411

Balance as per Statement of Comprehensive Income

855,592

Illawarra Shoalhaven Local Health District

Notes to and forming part of the Financial Statements

for the year ended 30 June 2020

40. Equity

Accumulated Funds

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

Revaluation Surplus

The revaluation surplus is used to record increments and decrements on the revaluation of non-current assets. This accords with ISLHD's policy on the revaluation of property, plant and equipment as discussed in Note 21.

Equity transfers effected in the 2019/20 year were:

- (a) Nil

Equity transfers effected in the 2018/19 year were:

- (a) An equity transfer was made between NSW Health entities to realign the annual leave liability to the current legal employer as held in the payroll system (StaffLink) for various employment arrangements, including staff on rotation and secondment. This has resulted in an increase in net assets of \$828,000 relating to the transfer of Annual Leave provision balances to other NSW Health entities.

Equity transfers effected comprised:

	2020 \$000	2019 \$000
(a) Annual Leave Provision - Transfer of Annual Leave Provisions between NSW Health entities	-	(828)
	-	(828)

Assets and Liabilities transferred are as follows:

	2020 \$000	2019 \$000
Liabilities		
(a) Annual Leave Provision	-	828
Increase / (Decrease) in Net Assets From Equity Transfers	-	828

Recognition and Measurement

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, ISLHD recognises the asset at the transferor's carrying amount. Where the transferor is prohibited from recognising internally generated intangibles, ISLHD does not recognise that asset.

Illawarra Shoalhaven Local Health District

Notes to and forming part of the Financial Statements

for the year ended 30 June 2020

41. Financial instruments

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

ISLHD's main risks arising from financial instruments are outlined below, together with ISLHD'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 ISLHD, 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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Class	Category	Carrying Amount 2020 \$000	Carrying Amount 2019 \$000
Financial Assets			
Cash and cash equivalents (Note 18)	Amortised cost	39,640	37,316
Receivables (Note 19) ¹	Amortised cost	17,147	15,770
Total Financial Assets		56,787	53,086
Financial Liabilities			
Borrowings (Note 30)	Financial liabilities measured at amortised cost	19,231	4,717
Payables (Note 28) ²	Financial liabilities measured at amortised cost	57,834	54,843
Total Financial Liabilities		77,065	59,560

Notes

¹ Excludes statutory receivables and prepayments (i.e. not within scope of AASB 7 Financial Instruments: Disclosures).

² Excludes statutory payables and unearned revenue (i.e. not within scope of AASB 7 Financial Instruments: Disclosures).

ISLHD determines the classification of its financial assets and liabilities after initial recognition and, when allowed and appropriate, re-evaluates this at each financial year end.

(b) Derecognition of financial assets and financial liabilities

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the contractual rights to the cash flows from the financial assets expire; or if the entity transfers its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a pass through arrangement and either:

- ISLHD has transferred substantially all the risks and rewards of the asset; or
- ISLHD has neither transferred nor retained substantially all the risks and rewards for the asset, but has transferred control.

Illawarra Shoalhaven Local Health District

Notes to and forming part of the Financial Statements

for the year ended 30 June 2020

41. Financial instruments (continued)

(b) Derecognition of financial assets and financial liabilities (continued)

When ISLHD has transferred its rights to receive cash flows from an asset or has entered into a pass through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. Where ISLHD has neither transferred nor retained substantially all the risks and rewards or transferred control, the asset continues to be recognised to the extent of ISLHD's continuing involvement in the asset. In that case, ISLHD also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the entity has retained.

A financial liability is derecognised when the obligation specified in the contract is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the net result.

(c) Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the Statement of Financial Position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

(d) Financial risk

i. 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 ISLHD. The maximum exposure to credit risk is generally represented by the carrying amount of the financial assets (net of any allowance for credit losses).

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

Credit risk associated with ISLHD'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.

ISLHD considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, ISLHD may also consider a financial asset to be in default when internal or external information indicates that ISLHD is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by ISLHD.

Cash and cash equivalents

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 0.00% (Restricted Funds Bank balance: 1.1%) in 2019-20 compared to 0.00% (Restricted Funds Bank balance: 2.2%) in the previous year. The TCorpIM Funds cash facility is discussed in market risk below.

Accounting policy for impairment of trade receivables and other financial assets

Receivables - trade receivables, other receivables and contract assets

Collectability of trade receivables, other receivables and contract assets is reviewed on an ongoing basis. Procedures as established in the Treasurer's Directions are followed to recover outstanding amounts, including letters of demand.

ISLHD applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables, other receivables and contract assets.

To measure the expected credit losses, trade receivables, other receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due.

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41. Financial instruments (continued)

(d) Financial risk (continued)

i. Credit risk (continued)

Accounting policy for impairment of trade receivables and other financial assets (continued)

Receivables - trade receivables, other receivables and contract assets (continued)

The expected loss rates are based on historical observed loss rates. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. ISLHD has identified relevant factors, and accordingly has adjusted the historical loss rates based on expected changes in these factors.

Trade receivables, other receivables and contract assets are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others a failure to make contractual payments for a period of greater than 90 days past due.

The loss allowance for trade receivables, other receivables and contract assets as at 30 June 2020 and 30 June 2019 was determined as follows:

	Current	<30 days	30-60 days	61-90 days	>91 days	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
30 June 2020						
Expected credit loss rate	0.69%	1.89%	4.13%	10.07%	5.12%	2.31%
Estimated total gross carrying amount ¹	9,949	581	218	417	4,488	15,653
Expected credit loss	69	11	9	42	230	361
	Current	<30 days	30-60 days	61-90 days	>91 days	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
30 June 2019 ²						
Expected credit loss rate	1.04%	2.89%	8.87%	18.88%	13.80%	3.95%
Estimated total gross carrying amount ¹	10,312	935	293	143	2,789	14,472
Expected credit loss	107	27	26	27	385	572

Notes

¹ The analysis excludes statutory receivables and prepayments as these are not within the scope of AASB7 Financial Instruments: Disclosures. Therefore the 'total' will not reconcile to the receivables total in Note 19.

² Prior year balances have been restated to include other receivables.

ISLHD is not materially exposed to concentrations of credit risk to a single trade debtor or group of debtors as at 30 June 2020.

Other Financial Assets - Authority Deposits

ISLHD has placed funds on deposit with TCorp, which has been rated 'AAA' by Standard and Poor's. These deposits are similar to money market or bank deposits and can be placed 'at call' or for a fixed term. These deposits are considered to be low credit risk, and the loss allowance recognised during the period was therefore limited to 12 months expected losses. ISLHD didn't recognise a provision for expected credit losses on its other financial assets as at 30 June 2020 (2019: \$Nil).

Illawarra Shoalhaven Local Health District

Notes to and forming part of the Financial Statements

for the year ended 30 June 2020

41. Financial instruments (continued)

(d) Financial risk (continued)

ii. Liquidity risk

Liquidity risk is the risk that ISLHD will be unable to meet its payment obligations when they fall due. ISLHD 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 the use of overdrafts, loans and other advances.

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

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

ISLHD 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 ISLHD 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).

Liabilities are recognised for amounts due to be paid in the future for goods or services received, whether or not invoiced. Until the 30 June 2019, 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 5 days from the date of receipt of a correctly rendered invoice. For other suppliers, if trade terms are not specified, payment is made no later than 30 days from the date of receipt of a correctly rendered invoice or a statement is received. From 1 July 2019, 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. For all suppliers, that has a correctly rendered invoice, that has a matched purchase order and where goods have been received, an immediate payment is made irrespective of current contract payment terms.

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 affected 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.

Illawarra Shoalhaven Local Health District

Notes to and forming part of the Financial Statements

for the year ended 30 June 2020

41. Financial instruments (continued)

(d) Financial risk (continued)

ii. Liquidity risk (continued)

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

Maturity Analysis and interest rate exposure of financial liabilities

	EIR ³ %	Nominal Amount ¹ \$000	Interest Rate Exposure			Maturity Dates		
			Fixed Interest Rate \$000	Variable Interest Rate \$000	Non - Interest Bearing \$000	< 1 Yr \$000	1-5 Yr \$000	> 5Yr \$000
2020								
Payables:								
- Creditors ²		57,834	-	-	57,834	57,834	-	-
Borrowings:								
- Loans and deposits	2.97%	4,810	4,810	-	-	601	2,405	1,804
- Lease liabilities	1.86%	15,543	15,543	-	-	5,243	8,564	1,736
		78,187	20,353	-	57,834	63,678	10,969	3,540
2019								
Payables:								
- Creditors ²		54,843	-	-	54,843	54,843	-	-
Borrowings:								
- Loans and deposits	2.97%	4,945	4,945	-	-	692	2,001	2,252
		59,788	4,945	-	54,843	55,535	2,001	2,252

Notes:

¹ The amounts disclosed are the contractual undiscounted cash flows of each class of financial liabilities based on the earliest date on which ISLHD 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).

³ Weighted Average Effective Interest Rate (EIR).

Illawarra Shoalhaven Local Health District

Notes to and forming part of the Financial Statements

for the year ended 30 June 2020

41. Financial instruments (continued)

(d) Financial risk (continued)

iii. 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. ISLHD's exposures to market risk are primarily through interest rate risk on ISLHD's borrowings and other price risks associated with the movement in the Hour Glass Investment Facilities. ISLHD 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 ISLHD 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 as for 2019. The analysis assumes that all other variables remain constant.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Exposure to interest rate risk arises primarily through ISLHD's interest bearing liabilities. This risk is minimised by undertaking mainly fixed rate borrowings, primarily through NSW TCorp. ISLHD does not account for any fixed rate financial instruments at fair value through profit or loss or at fair value through other comprehensive income. Therefore, for these financial instruments, a change in interest rates would not affect profit or loss or equity. A reasonably possible change of +/- 1% is used, consistent with current trends in interest rates (based on official Reserve Bank of Australia 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.

However, ISLHD 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 following table demonstrates the sensitivity to a reasonably possible change in interest rates:

	2020		2019	
	\$000		\$000	
	-1%	1%	-1%	1%
Net result	(204)	204	(326)	326
Equity	(204)	204	(326)	326

Illawarra Shoalhaven Local Health District

Notes to and forming part of the Financial Statements

for the year ended 30 June 2020

41. Financial instruments (continued)

(d) Financial risk (continued)

iii. Market risk (continued)

Other price risk - TCorpIM Funds

Exposure to 'other price risk' primarily arises through the investment in the TCorpIM Funds, which are held for strategic rather than trading purposes. ISLHD has no direct equity investments. ISLHD holds units in the following TCorpIM Funds trusts:

Facility	Investment Sectors	Investment Horizon	2020 \$000	2019 \$000
TCorpIM Cash Fund	Cash and fixed income	Up to 1.5 years	23,640	23,375

The unit price of each facility is equal to the total fair value of net assets held by the facility divided by the total number of units on issue for that facility. Unit prices are calculated and published daily.

TCorp, as trustee for each of the above facilities is required to act in the best interest of the unit holders and to administer the trusts in accordance with the trust deeds. As trustee, TCorp has appointed external managers to manage the performance and risk of each facility in accordance with a mandate agreed by the parties. TCorp has also leveraged off internal expertise to manage certain fixed income assets for the TCorpIM Funds facilities. A significant portion of the administration of the facilities is outsourced to an external custodian.

Investment in the TCorpIM Funds facilities limits ISLHD's exposure to risk, as it allows diversification across a pool of funds with different investment horizons and a mix of investments.

TCorp provides sensitivity analysis information for each of the investment facilities. For 30 June 2020, TCorp has adopted a new approach of applying a flat 10% sensitivity across all funds which is consistent with best market practice for investment funds. Previous years were based on historical volatility information collected over a ten year period, quoted at two standard deviations (ie 95% probability). TCorpIM Funds are measured at fair value through profit or loss and therefore any change in unit price impacts directly on net results.

A reasonably possible change is based on the percentage change in unit price (as advised by TCorp) multiplied by the redemption value as at 30 June each year for each facility (balance from TCorpIM Funds statement).

	2020 Change in unit price	2019 Change in unit price	Impact on net result 2020 \$000	2019 \$000
TCorpIM Funds - Cash facility	10%	1%	2,364	234

Illawarra Shoalhaven Local Health District
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41. Financial instruments (continued)

(e) Fair value measurement

i. Fair value compared to carrying amount

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or in the absence of a principal market, in the most advantageous market for the asset or liability.

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 does not differ from the carrying amount.

ii. Fair value recognised in the Statement of Financial Position

Financial instruments are generally recognised at cost, with the exception of the TCorpIM Funds investment facilities, which are measured at fair value. Management assessed that cash and short-term deposits, trade receivables, trade payables and other current liabilities approximate their fair values, largely due to the short-term maturities of these instruments.

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, the consolidated entity categorises, for disclosure purposes, the valuation techniques based on the inputs used in the valuation techniques as follows:

- Level 1 – quoted (unadjusted) 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).

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

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	2020 Total \$'000
TCorpIM Funds	-	23,640	-	23,640
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	2019 Total \$'000
TCorpIM Funds	-	23,375	-	23,375

The table above only includes financial assets as no financial liabilities were measured at fair value in the Statement of Financial Position.

There were no transfers between level 1 and 2 during the period ended 30 June 2020.

The value of the TCorpIM Funds investment is based on ISLHD's share of the value of the underlying assets of the facility, based on the market value. All of the TCorpIM Funds investment facilities are valued using 'redemption' pricing.

Illawarra Shoalhaven Local Health District

Notes to and forming part of the Financial Statements

for the year ended 30 June 2020

42. Related party transactions

PARENT AND CONSOLIDATION

(a) Key management personnel compensation

Key management personnel compensation is as follows:

	2020	2019
	\$000	\$000
Short-term employee benefits	573	671
Post-employment benefits	53	61
	626	732

During the financial year, Illawarra Shoalhaven Local Health District obtained key management personnel services from the immediate parent and incurred \$394 thousand (2019: \$366 thousand) for these services. This amount does not form part of the key management personnel compensation disclosed above.

ISLHD's key management personnel comprise its board members and chief executive (or acting chief executive) from time to time during the year.

Compensation for the Minister for Health is paid by the Legislature and is not reimbursed by the NSW 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 NSW 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.

(b) Transactions with key management personnel and their close family members

There were no transactions with key management personnel and their close family members (2019: \$Nil).

(c) Transactions with the ultimate parent

There were no transactions with the ultimate parent during the financial period (2019: \$Nil).

(d) Transactions ISLHD had with government related entities during the financial year

During the financial year and comparative year, ISLHD entered into the various transactions with other entities consolidated as part of the NSW Ministry of Health (the immediate parent and the NSW Total State Sector (the ultimate parent) within the normal course of business.

The following operating expenses were incurred with entities controlled by the immediate parent:

- Health Administration Corporation provides shared services for the majority of patient transport services, information management services, domestic supplies and services, food supplies and corporate support services.
- Health Administration Corporation provides some specialised services which includes pathology related costs.
- Health Administration Corporation provides hosted services which includes patient billing and ICT core charges.

Illawarra Shoalhaven Local Health District

Notes to and forming part of the Financial Statements

for the year ended 30 June 2020

42. Related party transactions (continued)

(d) Transactions ISLHD had with government related entities during the financial year (continued)

The following operating expenses were incurred with entities controlled by the ultimate parent:

- Payroll and fringe benefits taxes
- Audit of the statutory financial statements
- Legal and consultancy services
- Utilities, including electricity, gas and water expenses
- Insurance costs

The following revenues were earned from entities controlled by the immediate parent:

- Revenue from recurrent and capital allocations
- Various grants and contributions towards research and other projects
- Commercial activities revenue in respect of medical imaging

The following revenues were earned from entities controlled by the ultimate parent:

- Motor Accident Authority third party revenue received from the State Insurance Regulatory Authority (SIRA)
- Interest income on TCorpIM Funds Investment facilities
- Patient revenue relating to Transitional Aged Care Program and Regional Assessment Scheme

Assets and liabilities as follows:

- Receivables and payables in respect of the above noted related party revenue and expense transactions
- Term deposits are invested with TCorpIM Funds Investment facilities
- Energy Efficient Government Program loans are held with the Crown Finance Entity
- Intra-health loans and advances
- The majority of the construction of property, plant and equipment is managed and overseen by Health Administration Corporation
- The majority of capital commitments contracted but not provided for related to capital works overseen by the Health Administration Corporation

43. Events after the reporting period

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

END OF AUDITED FINANCIAL STATEMENTS