



## INDEPENDENT AUDITOR'S REPORT

### Health Reform Transitional Organisation Southern

To Members of the New South Wales Parliament

I have audited the accompanying financial statements of the Health Reform Transitional Organisation Southern (the Organisation), which comprise the statement of financial position as at 30 June 2011, the statement of comprehensive income, statement of changes in equity, statement of cash flows, service group statements and a summary of compliance with financial directives for the six months then ended, notes comprising a summary of significant accounting policies and other explanatory information of the Organisation and the consolidated entity. The consolidated entity comprises the Organisation and the entities it controlled at the period's end or from time to time during the period.

### Opinion

In my opinion, the financial statements:

- give a true and fair view of the financial position of the Organisation and the consolidated entity as at 30 June 2011, and of the financial performance and the cash flows for the six months then ended in accordance with Australian Accounting Standards
- are in accordance with section 45E of the *Public Finance and Audit Act 1983* (the PF&A Act) and the Public Finance and Audit Regulation 2010

My opinion does not extend to the budget information. I have not audited the budget figures disclosed in the statement of comprehensive income, statement of financial position and statement of cash flows.

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

### Chief Executive's Responsibility for the Financial Statements

The Chief Executive is responsible for the preparation of the financial statements that give a true and fair view 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 of the financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with Australian Auditing Standards. Those standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organisation's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organisation's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Chief Executive, as well as evaluating the overall presentation of the financial statements.

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

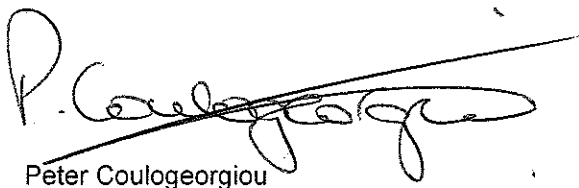
My opinion does *not* provide assurance:

- about the future viability of the Organisation or the consolidated entity
- that it has carried out its activities effectively, efficiently and economically
- about the effectiveness of its internal control
- 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.

## **Independence**

In conducting my audit, I have complied with the independence requirements of the Australian Auditing Standards and other relevant ethical pronouncements. The PF&A Act further promotes independence 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 but precluding the provision of non-audit services, thus ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their role by the possibility of losing clients or income



Peter Coulogeorgiou  
Director, Financial Audit Services

31 January 2012  
SYDNEY

**Certification of Parent/Consolidated Financial Statements  
Health Reform Transitional Organisation Southern  
For Period Ended 30 June 2011**

Pursuant to Section 45F of the *Public Finance and Audit Act, 1983*, I state that in my opinion:

- 1) The financial statements have been prepared in accordance with:
  - Australian Accounting Standards (which include Australian Accounting Interpretations)
  - *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulations 2010* and the Treasurer's Directions
- 2) The financial statements exhibit a true and fair view of the financial position and the financial performance of the Health Reform Transition Office Southern.
- 3) There are no circumstances which would render any particulars included in the financial statements to be misleading or inaccurate.

I further state the financial statements have been prepared in accordance with the NSW Department of Health's Accounts and Audit Determination for Public Health Organisations.



Michael Wallace

Date: 30.1.12

Health Reform Transitional Organisation Southern  
Statement of Comprehensive Income for the Six Months Ended 30 June 2011

PARENT		CONSOLIDATION		
Actual 2011 \$000	Budget (unaudited) 2011 \$000	Notes	Actual 2011 \$000	Budget (unaudited) 2011 \$000
<b>Expenses excluding losses</b>				
Operating Expenses				
0	0			
122,297	140,182	Employee Related	122,297	140,182
3,101	10,857	Personnel Services	0	0
97,739	93,237	Visiting Medical Officers	3,101	10,857
3,817	4,619	Other Operating Expenses	97,739	93,237
10,846	9,522	Depreciation and Amortisation	3,817	4,619
510	488	Grants and Subsidies	10,846	9,522
6,697	6,456	Finance Costs	510	488
<u>245,007</u>	<u>265,361</u>	Payments to Affiliated Health Organisations	6,697	6,456
		<b>Total Expenses excluding losses</b>	<u>245,007</u>	<u>265,361</u>
<b>Revenue</b>				
189,121	198,888	Sale of Goods and Services	189,121	198,888
1,155	1,990	Investment Revenue	1,155	1,990
8,879	18,111	Grants and Contributions	8,879	18,111
818	7,771	Other Revenue	818	7,771
<u>199,973</u>	<u>226,760</u>	<b>Total Revenue</b>	<u>199,973</u>	<u>226,760</u>
(95)	219	Gain/(Loss) on Disposal	(95)	219
(1,513)	(1,931)	Other Gains/(Losses)	(1,513)	(1,931)
<u>46,642</u>	<u>40,313</u>	<b>Net Cost of Services</b>	<u>46,642</u>	<u>40,313</u>
<b>Government Contributions</b>				
NSW Department of Health				
53,141	94,719	Recurrent Allocations	53,141	94,719
NSW Department of Health				
1,703	6,506	Capital Allocations	1,703	6,506
(Asset Sale Proceeds Transferred to the				
(90)	0	NSW Department of Health)	(90)	0
Acceptance by the Crown Entity of				
15,472	12,194	Employee Benefits	15,472	12,194
<u>70,226</u>	<u>113,419</u>	<b>Total Government Contributions</b>	<u>70,226</u>	<u>113,419</u>
<u>23,584</u>	<u>73,106</u>	<b>RESULT FOR THE SIX MONTHS ENDED 30 JUNE 2011</b>	<u>23,584</u>	<u>73,106</u>
0	0	Other Comprehensive Income	0	0
0	0	<b>Other Comprehensive Income for the six months ended 30 June 2011</b>	0	0
<u>23,584</u>	<u>73,106</u>	<b>TOTAL COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2011</b>	<u>23,584</u>	<u>73,106</u>

The accompanying notes form part of these financial statements.

Health Reform Transitional Organisation Southern  
Statement of Financial Position as at 30 June 2011

PARENT		CONSOLIDATION	
Actual	Budget (unaudited)		Budget (unaudited)
2011	2011	Notes	2011
\$000	\$000		\$000
<b>ASSETS</b>			
<b>Current Assets</b>			
9,805	73,378	Cash and Cash Equivalents	9,805
72,335	39,545	Receivables	72,335
5,010	4,687	Inventories	5,010
13,416	13,132	Financial Assets at Fair Value	13,416
1,833	0	Non Current Assets Held for Sale	1,833
<u>102,399</u>	<u>130,742</u>	<b>Total Current Assets</b>	<u>102,399</u>
<b>Non-Current Assets</b>			
Property, Plant and Equipment			
9,623	12,582	- Land and Buildings	9,623
31,033	40,050	- Plant and Equipment	31,033
0	0	- Infrastructure Systems	0
<u>40,656</u>	<u>52,632</u>	Total Property, Plant and Equipment	<u>40,656</u>
0	0	Intangible Assets	0
0	0	Other	0
<u>40,656</u>	<u>52,632</u>	<b>Total Non-Current Assets</b>	<u>40,656</u>
<u>143,055</u>	<u>183,374</u>	<b>Total Assets</b>	<u>143,055</u>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
112,656	110,461	Payables	112,656
3,310	123	Borrowings	3,310
36,877	41,707	Provisions	36,877
209	199	Other	209
<u>153,052</u>	<u>152,490</u>	<b>Total Current Liabilities</b>	<u>153,052</u>
<b>Non-Current Liabilities</b>			
4,480	1,868	Borrowings	4,480
137	303	Provisions	137
0	0	Other	0
<u>4,617</u>	<u>2,171</u>	<b>Total Non-Current Liabilities</b>	<u>4,617</u>
<u>157,669</u>	<u>154,661</u>	<b>Total Liabilities</b>	<u>157,669</u>
<u>(14,614)</u>	<u>28,713</u>	<b>Net Assets</b>	<u>(14,614)</u>
<b>EQUITY</b>			
(14,614)	28,713	Accumulated Funds	(14,614)
<u>(14,614)</u>	<u>28,713</u>	<b>Total Equity</b>	<u>(14,614)</u>

The accompanying notes form part of these financial statements

**Health Reform Transitional Organisation Southern**  
**Statement of Changes in Equity for the Six Months ended 30 June 2011**

	Notes	Accumulated Funds \$000	Asset Revaluation Surplus \$000	Available For Sale Reserve \$000	Total \$000
<b>Balance at 1 January 2011</b>					0
<b>Result For The Six Months Ended 30 June 2011</b>		23,584			23,584
Other Comprehensive Income:		0			0
<b>Total Comprehensive Income For The Six Months Ended 30 June 2011</b>		23,584	0	0	23,584
<b>Transactions With Owners In Their Capacity As Owners</b>					
Increase/(Decrease) in Net Assets From Equity Transfers	36	(38,198)			(38,198)
<b>Balance at 30 June 2011</b>		<b>(14,614)</b>	<b>0</b>	<b>0</b>	<b>(14,614)</b>

The accompanying notes form part of these financial statements.

Health Reform Transitional Organisation Southern  
Statement of Cash Flows for the Six Months Ended 30 June 2011

PARENT			CONSOLIDATION	
Actual	Budget (unaudited)		Actual	Budget (unaudited)
2011	2011	Notes	2011	2011
\$000	\$000		\$000	\$000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
<b>Payments</b>				
(151,948)	(125,821)	Employee Related	(151,948)	(125,821)
(11,814)	(9,522)	Grants and Subsidies	(11,814)	(9,522)
(510)	(488)	Finance Costs	(510)	(488)
(125,483)	(93,067)	Other	(125,483)	(93,067)
<u>(289,755)</u>	<u>(228,898)</u>	<b>Total Payments</b>	<u>(289,755)</u>	<u>(228,898)</u>
<b>Receipts</b>				
207,841	212,802	Sale of Goods and Services	207,841	212,802
1,156	1,990	Interest Received	1,156	1,990
2,761	12,328	Other	2,761	12,328
<u>211,758</u>	<u>227,120</u>	<b>Total Receipts</b>	<u>211,758</u>	<u>227,120</u>
<b>Cash Flows From Government</b>				
54,367	38,189	NSW Department of Health Recurrent Allocations	54,367	38,189
1,703	6,506	NSW Department of Health Capital Allocations	1,703	6,506
(90)	0	Asset Sale Proceeds Transferred to the NSW Department of Health	(90)	0
15,472	0	Cash Reimbursements from the Crown Entity	15,472	0
<u>71,452</u>	<u>44,695</u>	<b>Net Cash Flows From Government</b>	<u>71,452</u>	<u>44,695</u>
<u>(6,545)</u>	<u>42,917</u>	<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<u>(6,545)</u>	<u>42,917</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
301	701	Proceeds from Sale of Land and Buildings, Plant and Equipment and Infrastructure Systems	301	701
0	0	Proceeds from Sale of Investments	0	0
197	(15,987)	Purchases of Land and Buildings, Plant and Equipment and Infrastructure Systems	197	(15,987)
(285)	0	Purchases of Investments	(285)	0
<u>213</u>	<u>(15,286)</u>	<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>	<u>213</u>	<u>(15,286)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
0	0	Proceeds from Borrowings and Advances	0	0
(2,084)	(26,544)	Repayment of Borrowings and Advances	(2,084)	(26,544)
<u>(2,084)</u>	<u>(26,544)</u>	<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>	<u>(2,084)</u>	<u>(26,544)</u>
<u>(8,416)</u>	<u>1,087</u>	<b>NET INCREASE / (DECREASE) IN CASH</b>	<u>(8,416)</u>	<u>1,087</u>
0	0	Opening Cash and Cash Equivalents	0	0
18,221	19,164	Cash Transferred In as a Result of Equity Transfers	18,221	19,164
<u>9,805</u>	<u>20,251</u>	<b>CLOSING CASH AND CASH EQUIVALENTS</b>	<u>9,805</u>	<u>20,251</u>

The accompanying notes form part of these financial statements.

**Health Reform Transitional Organisation Southern  
Service Group Statements  
for the Six Months Ended 30 June 2011**

EXPENSES AND INCOME	Service Group 1.1 *	Service Group 1.2 *	Service Group 1.3 *	Service Group 2.1 *	Service Group 2.2 *	Service Group 3.1 *	Service Group 4.1 *	Service Group 5.1 *	Service Group 6.1 *	Non Attributable	Total
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000		
<b>Expenses excluding losses</b>											
Operating Expenses											
Employee Related	6,950	8,102	6,848	11,385	51,123	10,604	10,120	14,189	2,976	0	122,297
Visiting Medical Officers	142	196	196	276	1,247	260	230	499	55	0	3,101
Other Operating Expenses	7,645	3,656	3,633	7,622	51,688	8,348	7,837	6,365	945	0	97,739
Depreciation and Amortisation	136	261	197	392	1,873	238	272	390	58	0	3,817
Grants and Subsidies	5,605	207	21	42	208	1,708	1,502	1,503	50	0	10,846
Finance Costs	11	38	29	57	272	31	42	21	9	0	510
Payments to Affiliated Health Organisations	0	0	1	0	0	2,831	3,865	0	0	0	6,697
<b>Total Expenses excluding losses</b>	<b>20,489</b>	<b>12,460</b>	<b>10,925</b>	<b>19,774</b>	<b>106,411</b>	<b>24,020</b>	<b>23,868</b>	<b>22,967</b>	<b>4,093</b>	<b>0</b>	<b>245,007</b>
<b>Revenue</b>											
Sale of Goods and Services	2,389	11,932	8,267	18,175	87,594	16,872	24,801	16,643	2,448	0	189,121
Investment Revenue	47	74	59	115	599	106	95	42	18	0	1,155
Grants and Contributions	363	255	331	368	2,723	259	431	4,023	126	0	8,879
Other Revenue	66	59	44	85	368	24	61	98	13	0	818
<b>Total Revenue</b>	<b>2,865</b>	<b>12,320</b>	<b>8,701</b>	<b>18,743</b>	<b>91,284</b>	<b>17,261</b>	<b>25,388</b>	<b>20,806</b>	<b>2,605</b>	<b>0</b>	<b>199,973</b>
Gain / (Loss) on Disposal	(3)	(8)	(6)	(11)	(41)	(5)	(7)	(12)	(2)	0	(95)
Other Gains / (Losses)	(103)	(53)	(55)	(115)	(904)	(116)	(111)	(42)	(14)	0	(1,513)
<b>Net Cost of Services</b>	<b>17,730</b>	<b>201</b>	<b>2,285</b>	<b>1,157</b>	<b>16,072</b>	<b>6,880</b>	<b>(1,402)</b>	<b>2,215</b>	<b>1,504</b>	<b>0</b>	<b>46,642</b>
Government Contributions	0	0	0	0	0	0	0	0	0	70,226	70,226
<b>RESULT FOR THE YEAR</b>	<b>(17,730)</b>	<b>(201)</b>	<b>(2,285)</b>	<b>(1,157)</b>	<b>(16,072)</b>	<b>(6,880)</b>	<b>1,402</b>	<b>(2,215)</b>	<b>(1,504)</b>	<b>70,226</b>	<b>23,584</b>
<b>Other Comprehensive Income</b>											
Increase/(Decrease) in Asset Revaluation Reserve	0	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0	0
<b>Total Other Comprehensive Income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total COMPREHENSIVE INCOME</b>	<b>(17,730)</b>	<b>(201)</b>	<b>(2,285)</b>	<b>(1,157)</b>	<b>(16,072)</b>	<b>(6,880)</b>	<b>1,402</b>	<b>(2,215)</b>	<b>(1,504)</b>	<b>70,226</b>	<b>23,584</b>

Service Group Statements focus on the key measures of service delivery performance.

\* The name and purpose of each service group is summarised in Note 16.

The Service Group Statement uses statistical data from the former South Eastern Sydney and Illawarra Area Health Service to 31 December 2010 to allocate the current period's financial information on expenses and revenue to each network group. No changes have occurred during the period between 1 January 2011 and 30 June 2011 which would materially impact this allocation.



**Health Reform Transitional Organisation Southern**  
**Service Group Statements**  
for the Six Months Ended 30 June 2011

ASSETS AND LIABILITIES	Service Group	Service Group	Service Group	Service Group	Service Group	Service Group	Service Group	Service Group	Service Group	Service Group	Service Group	Service Group	Service Group	Non Attributable	Total
	2011	2011	2011	2011	2011	2011	2011	2011	2011	2011	2011	2011	2011		
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
<b>ASSETS</b>															
Current Assets															
Cash and Cash Equivalents	758	630	481	887	4,075	851	819	1,129	175	0	9,805				
Receivables	857	5,828	4,155	7,968	31,851	5,054	5,176	10,142	1,304	0	72,335				
Inventories	318	372	281	502	2,123	359	373	594	88	0	5,010				
Financial Assets at Fair Value	963	1,019	711	1,329	5,354	1,033	957	1,798	252	0	13,416				
Other Financial Assets	0	0	0	0	0	0	0	0	0	0	0				
Other	0	0	0	0	0	0	0	0	0	0	0				
Non-Current Assets Held for Sale	1,833	0	0	0	0	0	0	0	0	0	0				
<b>Total Current Assets</b>	<b>4,729</b>	<b>7,849</b>	<b>5,628</b>	<b>10,686</b>	<b>43,403</b>	<b>7,297</b>	<b>7,325</b>	<b>13,663</b>	<b>1,819</b>	<b>0</b>	<b>102,399</b>				
<b>Non-Current Assets</b>															
Financial Assets at Fair Value	0	0	0	0	0	0	0	0	0	0	0				
Property, Plant and Equipment	0	0	0	0	0	0	0	0	0	0	0				
- Land and Buildings	167	823	572	1,098	4,384	489	712	1,198	180	0	9,623				
- Plant and Equipment	941	2,274	1,677	3,288	14,910	1,828	2,239	3,371	505	0	31,033				
- Infrastructure Systems	0	0	0	0	0	0	0	0	0	0	0				
Intangible Assets	0	0	0	0	0	0	0	0	0	0	0				
Other	0	0	0	0	0	0	0	0	0	0	0				
<b>Total Non-Current Assets</b>	<b>1,108</b>	<b>3,097</b>	<b>2,249</b>	<b>4,386</b>	<b>19,294</b>	<b>2,317</b>	<b>2,951</b>	<b>4,569</b>	<b>685</b>	<b>0</b>	<b>40,656</b>				
<b>TOTAL ASSETS</b>	<b>5,837</b>	<b>10,946</b>	<b>7,877</b>	<b>15,072</b>	<b>62,697</b>	<b>9,614</b>	<b>10,276</b>	<b>18,232</b>	<b>2,504</b>	<b>0</b>	<b>143,055</b>				
<b>LIABILITIES</b>															
Current Liabilities															
Payables	7,832	6,626	5,432	10,247	52,670	8,742	8,663	10,832	1,612	0	112,656				
Borrowings	313	141	152	249	1,487	335	303	269	61	0	3,310				
Provisions	1,901	2,545	2,064	3,529	15,488	3,094	2,963	4,421	872	0	36,877				
Other	19	9	9	16	92	22	23	17	2	0	209				
<b>Total Current Liabilities</b>	<b>10,065</b>	<b>9,321</b>	<b>7,657</b>	<b>14,041</b>	<b>69,737</b>	<b>12,193</b>	<b>11,952</b>	<b>15,539</b>	<b>2,547</b>	<b>0</b>	<b>153,052</b>				
Non-Current Liabilities															
Payables	0	0	0	0	0	0	0	0	0	0	0				
Borrowings	432	179	204	329	2,031	461	417	346	81	0	4,480				
Provisions	4	11	8	15	57	10	10	19	3	0	137				
Other	0	0	0	0	0	0	0	0	0	0	0				
<b>Total Non-Current Liabilities</b>	<b>436</b>	<b>190</b>	<b>212</b>	<b>344</b>	<b>2,088</b>	<b>471</b>	<b>427</b>	<b>365</b>	<b>84</b>	<b>0</b>	<b>4,617</b>				
<b>TOTAL LIABILITIES</b>	<b>10,501</b>	<b>9,511</b>	<b>7,869</b>	<b>14,385</b>	<b>71,825</b>	<b>12,664</b>	<b>12,379</b>	<b>15,904</b>	<b>2,631</b>	<b>0</b>	<b>157,669</b>				
<b>NET ASSETS</b>	<b>(4,664)</b>	<b>1,435</b>	<b>8</b>	<b>687</b>	<b>(9,128)</b>	<b>(3,050)</b>	<b>(2,103)</b>	<b>2,328</b>	<b>(127)</b>	<b>0</b>	<b>(14,614)</b>				

\*\*The name and purpose of each service group is summarised in Note 16

Assets and liabilities that are specific to service groups area allocated accordingly, eg Non-Current Assets Held for Sale. Remaining assets and liabilities are apportioned to service groups in accordance with the methodology advised in Note 2(ae), thereby ensuring that the benefit of each asset and the liabilities incurred in the provision of services are duly recognised in each service group.

**Health Reform Transitional Organisation Southern  
Notes to and forming part of the Financial Statements  
for the Six Months Ended 30 June 2011**

**1 The Health Reform Transitional Organisation Southern Reporting Entity**

The Health Reform Transitional Organisation Southern, "the Organisation", was established under the provisions of the Health Services Act with effect from 1 January 2011.

The Health Reform Transitional Organisation Southern, as a reporting entity, comprises all the operating activities of the Hospital facilities and the Community Health Centres under its control. It also encompasses the Special Purposes and Trust Funds which, while containing assets which are restricted for specified uses by the grantor or the donor, are nevertheless controlled by the Organisation. The Organisation is a not-for-profit entity (as profit is not its principal objective).

The Organisation controlled the South Eastern Illawarra Sydney Special Purpose Service Entity which was established as a Division of the Government Service on 1 January 2011 in accordance with the Public Sector Employment and Management Act 2002 and the Health Services Act 1997. These Divisions provide personnel services to enable an Organisation to exercise its functions.

As a consequence the values in the six monthly financial statements presented herein consist of The Health Reform Transitional Organisation Southern (as the parent entity), the financial statements of the special purpose service entity division and the consolidated financial statements of the economic entity. Notes capture both the parent and consolidated values with notes 3, 4, 11, 25, 27 and 32 being especially relevant.

In the process of preparing the consolidated financial statements for the economic entity consisting of the controlling and controlled entities, all inter-entity transactions and balances have been eliminated.

The Health Reform Transitional Organisation Southern reporting entity is consolidated as part of the NSW Department of Health and NSW Total State Sector Accounts.

These consolidated financial statements for the six months ended 30 June 2011 have been authorised for issue by the Chief Operating Officer on 23 December 2011.

**2 Summary of Significant Accounting Policies**

**Basis of Preparation**

The Organisation's financial statements are general purpose financial statements which have been prepared in accordance with applicable Australian Accounting Standards (which include Australian Accounting Interpretations), the requirements of the Public Finance and Audit Act 1883, Public Finance and Audit Regulation 2010 and the Financial Reporting Directions published in the Financial Reporting Code for Budget Dependent General Government Sector Agencies or issued the Treasurer under section 9(2) (n) of the Act. The requirements of the Health Services Act 1997 and its regulations including the Accounts and Audit Determination for Public Health Organisations have also

Apart from the basis for the Organisation's budget figures, the financial statements comply with the Financial Reporting Code for Budget Dependent General Government Sector Agencies. Further information on the budget figures can be found at Note 2(ac).

Notwithstanding the consolidated entity has a working capital deficiency of \$50.653 million and in recognition that a significant portion of current annual leave entitlements are not expected to be settled in the next 12 months, the financial statements of Health Reform Transitional Organisation Southern have been prepared on a going concern basis.

**Health Reform Transitional Organisation Southern  
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As has been the case in prior years, the NSW Department of Health issued a letter of financial support on 21 September 2011 confirming that the Health Reform Transitional Organisation receives each year funding from monies appropriated to the Minister from the Consolidated Fund in accordance with Section 127 of the Health Services Act 1997.

These appropriated funds, combined with other revenues earned, are applied to pay its debts as and when they become due and payable.

**Statement of Compliance**

The consolidated and parent entity financial statements and notes comply with Australian Accounting Standards, which include Australian Accounting Interpretations.

**Other**

Property, plant and equipment, investment property, assets (or disposal groups) held for sale and financial assets at "fair value through profit and loss" and available for sale are measured at fair value. Other financial statement items are prepared in accordance with the historical cost convention.

The consolidated entity has a deficiency of working capital of \$50.653 million. Notwithstanding that a deficiency exists the financial statements have been prepared on a going concern basis because the NSW Department of Health will provide ongoing financial support to the Organisation in accordance with the Appropriation Act to enable the Organisation to pay its debts as and when they fall due (ref. Note 37).

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

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

No comparative information is given as this is the Health Reform Transitional Organisation Southern's first reporting period.

No new or revised accounting standards or interpretations are adopted earlier than their prescribed date of application. Set out below are changes to be effected, their date of application and the possible impact on the financial statements of the Health Reform Transitional Organisation Southern.

**Accounting Standard/Interpretation**

AASB 2010-07, *Financial Instruments*, arising from the issuance of AASB 9, *Financial Instruments*, in December 2010, has mandatory application from 1 July 2013 and will not be early adopted by the Organisation.

AASB 1053 and AASB 2010-2, *Application of Tiers of Australian Accounting Standards*, have application from 1 July 2013 and may result in a lessening of reporting requirements, dependent on the mandate of Treasury.

AASB 2010-6, *Disclosures on Transfers of Financial Assets*, has mandatory application from 1 July 2011 and is assessed as having no impact on the Organisation.

AASB 2009-10, *Classification of Rights Issue*, has application from 1 July 2010 and provides clarification concerning equity instruments which have no material impact on the Health Service.

AASB 2010-8, *Deferred Tax: Recovery of Underlying Assets*, has mandatory application from 1 July 2012 but will have no impact on the Organisation.

AASB 2010-9, *Severe Hyperinflation and Removal of Fixed Dates for First Time Adopters*, has application from 1 July 2011 and is assessed as having no impact on the Organisation.

**Health Reform Transitional Organisation Southern  
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AASB 2010-10, *Removal of Fixed Dates for First Time Adopters*, has application from 1 July 2013 and is assessed as having no impact on the Organisation.

AASB 2009-14, *Prepayments of a Minimum Funding Requirement*, applies from 1 January 2011 and principally addresses contributions relating to future service. It has no impact on the Organisation.

Other significant accounting policies used in the preparation of these financial statements are as follows:

**a) Employee Benefits and Other Provisions**

**i) Salaries & Wages, Annual Leave, Sick Leave and On-Costs**

At the consolidated level of reporting, liabilities for salaries and wages (including non-monetary benefits), annual leave and paid sick leave that are due to be settled within 12 months after the end of the period in which the employees render the service are recognised and measured in respect of employees' services up to the reporting date at undiscounted amounts based on the amounts expected to be paid when the liabilities are settled.

All Annual Leave employee benefits are reported as "Current" as there is an unconditional right to payment. Current liabilities are then further classified as "Short Term" or "Long Term" based on past trends and known resignations and retirements. Anticipated payments to be made in the next twelve months are reported as "Short Term". On-costs of 17.00% are applied to the value of leave payable at 30 June 2011, such on-costs being consistent with actuarial assessment.

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.

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

**ii) Long Service Leave and Superannuation**

Responsibility for Long Service Leave liability attached to employees of the Organisation transferred to the Crown Entity from the former South Eastern Sydney and Illawarra Area Health Service with effect from 31 December 2010 and, therefore, do not appear in the financial statements of the Organisation. As is the case with other Budget Sector agencies both the Defined Benefit Superannuation (State Authorities Superannuation Scheme and State Superannuation Scheme) and Long Service Leave liabilities are assumed by the Crown Entity.

Long Service Leave is measured at present value in accordance with AASB119, *Employee Benefits*. This is based on the application of certain factors (specified in NSW Treasury Circular 11/06) to employees with five or more years of service, using current rates of pay. These approximate present value.

The Organisation liability for the closed superannuation pool schemes (State Authorities Superannuation Scheme and State Superannuation Scheme) is assumed by the Crown Entity. The Organisation 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". Any liability attached to Superannuation Guarantee Charge cover is reported in Note 25, "Payables".

**Health Reform Transitional Organisation Southern  
Notes to and forming part of the Financial Statements  
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The superannuation expense for the reporting period is determined by using the formulae specified by the NSW Department of Health. The expense for certain superannuation schemes (ie Basic Benefit and First State Super) is calculated as a percentage of the employees' salary. For other superannuation schemes (ie State Superannuation Scheme and State Authorities Superannuation Scheme), the expense is calculated as a multiple of the employees' superannuation contributions.

**Health Reform Transitional Organisation Southern**  
**Notes to and forming part of the Financial Statements**  
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**iii) Other Provisions**

Other provisions exist when: the Organisation 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.

**b) Insurance**

The Organisation's insurance activities are conducted through the NSW Treasury Managed Fund Scheme of self insurance for Government Agencies. The expense (premium) is determined by the Fund Manager based on past Area Health Service claim experience.

**c) Finance Costs**

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

**d) Income Recognition**

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

*Sale of Goods*

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

*Rendering of Services*

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

*Patient Fees*

Patient Fees are derived from chargeable inpatients and non-inpatients on the basis of rates specified by the NSW Department of Health from time to time.

*Investment Revenue*

Interest revenue is recognised using the effective interest method as set out in AASB139, Financial Instruments: Recognition and Measurement. Rental revenue is recognised in accordance with AASB117 Leases on a straight line basis over the lease term. Dividend revenue is recognised in accordance with AASB118 Revenue when the Organisation's right to receive payment is established.

Royalty revenue is recognised in accordance with AASB118 on an accrual basis in accordance with the substance of the relevant agreement.

*Debt Forgiveness*

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

*Use of Hospital Facilities*

Specialist doctors with rights of private practice are subject to an infrastructure charge for the use of hospital facilities at rates determined by the NSW Department of Health. Charges consist of two components:

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

**Health Reform Transitional Organisation Southern  
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*Use of Outside Facilities*

The Organisation uses a number of facilities owned and maintained by the local authorities in the area to deliver community health services for which no charges are raised by the authorities. The cost method of accounting is used for the initial recording of all such services. Cost is determined as the fair value of the services given and is then recognised as revenue with a matching expense.

*Grants and Contributions*

Grants and Contributions are generally recognised as revenues when the Organisation obtains control over the assets comprising the contributions. Control over contributions is normally obtained upon the receipt of cash.

*NSW Department of Health Allocations*

Payments are made by the NSW Department of Health on the basis of the allocation for the Organisation as adjusted for approved supplementations mostly for salary agreements and approved enhancement projects. This allocation is included in the Statement of Comprehensive Income before arriving at the "Result for the Period" on the basis that the allocation is earned in return for the health services provided on behalf of the Department. Allocations are normally recognised upon the receipt of Cash.

**e) Accounting for the Goods & Services Tax (GST)**

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

- \* the amount of GST incurred by the Organisation as a purchaser that is not recoverable from the Australian Taxation Office is recognised as part of the cost of acquisition of an asset 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.

**f) Acquisition of Assets**

The cost method of accounting is used for the initial recording of all acquisitions of assets controlled by the Organisation. 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 specific requirements of other Australian Accounting Standards.

Assets acquired at no cost, or for nominal consideration, are initially recognised as assets and revenues at their fair value at the date of acquisition (See also assets transferred as a result of an equity transfer Note 2(y)).

Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

Where payment for an asset is deferred beyond normal credit terms, its cost is the cash price equivalent, ie the deferred payment amount is effectively discounted at an asset-specific rate.

Land and Buildings which are owned by the Health Administration Corporation or the State and administered by the Organisation are deemed to be controlled by the Organisation and are reflected as such in the financial statements.

**g) Capitalisation Thresholds**

Individual items of property, plant & equipment are capitalised where their cost is \$10,000 or above.

**Health Reform Transitional Organisation Southern**  
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**h) Depreciation of Property, Plant and Equipment**

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

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

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

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

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

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

Physical non-current assets are valued in accordance with the NSW Department of Health's "Valuation of Physical Non-Current Assets at Fair Value" policy. This policy adopts fair value in accordance with AASB116, *Property, Plant and Equipment* and AASB140, *Investment Property*. Investment property is separately discussed at Note 2(o).

Property, plant and equipment is measured on an existing use basis, where there are no feasible alternative uses in the existing natural, legal, financial and socio-political environment. However, in the limited circumstances where there are feasible alternative uses, assets are valued at their highest and best use.

The policy requirements of the NSW Department of Health require the Organisation to revalue its Land and Buildings and Infrastructure at minimum every three years by independent valuation.

Non-specialised assets with short useful lives are measured at depreciated historical cost, as a surrogate for fair value.

When revaluing non-current assets by reference to current prices for assets newer than those being revalued (adjusted to reflect the present condition of the assets), the gross amount and the related accumulated depreciation are separately restated.

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

Revaluation increments are credited directly to the asset revaluation reserve, except that, to the extent that an increment reverses a revaluation decrement in respect of that class of asset previously recognised as an expense in the Result for the Period, the increment is recognised immediately as revenue in the Result for the Period.



**Health Reform Transitional Organisation Southern**  
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Revaluation decrements are recognised immediately as expenses in the Result for the Period, except that, to the extent that a credit balance exists in the asset revaluation reserve in respect of the same class of assets, they are debited directly to the asset revaluation reserve.

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

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

**j) Impairment of Property, Plant and Equipment**

As a not-for-profit entity with no cash generating units, the Organisation is effectively exempt from AASB 136 Impairment of Assets and impairment testing. This is because AASB136 modifies the recoverable amount test to the higher of fair value less costs to sell and depreciated replacement cost. This means that, for an asset already measured at fair value, impairment can only arise if selling costs are regarded as material. Selling costs are regarded

**k) Assets Not Able to be Reliably Measured**

The Organisation may at times hold certain assets that are not recognised in the Statement of Financial Position because the Organisation is unable to measure reliably the value of the assets. The Organisation has not identified any assets which are not able to be reliably measured.

**l) Restoration Costs**

The estimated cost of dismantling and removing an asset and restoring the site is included in the cost of an asset, to the extent it is recognised as a liability.

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

The Organisation has certain non-current assets (or disposal groups) classified as held for sale, where their carrying amount will be recovered principally through a sale transaction, not through continuing use. Non-current assets (or disposal groups) held for sale are recognised at the lower of carrying amount and fair value less costs to sell. These assets are not depreciated while they are classified as held for sale.

**n) Investment Properties**

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

**o) Intangible Assets**

The Organisation recognises intangible assets only if it is probable that future economic benefits will flow to the Organisation and the cost of the asset can be measured reliably. Intangible assets are measured initially at cost. Where an asset is acquired at no or nominal cost, the cost is its fair value as at the date of acquisition. All research costs are expensed. Development costs are only capitalised when certain criteria are met.

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

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

Computer software developed or acquired by the Organisation are recognised as intangible assets and are amortised over three years using the straight line method based on the useful life of the asset for both internally developed assets and direct acquisitions.

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.

**Health Reform Transitional Organisation Southern  
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**p) Maintenance**

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

**Health Reform Transitional Organisation Southern  
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**q) Leased Assets**

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

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

Operating lease payments are charged to the Statement of Comprehensive Income in the periods in which they are incurred.

**r) Inventories**

Inventories 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 non current replacement cost that is lower than the carrying amount. Costs are assigned to individual items of stock mainly on the basis of weighted average costs. All inventory at year end is to be consumed in the course of business and is not held for distribution.

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

**s) Loans and Receivables**

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

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

**t) Investments**

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

\* Fair value through profit or loss - The Health Reform Transitional Organisation Southern subsequently measures investments classified as "held for trading" or designated upon initial recognition "at fair value through profit or loss" at fair value. Financial assets are classified as "held for trading" if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading. Gains or losses on these assets are recognised in the Result for the Period.

The Hour-Glass Investment facilities are designated at fair value through profit or loss using the second leg of the fair value option i.e. these financial assets are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management strategy, and information about these assets is provided internally on that basis to the agency's key management personnel.

The risk management strategy of the Organisation has been developed consistent with the investment powers granted under the provision of the Public Authorities (Financial Arrangements) Act 1987. TCorp investments are made in an effort to improve interest returns on cash balances otherwise available whilst also providing secure investments guaranteed by the State market exposures.

**Health Reform Transitional Organisation Southern**  
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The movement in the fair value of the Hour-Glass Investment facilities incorporates distributions received as well as unrealised movements in fair value and is reported in the line item 'investment revenue'.

\* Held-to-maturity investments – Non-derivative financial assets with fixed or determinable payments and fixed maturity that the Health Reform Transitional Organisation Southern has the positive intention and ability to hold to maturity are classified as "held-to-maturity". These investments are measured at amortised cost using the effective interest method. Changes are recognised in the Result for the Period when impaired, derecognised or through the amortisation process.

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

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

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

**u) Impairment of financial assets**

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

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

When an available for sale financial asset is impaired, the amount of the cumulative loss is removed from equity and recognised in the Result for the Period, based on the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss previously recognised in the Result for the Period.

Any reversals of impairment losses are reversed through the Result for the Period where there is objective evidence, except reversals of impairment losses on an investment in an equity instrument classified as "available for sale" must be made through the reserve. Reversals of impairment losses of financial assets carried at amortised cost cannot result in a carrying amount that exceeds what the carrying amount would have been had there not been an impairment loss.

**v) De-recognition of financial assets and financial liabilities**

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

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

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

**Health Reform Transitional Organisation Southern  
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A financial liability is derecognised when the obligation specified in the contract is discharged or cancelled or expires.

**Health Reform Transitional Organisation Southern  
Notes to and forming part of the Financial Statements  
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**w) Payables**

These amounts represent liabilities for goods and services provided to the Organisation and other amounts. Payables are recognised initially at fair value, usually based on the transaction cost or face value. Subsequent measurement is at amortised cost using the effective interest method. Short-term payables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial.

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

**x) Borrowings**

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

The finance lease liability is determined in accordance with AASB 117, *Leases*.

**y) Equity Transfers**

The transfer of net assets between agencies as a result of an administrative restructure, transfers of programs/functions and parts thereof between NSW public sector agencies is designated or required by Accounting Standards to be treated as contributions by owners and is recognised as an adjustment to "Accumulated Funds". This treatment is consistent with AASB1004, *Contributions* and Australian 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 departments are recognised at the amount at which the asset was recognised by the transferor immediately prior to the restructure. Subject to below, in most instances this will approximate fair value.

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

**z) Equity and Reserves**

**(i) Asset Revaluation Reserve**

The asset revaluation reserve is used to record increments and decrements on the revaluation of non-current assets. This accords with the Organisation's policy on the revaluation of property, plant and equipment as discussed in Note 2(i).

**(ii) Accumulated Funds**

The category "accumulated funds" includes all current and retained funds from the former Area Health Service.

**(iii) Separate Reserves**

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

**aa) Trust Funds**

The Organisation receives monies in a trustee capacity for various trusts as set out in Note 30. As the Organisation performs only a custodial role in respect of these monies, and because the monies cannot be used for the achievement of the Organisation's own objectives, they are not brought to account in the financial statements.

**ab) Budgeted Amounts**

**Health Reform Transitional Organisation Southern  
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The budgeted amounts are drawn from the budgets agreed with the NSW Department of Health at the beginning of the financial reporting period and with any adjustments for the effects of additional supplementation provided. The budget figures are unaudited.

**Health Reform Transitional Organisation Southern  
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**ac) Organisation Group Statements Allocation Methodology**

General Fund Expenses are assigned to service groups in accordance with statistical data of the former Area Health Service for the six months ended 31 December 2010 and special purpose expenses and all revenues for twelve months ended 30 June 2010 which is then applied to the current period's financial information. The same methodology is applied to attribute assets and liabilities to each service group.

In respect of assets and liabilities the Department requires that all Networks/Organisation take action to identify those components that can be specifically identified and reported by service groups. Remaining values are attributed to service groups in accordance with values advised by the NSW Department of Health, e.g. depreciation/amortisation charges form the basis of apportioning the values for Intangibles and Property, Plant & Equipment.



**Health Reform Transitional Organisation Southern**  
**Notes to and forming part of the Financial Statements**  
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PARENT 2011 \$000		CONSOLIDATION 2011 \$000
<b>3. Employee Related</b>		
Employee related expenses comprise the following:		
0	Salaries and Wages	89,509
0	Awards	3,796
0	Superannuation - Defined Benefit Plans	3,766
0	Superannuation - Defined Contribution Plans	8,232
0	Long Service Leave	3,275
0	Annual Leave	7,526
0	Sick Leave and Other Leave	3,213
0	Redundancies	838
0	Workers' Compensation Insurance	2,142
<u>0</u>	<b>Total</b>	<u>122,297</u>
	No employee related expenses were capitalised during the reporting period	0
<b>4. Personnel Services</b>		
Personnel Services comprise the following:		
89,509	Salaries and Wages	0
3,796	Awards	0
3,766	Superannuation - Defined Benefit Plans	0
8,232	Superannuation - Defined Contribution Plans	0
3,275	Long Service Leave	0
7,526	Annual Leave	0
3,213	Sick Leave and Other Leave	0
838	Redundancies	0
2,142	Workers' Compensation Insurance	0
#REF!	Fringe Benefit Tax	0
<u>#REF!</u>	<b>Total</b>	<u>0</u>
	No employee related expenses were capitalised during the reporting period	
<b>5. Other Operating Expenses</b>		
139	Blood and Blood Products	139
1,004	Domestic Supplies and Services	1,004
388	Drug Supplies	388
153	Food Supplies	153
1,250	Fuel, Light and Power	1,250
13,489	General Expenses (See (b) below)	13,489
94	Hospital Ambulance Transport Costs	94
8,809	Information Management Expenses	8,809
1,193	Insurance	1,193
	Maintenance (See (c) below)	
3,372	Maintenance Contracts	3,372
4,774	New/Replacement Equipment under \$10,000	4,774
917	Repairs Maintenance/Non Contract	917
281	Other	281
1,673	Medical and Surgical Supplies	1,673
2,228	Postal and Telephone Costs	2,228
676	Printing and Stationery	676
207	Rates and Charges	207
1,271	Rental	1,271
11,616	Special Service Departments	11,616
2,231	Staff Related Costs	2,231
40,084	Sundry Operating Expenses (See (a) below)	40,084
1,890	Travel Related Costs	1,890
<u>97,739</u>		<u>97,739</u>

**Health Reform Transitional Organisation Southern**  
**Notes to and forming part of the Financial Statements**  
**for the Six Months Ended 30 June 2011**

PARENT 2011 \$000		CONSOLIDATION 2011 \$000
	(a) Sundry Operating Expenses comprise:	
39,088	Contract for Patient Services	39,088
996	Isolated Patient Travel and Accommodation Assistance Scheme	996
<u>40,084</u>		<u>40,084</u>
	(b) General Expenses include:-	
194	Advertising	194
68	Books, Magazines and Journals	68
	Consultancies	
440	- Operating Activities	440
7	- Capital Works	7
522	Courier and Freight	522
165	Auditor's Remuneration - Audit of Financial Statements	165
32	Auditor's Remuneration - Other Services	32
225	Data Recording and Storage	225
137	Legal Services	137
99	Membership/Professional Fees	99
705	Motor Vehicle Expenses	705
702	Motor Vehicle Operating Lease Expense - Minimum Lease Payments	702
1,514	Other Operating Lease Expense - Minimum Lease Payments	1,514
40	Payroll Services	40
191	Quality Assurance/Accreditation	191
12	Translator Services	12
304	Security Services	304
3,497	Other	3,497
3,682	- SCS Financial	3,682
774	- Other Management Services	774
76	- Patient Support Services	76
103	- Financial Services	103
<u>13,489</u>		<u>13,489</u>
	(c) Reconciliation Total Maintenance	
9,344	Maintenance Expense - Contracted Labour and Other (Non Employee Related included in Note 5	9,344
1,274	Employee Related/Personnel Services Maintenance included in Notes 3 and 4	1,274
<u>10,618</u>	Total Maintenance Expenses included in Notes 3,4 and 5	<u>10,618</u>
	<b>6. Depreciation and Amortisation</b>	
112	Depreciation - Buildings	112
3,705	Depreciation - Plant and Equipment	3,705
0	Depreciation - Infrastructure Systems	0
0	Amortisation - Intangible Assets	0
<u>3,817</u>		<u>3,817</u>
	<b>7. Grants and Subsidies</b>	
9,168	Non-Government Voluntary Organisations	9,168
92	Community Aged Care Packages	92
236	Grants to COMPACS	236
0	Research Organisations	0
0	Promotion of Research	0
16	Budget Sector Other Grants	16
1,334	Other	1,334
<u>10,846</u>		<u>10,846</u>
	<b>8. Finance Costs</b>	
485	Interest on Bank Overdrafts and Loans	485
25	Other Interest Charges	25
<u>510</u>		<u>510</u>

**Health Reform Transitional Organisation Southern  
Notes to and forming part of the Financial Statements  
for the Six Months Ended 30 June 2011**

PARENT 2011 \$000		CONSOLIDATION 2011 \$000
<b>9. Sale of Goods and Services</b>		
(a) Sale of Goods comprise the following:-		
84	Sales of Prosthesis	84
11	Other - Equipment Sales	11
<u>95</u>		<u>95</u>
(b) Rendering of Services comprise the following:-		
1,604	Patient Fees	1,604
5	Staff-Meals and Accommodation	5
15,813	Infrastructure Fees - Monthly Facility Charge [see note 2(d)]	15,813
2,522	- Annual Charge	2,522
7	Car Parking	7
5	Child Care Fees	5
62,265	Commercial Activities	62,265
21	Fees for Medical Records	21
2,656	Highly Specialised Drugs	2,656
0	Information Retrieval	0
18,264	Patient Inflows from Interstate [see note (c) below]	18,264
754	Salary Packaging Fee	754
593	Services Provided to Non NSW Health Organisations	593
61,958	Services provided to Health Services by HRTO	61,958
21,582	Corporate Services provided to Health Services by HRTO	21,582
977	Other	977
<u>189,026</u>		<u>189,026</u>
<u>189,121</u>		<u>189,121</u>
(c) Revenues from Patient Inflows from Interstate are as follows:-		
3,927	Australian Capital Territory	3,927
1,479	Queensland	1,479
475	South Australia	475
11,324	Victoria	11,324
1,059	Other	1,059
<u>18,264</u>		<u>18,264</u>
<b>10. Investment Revenue</b>		
Interest		
645	- T Corp Hour Glass Investment Facilities Designated at Fair Value through Profit or Loss	645
181	- Other	181
329	Lease and Rental Income	329
0	Other	0
<u>1,155</u>		<u>1,155</u>

**Health Reform Transitional Organisation Southern  
Notes to and forming part of the Financial Statements  
for the Six Months Ended 30 June 2011**

<b>PARENT</b>		<b>CONSOLIDATION</b>
2011		2011
\$000		\$000
	<b>11. Grants and Contributions</b>	
837	Clinical Drug Trials	837
843	Commonwealth Government Grants	843
0	Commonwealth Teaching Hospital Grants	0
376	Industry Contributions/Donations	376
6,466	Cancer Institute Grants	6,466
132	Research Grants	132
225	Other Grants	225
<u>8,879</u>		<u>8,879</u>
	<b>12. Other Revenue</b>	
	Other Revenue comprises the following:-	
8	Commissions	8
63	Conference and Training Fees	63
17	Sponsorship Income	17
573	Treasury Managed Fund Hindsight Adjustment	573
157	Other	157
<u>818</u>		<u>818</u>
	<b>13. Gain/(Loss) on Disposal</b>	
3,246	Property Plant and Equipment	3,246
<u>2,850</u>	Less Accumulated Depreciation	<u>2,850</u>
<b>396</b>	<b>Written Down Value</b>	<b>396</b>
<u>301</u>	Less Proceeds from Disposal	<u>301</u>
<u>(95)</u>	<b>Gain/(Loss) on Disposal of Property Plant and Equipment</b>	<u>(95)</u>
	<b>14. Other Gains/(Losses)</b>	
<u>(1,513)</u>	Impairment of Receivables	<u>(1,513)</u>
<u>(1,513)</u>		<u>(1,513)</u>

**Health Reform Transitional Organisation Southern**  
**Notes to and forming part of the Financial Statements**  
**for the Six Months Ended 30 June 2011**

**PARENT & CONSOLIDATION**

**15. Conditions on Contributions**

	Purchase of Assets	Health Promotion, Education and Research	Other	Total
	\$000	\$000	\$000	\$000
Contributions recognised as revenues during the current reporting period for which expenditure in the manner specified had not occurred as at balance date	17	2,283	160	2,460
Contributions recognised in equity transfer as at 1 January 2011 which were not expended in the current reporting period	685	13,594	958	15,237
<b>Total amount of unexpended contributions as at balance date</b>	<b>702</b>	<b>15,877</b>	<b>1,118</b>	<b>17,697</b>
Comment on restricted assets appears in Note 24				

**Health Reform Transitional Organisation Southern**  
**Notes to and forming part of the Financial Statements**  
**for the Six Months Ended 30 June 2011**

**16. Service Groups**

**Service Group 1.1 - Primary and Community Based Services**

Service Description: This service group covers the provision of health services to persons attending community health centres or in the home, including health promotion activities, community based women's health, dental, drug and alcohol and HIV/AIDS services. It also covers the provision of grants to non-Government organisations for community health purposes.

Objective: This service group contributes to making prevention everybody's business and strengthening primary health and continuing care in the community by working towards a range of intermediate results that include the following:

- improved access to early intervention, assessment, therapy and treatment services for claims in a home or community setting
- reduced rate of avoidable hospital admissions for conditions identified in the State Plan that can be appropriately treated in the community and
- reduced rate of hospitalisation from fall-related injury for people aged 65 years and over.

**Service Group 1.2 - Aboriginal Health Services**

Service Description: This service group covers the provision of supplementary health services to Aboriginal people, particularly in the areas of health promotion, health education and disease prevention. (Note: This Service Group excludes most services for Aboriginal people provided directly by Local Health Networks and other general health services which are used by all members of the community).

Objective: This service group contributes to ensuring a fair and sustainable health system by working towards a range of intermediate results that include the following:

- the building of regional partnerships for the provision of health services
- raising the health status of Aboriginal people and
- promoting a healthy lifestyle.

**Service Group 1.3 - Outpatient Services**

Service Description: This service group covers the provision of services provided in outpatient clinics including low level emergency care, diagnostic and pharmacy services and radiotherapy treatment.

Objective: This service group contributes to creating better experiences for people using health services and ensuring a fair and sustainable health system by working towards a range of intermediate results including improving, maintaining or restoring the health of ambulant patients in a hospital setting through diagnosis, therapy, education and treatment services.

**Service Group 2.1 - Emergency Services**

Service Description: This service group covers the provision of emergency ambulance services and treatment of patients in designated emergency departments of public hospitals.

Objective: This service group contributes to creating better experiences for people using the health system by working towards a range of intermediate results including reduced risk of premature death or disability by providing timely emergency diagnostic treatment and transport services.

**Service Group 2.2 - Inpatient Hospital Services**

Service Description: This service group covers the provision of health care to patients admitted to public hospitals.

Objective: This service group contributes to creating better experiences for people using the health system by working towards a range of intermediate results that include the following:

- timely treatment of booked surgical patients, resulting in improved clinical outcomes, quality of life and patient satisfaction and
- reduced rate of unplanned and unexpected hospital readmissions.

**Health Reform Transitional Organisation Southern**  
**Notes to and forming part of the Financial Statements**  
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**Service Group 3.1 - Mental Health Services**

Service Description: This service group covers the provision of an integrated and comprehensive network of services by Networks and community based organisations for people seriously affected by mental illness and mental health problems. It also includes the development of preventative programs which meet the needs of specific client groups.

Objective: This service group contributes to strengthening primary health and continuing care in the community by working towards a range of intermediate results that include the following:

- improving the health, wellbeing and social functioning of people with disabling mental disorders and
- reducing the incidence of suicide, mental health problems and mental disorders in the community.

**Service Group 4.1 - Rehabilitation and Extended Care Services**

Service Description: This service group covers the provision of appropriate health care services for persons with long-term physical and psycho-physical disabilities and for the frail-aged. It also includes the coordination of the Department's services for the aged and disabled, with those provided by other agencies and individuals.

Objective: This service group contributes to strengthening primary health and continuing care in the community and creating better experiences for people using the health system by working towards a range of intermediate results including improving or maintaining the wellbeing and independent functioning of people with disabilities or chronic conditions, the frail and terminally ill.

**Service Group 5.1 - Population Health Services**

Service Description: This service group covers the provision of health services targeted at broad population groups including environmental health protection, food and poisons regulation and monitoring of communicable diseases.

Objective: This service group contributes to making prevention everybody's business by working towards a range of intermediate results that include the following:

- reduced incidence of preventable disease and disability and
- improved access to opportunities and prerequisites for good health.

**Service Group 6.1 - Teaching and Research**

Service Description: This service group covers the provision of professional training for the needs of the New South Wales health system. It also includes strategic investment in research and development to improve the health and wellbeing of the people of New South Wales.

Objective: This service group contributes to ensuring a fair and sustainable health system by working towards a range of intermediate results that include the following:

- developing the skills and knowledge of the health workforce to support patient care and population health and
- extending knowledge through scientific enquiry and applied research aimed at improving the health and wellbeing of the people of New South Wales.

**Health Reform Transitional Organisation Southern**  
**Notes to and forming part of the Financial Statements**  
**for the Six Months Ended 30 June 2011**

PARENT		CONSOLIDATION
2011		2011
\$000		\$000
<b>17. Cash and Cash Equivalents</b>		
15	Cash on Hand	15
8,752	Cash at Bank	8,752
192	Cash at Bank Capital	192
846	Short Term Deposits	846
<u>9,805</u>		<u>9,805</u>
Cash & cash equivalent assets recognised in the Statement of Financial Position are reconciled at the end of the financial year to the Statement of Cash Flows as follows:		
<u>9,805</u>	Cash and Cash Equivalents (per Statement of Financial Position)	<u>9,805</u>
<u>9,805</u>	Closing Cash and Cash Equivalents (per Statement of Cash Flows)	<u>9,805</u>
Refer to Note 37 for details regarding credit risk, liquidity risk and market risk arising from financial instruments.		
<b>18. Receivables</b>		
<b>Current</b>		
(a) Sale of Goods and Services		
9,768	- Patient Fees	9,768
39	- Other	39
0	Leave Mobility	0
54,309	Intra Health Receivables NSW Health	54,309
4,345	Good and Services Tax	4,345
715	Debtors SMP GST Infra Fee	715
2,873	Debtors Non Operating	2,873
4,130	Other Debtors	4,130
<u>76,179</u>	<b>Sub Total</b>	<u>76,179</u>
(6,474)	Less Allowance for Impairment	(6,474)
<u>69,705</u>	<b>Sub Total</b>	<u>69,705</u>
2,630	Prepayments	2,630
<u>72,335</u>	<b>Total</b>	<u>72,335</u>
(b) Movement in the Allowance for Impairment		
Sale of Goods and Services		
(4,121)	Balance at 1 January 2011	(4,121)
(26)	Amounts written off during the reporting period	(26)
0	Amounts recovered during the reporting period	0
(153)	Increase/(decrease) in Allowance Recognised in Result for the Six Months Ended 30 June 2011	(153)
<u>(4,300)</u>	Balance at 30 June	<u>(4,300)</u>
(c) Movement in the Allowance for Impairment		
Other Debtors		
(557)	Balance at 1 January 2011	(557)
(533)	Amounts written off during the reporting period	(533)
(71)	Amounts recovered during the reporting period	(71)
(1,013)	Increase/(decrease) in Allowance Recognised in Result for the Six Months Ended 30 June 2011	(1,013)
<u>(2,174)</u>	Balance at 30 June	<u>(2,174)</u>
<u>(6,474)</u>		<u>(6,474)</u>
(d) Sale of Goods and Services Receivables		
(Current and Non-Current) include:		
556	Patient Fees - Compensable	556
3,911	Patient Fees - Ineligible	3,911
5,301	Patient Fees - Other	5,301
<u>9,768</u>		<u>9,768</u>



**Health Reform Transitional Organisation Southern  
Notes to and forming part of the Financial Statements  
for the Six Months Ended 30 June 2011**

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

**Health Reform Transitional Organisation Southern  
Notes to and forming part of the Financial Statements  
for the Six Months Ended 30 June 2011**

**PARENT  
2011  
\$000**

**CONSOLIDATION  
2011  
\$000**

**19. Inventories**

**Current- Held for Distribution**

29	Drugs	29
4,839	Medical and Surgical Supplies	4,839
0	Food and Hotel Supplies	0
142	Engineering Supplies	142
<u>5,010</u>		<u>5,010</u>

**20. Financial Assets at Fair Value**

**Current**

13,416	Treasury Corporation - Hour-Glass Investment Facilities	13,416
<u>13,416</u>		<u>13,416</u>

**Health Reform Transitional Organisation Southern**  
**Notes to and forming part of the Financial Statements**  
**for the Six Months Ended 30 June 2011**

**PARENT**  
**2011**  
**\$000**

**CONSOLIDATION**  
**2011**  
**\$000**

**21. Property, Plant and Equipment**

	<b>Land and Buildings - Fair Value</b>	
11,381	Gross Carrying Amount	11,381
	Less Accumulated Depreciation and Impairment	1,758
<u>1,758</u>	Net Carrying Amount	<u>9,623</u>
<u>9,623</u>		
	<b>Plant and Equipment - Fair Value</b>	
72,159	Gross Carrying Amount	72,159
	Less Accumulated Depreciation and Impairment	41,126
<u>41,126</u>	Net Carrying Amount	<u>31,033</u>
<u>31,033</u>		
	<b>Infrastructure Systems - Fair Value</b>	
0	Gross Carrying Amount	0
	Less Accumulated Depreciation and Impairment	0
<u>0</u>	Net Carrying Amount	<u>0</u>
<u>0</u>		
	<b>Total Property, Plant and Equipment</b>	
<u>40,656</u>	<b>At Net Carrying Amount</b>	<u>40,656</u>

**PARENT AND CONSOLIDATION**

**21. Property, Plant and Equipment - Reconciliation**

	Land \$000	Buildings \$000	Work in Progress \$000	Plant and Equipment \$000	Infrastructure Systems \$000	Total \$000
<b>2011</b>						
Net Carrying Amount at 1 January 2011			0			0
Additions			38	1,289		1,327
Reclassifications						0
Recognition of Assets Held for Sale	(1,200)	(633)				(1,833)
Disposals				(397)		(397)
Administrative Restructures - Transfers In/(Out)	7,206	4,125	199	33,846		45,376
Net Revaluation Increment Less						
Revaluation Decrements						0
Impairment Losses (Recognised in "Other Gains/ Losses)						0
Depreciation Expense		(112)		(3,705)		(3,817)
Reclassifications to Intangibles						0
<b>Net Carrying Amount at 30 June 2011</b>	<b>6,006</b>	<b>3,380</b>	<b>237</b>	<b>31,033</b>	<b>0</b>	<b>40,656</b>

- (i) Land and Buildings include land owned by the Health Administration Corporation and administered by the Organisation [see note 2(f)].
- (ii) In accordance with the fair value requirements of AASB 116 the land, buildings and infrastructure assets have had a factor applied in relation to the movement in the market and variation in the building and infrastructure costs. The adjustment has been performed on a gross basis in accordance with note 2 (i). This factor gives consideration to the valuation of Physical Non-Current Assets at Fair Value. The following table details the indice applied to Non Current Assets as determined by the Land and Property Management Authority.

Year	Land	Buildings	Infrastructure
08/09	93	102	102
09/10	105	105	103
10/11	100	100	100

**Health Reform Transitional Organisation Southern**  
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**for the Six Months Ended to 30 June 2011**

**PARENT**

2011

\$000

**CONSOLIDATION**

2011

\$000

**22. Intangible Assets**

**Other**

2,409	Cost (Gross Carrying Amount)	2,409
2,409	Less Accumulated Amortisation and Impairment	2,409
<u>0</u>	<b>Net Carrying Amount</b>	<u>0</u>

**PARENT AND CONSOLIDATED**

**22. Intangibles - Reconciliation**

	Software	Other	Total
	\$000	\$000	\$000
<b>2011</b>			
Net Carrying Amount at 1 January 2011	0	0	0
Additions (From Internal Development or Acquired Separately)	0	0	0
Reclassifications from Plant & Equipment			
Assets Held for Sale			
Impairment Losses			
Amortisation (Recognised in Depreciation and Amortisation)	0	0	0
<b>Net Carrying Amount at 30 June 2011</b>	<b>0</b>	<b>0</b>	<b>0</b>

**23. Non-Current Assets (or Disposal Groups) Held for Sale**

**Assets Held for Sale**

1,833	Land and Buildings	1,833
0	Plant & Equipment	0
0	Infrastructure	0
<u>1,833</u>	<b>Total</b>	<u>1,833</u>

**Amounts Recognised in Equity Relating to Assets Held for Sale**

0	Available-for-Sale Asset Revaluation Increments/Decrements	0
<u>0</u>	<b>Total</b>	<u>0</u>

**24. Restricted Assets**

The Organisation's financial statements include the following assets which are restricted by externally imposed conditions, eg. Donor requirements. The assets are only available for application in accordance with the terms of the donor restrictions.

**Category**

4,562	Specific Purposes	4,562
1,060	Research Grants	1,060
<u>12,075</u>	Private Practice Funds	<u>12,075</u>
<u>17,697</u>	<b>Total</b>	<u>17,697</u>

**Health Reform Transitional Organisation Southern**  
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<b>PARENT</b>		<b>CONSOLIDATION</b>
2011		2011
\$000		\$000
	<b>25. Payables</b>	
	<b>Current</b>	
4,093	Accrued Salaries, Wages and On-Costs	4,093
11,328	Taxation and Payroll Deductions	11,328
83	GST	83
29,402	Creditors	29,402
	Other Creditors	
92	- Capital Works	92
56,630	- Intra Health Liability	56,630
5,382	- Non Operating Creditors	5,382
5,646	- Other	5,646
<u>112,656</u>		<u>112,656</u>
	<b>26. Borrowings</b>	
	<b>Current</b>	
<u>3,310</u>	Other Loans and Deposits	<u>3,310</u>
<u>3,310</u>		<u>3,310</u>
	<b>Non-Current</b>	
<u>4,480</u>	Other Loans and Deposits	<u>4,480</u>
<u>4,480</u>		<u>4,480</u>
	No assets have been pledged as security/collateral for liabilities and there are no restrictions on any title to property	
	Other loans still to be extinguished represent monies to be repaid to the Health Services Support and NSW Department of Health.	
	Final Repayment is scheduled for 2015/16.	
	<b>27. Provisions</b>	
	<b>Current Employee Benefits and Related On-Costs</b>	
24,459	Annual Leave - Short Term Benefit	24,459
9,811	Annual Leave - Long Term Benefit	9,811
0	Long Service Leave - Short Term Benefit	0
0	Long Service Leave - Long Term Benefit	0
2,607	Long Service Leave On Costs	2,607
0	Provision for Personnel Services Liability	0
<u>36,877</u>	<b>Total Current Provisions</b>	<u>36,877</u>
	<b>Non Current Employee Benefits and Related On-Costs</b>	
0	Long Service Leave - Conditional	0
137	Long Service Leave On Costs	137
<u>137</u>	<b>Total Non-Current Provisions</b>	<u>137</u>
	<b>Aggregate Employee Benefits and Related On-Costs</b>	
36,877	Provisions - Current	36,877
137	Provisions - Non-Current	137
15,421	Accrued Salaries, Wages and On-Costs (Note 25)	15,421
<u>52,435</u>		<u>52,435</u>
	<b>28. Other Liabilities</b>	
	<b>Current</b>	
<u>209</u>	Income in Advance	<u>209</u>
<u>209</u>		<u>209</u>

**Health Reform Transitional Organisation Southern**  
**Notes to and forming part of the Financial Statements**  
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PARENT		CONSOLIDATION
<b>2011</b> <b>\$000</b>	<b>29. Commitments for Expenditure</b>	<b>2011</b> <b>\$000</b>
	<b>(a) Capital Commitments</b> Aggregate capital expenditure for the acquisition of land and buildings, plant and equipment, infrastructure and intangible assets, contracted for at balance date and not provided for:	
1,101	Not later than one year	1,101
0	Later than one year and not later than five years	0
0	Later than five years	0
<b>1,101</b>	<b>Total Capital Expenditure Commitments (Including GST)</b>	<b>1,101</b>
	Of the commitments reported at 30 June 2011 it is expected that \$0 will be met from locally generated moneys.	
	<b>(b) Other Expenditure Commitments</b> Aggregate other expenditure contracted for the acquisition of Goods and Services contracted for at balance date and not provided for:	
1,243	Not later than one year	1,243
1,750	Later than one year and not later than five years	1,750
0	Later than five years	0
<b>2,993</b>	<b>Total Other Expenditure Commitments (Including GST)</b>	<b>2,993</b>
	<b>(c) Operating Lease Commitments</b> Commitments in relation to non-cancellable operating leases are payable as follows:	
3,701	Not later than one year	3,701
5,904	Later than one year and not later than five years	5,904
63	Later than five years	63
<b>9,668</b>	<b>Total Operating Lease Commitments (Including GST)</b>	<b>9,668</b>
	The operating lease commitments above are for motor vehicles, information technology, equipment including personal computers, medical equipment and other equipment.	
	<b>(d) Contingent Asset Related to Commitments for Expenditure</b> The total of "Commitments for Expenditure" above, i.e. \$10.122 million as at 30 June 2011 includes input tax credits of \$1.012m that are expected to be recoverable from the Australian Taxation Office.	

**Health Reform Transitional Organisation Southern**  
**Notes to and forming part of the Financial Statements**  
**for the Six Months Ended 30 June 2011**

**PARENT AND CONSOLIDATION**

**30. Trust Funds**

The Organisation holds trust fund moneys of \$0.076 million which are used for the safe keeping of patients' monies, deposits on hired items of equipment and Private Practice Trusts. These monies are excluded from the financial statements as the Organisation cannot use them for the achievement of its objectives. The following is a summary of the transactions in the trust account:

	Patient Trust	Refundable Deposits	Private Practice Trust Funds	Total
	2011 \$000	2011 \$000	2011 \$000	2011 \$000
Cash balance at the beginning of the financial reporting period	0	0	1,045	1,045
Receipts	1	0	15,549	15,550
Expenditure	0	0	(16,519)	(16,519)
Cash balance at the end of the financial reporting period	1	0	75	76

**31. Contingent Liabilities/Contingent Assets**

**a) Claims on NSW Treasury Managed Fund**

The Networks/Organisations are members of the NSW Treasury Managed Fund. The predecessor organisations were also members since 1 July 1989. The Fund will pay to or on behalf of the Network/Organisation all sums which it shall become legally liable to pay by way of compensation or legal liability if sued except for employment related, discrimination and harassment claims that do not have statewide implications. The costs relating to such exceptions are to be absorbed by the Organisation. As such, since 1 July 1989, apart from the exceptions noted above no contingent liabilities exist in respect of liability claims against the Organisation or the former Area Health Services. A Solvency Fund (now called Pre-Managed Fund Reserve) was established to deal with the insurance matters incurred before 1 July 1989 that were above the limit of insurance held or for matters that were incurred prior to 1 July 1989 that would have become verdicts against the State. That Solvency Fund will likewise respond to all claims against the Organisation.

**b) Workers Compensation Hindsight Adjustment**

NSW Treasury Managed Fund normally calculates hindsight premiums each year. However, in regard to workers compensation the final hindsight adjustment for the 2004/05 fund year and an interim adjustment for the 2006/07 fund year were not calculated until 2010/11. As a result, the 2005/06 final and 2007/08 interim hindsight calculations pertaining to the former South Eastern Sydney Illawarra Area Health Service will be paid in 2011/12.

It is not possible for the Organisation to reliably quantify the benefit to be received.

**c) Affiliated Health Organisations**

Based on the definition of control in Australian Accounting Standard AASB127, Consolidated and Separate Financial Statements, Affiliated Health Organisations listed in Schedule 3 of the Health Services Act, 1997 are only recognised in the Organisation's consolidated financial statements to the extent of cash payments made.

**Health Reform Transitional Organisation Southern  
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However, it is accepted that a contingent liability exists which may be realised in the event of cessation of health service activities by any Affiliated Health Organisation. In this event the determination of assets and liabilities would be dependent on any contractual relationship which may exist or be formulated between the administering bodies of the organisation, the Network and the Department.



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<b>PARENT</b>		<b>CONSOLIDATION</b>
2011		2011
\$000		\$000
<b>32. Reconciliation of Net Cash Flows from Operating Activities to Net Cost of Services</b>		
(6,545)	Net Cash Flows from Operating Activities	(6,545)
(3,817)	Depreciation	(3,817)
(261)	Allowance for Impairment	(261)
(15,472)	Acceptance by the Crown Entity of Employee Superannuation and LSL	(15,472)
11,131	Decrease/(Increase) in Provisions	11,131
16,211	Increase / (Decrease) in Prepayments and Other Assets	16,211
6,960	(Increase)/ Decrease in Creditors	6,960
(95)	Net Gain/ (Loss) on Sale of Property, Plant and Equipment	(95)
(53,141)	NSW Health Department Recurrent Allocations	(53,141)
(1,703)	NSW Health Department Capital Allocations	(1,703)
90	Asset Sale Proceeds Transferred to the NSW Department of Health	90
0	Cash Reimbursements from the Government	0
<u>(46,642)</u>	<b>Net Cost of Services</b>	<u>(46,642)</u>

**33. 2011 Voluntary Services**

It is considered impractical to quantify the monetary value of voluntary services provided to the Organisation.

**34. Unclaimed Moneys**

Unclaimed salaries and wages are paid to the credit of the NSW Treasury in accordance with the provisions of the *Industrial Relations Act, 1996*.

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

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

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**PARENT AND CONSOLIDATED**

**35 Budget Review - Parent and Consolidated**

**Net Cost of Services**

The actual Net Cost of Services was higher than budget by \$6.329m primarily due revenue budget not being fully allocated to the Local Hospital Network's.

**Result for the Year**

The result for the year from ordinary activities was lower than budget by \$49.980m. This was mainly due to subsidy budget adjustment not matching actuals.y.

**Assets and Liabilities**

The Current Asset variance is \$26.819m below budget was mainly due to Intra Health Receivables where settlements between ISLHN and SESLHN and Southern Transitional Organisation are yet to occur. The net variance for total assets is \$40.319m.

The Liabilities variance is \$3.008m higher than budget was mainly due to no budget adjustment for the transfer of Long Service Leave to the Crown Entity.

Movements in the level of the NSW Department of Health Recurrent Allocation that have occurred since the time of the initial allocation on 31 December 2010 are as follows:

	<b>\$'000</b>
Initial Allocation NCOS as per DOH Letter 1	217,331
Initial Allocation Rollover of Net Assets & Contributions	(6,475)
Balance Sheet and SPF Realignment	(9,375)
Award Increases	2,152
State Acceptance of Super Balance	655
Entity Transfers HRTO Southern - January 2011	(13,000)
Additional Bed Capacity & Planned Surgery Activity through COAG	(8,200)
AIDS Dementia and HIV Psychiatry Team	(409)
Organ & Tissue Donation	2,047
Statewide Clinical Leadership	81
Caring Together - Improving Workplace Culture	188
Hospitalist Training 2010-11	150
Population Health	158
Dementia Behaviour Management Advisory Services	(349)
Transitional Aged Care Program	(325)
Nurse/Midwife Strategy	(256)
Recoup Mental Health Program Budget in relation to HASI	(2,805)
Tsf to ISLHN and SCH JIRT	(299)
VMO Supplementation	414
Renal Service Enhancement	(700)
Interstate Patient Flows	(64,326)
Staff Specialist Allowance to LHN's	(2,169)
Voluntary Redundancy	1,881
Tsf LSL to the Crown	(10,171)
SASS/SSS Super Exp to Super Charge	233
Distribution of STO to LHN's	(83,540)
Doubtful Debts and G/L on Disposal to ISLHN	(403)
Doubtful Debts and G/L on Disposal to SESLHN	(623)
Shellharbour Hospital EF Adj to ISLHN	(429)
Albury Wodonga Health	14,375
Tsf LSL to ISLHN and SESLHN	8,482
Liquidity Assistance	56,530
Other Service Enhancements	(6,104)
Balance as per Statement of Comprehensive Income	<u>94,719</u>

**Note:**

1 IA Budget NCOS does not include new account A473999 Budget (Overrun)/Favourability \$19,889k

**Health Reform Transitional Organisation Southern**  
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**36. Increase/(Decrease) in Net Assets from Equity Transfers**

Net assets of (\$36.797) million transferred from the former South Eastern Sydney and Illawarra Area Health Service and the former Greater Southern Area Health Service with effect from 1st January 2011 commensurate with the responsibilities for health services assumed by the Health Reform Transitional Organisation Southern on that date in accordance with the provisions of the Health Services Act 1989.

Assets and Liabilities transferred are as follows:

	<b>\$000</b>
<b>Assets</b>	
Cash, Cash Equivalents and Financial Assets	32,088
Receivables	47,897
Inventories	5,062
Prepayments	9,932
Property Plant & Equipment	45,376
<b>Liabilities</b>	
Payables	(118,812)
Loans	(11,407)
Provisions	(48,135)
Income in Advance	(199)
<b>Increase/(Decrease) in Net Assets From Equity Transfers</b>	<b>(38,198)</b>

**Health Reform Transitional Organisation Southern**  
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**Note 37 Financial Instruments**

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

The Health Reform Transitional Organisation Southern main risks arising from financial instruments are outlined below, together with the Organisation'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 risk faced by the Health Reform Transitional Organisation Southern, to set risk limits and controls and monitor risks. Compliance with policies is monitored by the Audit Committee/Internal auditors on a regular and planned basis.

**(a) Financial Instrument Categories**

**PARENT and CONSOLIDATION**

<b>Financial Assets</b>		<b>Carrying</b>
<b>Class:</b>	<b>Category</b>	<b>Amount</b>
		<b>2011</b>
		<b>\$000</b>
Cash and Cash Equivalents (note 17)		9,805
Receivables (note 18) <sup>1</sup>	Loans and receivables (at amortised cost)	64,645
Financial Assets at Fair Value (note 20)	At fair value through profit or loss (designated as such upon initial recognition)	13,416
Available-for-Sale Financial Assets	(At fair value)	1,833
Total Financial Assets		<u>89,699</u>
<b>Financial Liabilities</b>		
Borrowings (note 26)	Financial liabilities	7,790
Payables (note 25) <sup>2</sup>	measured at	101,245
Other (note 28)	amortised cost	209
Total Financial Liabilities		<u>109,244</u>

**Notes**

<sup>1</sup> Excludes statutory receivables and prepayments (ie not within scope of AASB 7)

<sup>2</sup> Excludes statutory payables and unearned revenue (ie not within scope of AASB 7)

**Health Reform Transitional Organisation Southern**  
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**(b) Credit Risk**

Credit risk arises when there is the possibility of the Organisation's debtors defaulting on their contractual obligations, resulting in a financial loss to the Organisation. The maximum exposure to credit risk is generally represented by the carrying amount of the financial assets (net of any allowance for impairment).

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

Credit risk associated with the Health Reform Transitional Organisation Southern financial assets, other than receivables, is managed through the selection of counterparties and establishment of minimum credit rating standards.

The Health Reform Transitional Organisation Southern deposits held with NSW TCorp are guaranteed by the State.

**Cash**

Cash comprises cash on hand and bank balance deposited in accordance with Public Authorities (Financial Arrangements) Act approvals. Interest is earned on daily bank balances at rates of approximately 4.67% in 2010/11. The Tcorp Hour Glass cash facility is discussed in paragraph (d) below.

**Receivables - trade debtors**

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

The Health Reform Transitional Organisation Southern is not materially exposed to concentrations of credit risk to a single trade debtor or group of debtors. Of the total trade debtors balance at year end, \$0.00 related to debtors that were not past due and not considered impaired, and debtors of \$1.9m were past due but not considered impaired. Together these represent 31% of the total trade debtors. The Receivables include Patient Fees Compensables which are frequently not settled within 6 months of the date of the service provision due to the length of time it takes to settle legal claims. Most of the Health Reform Transitional Organisation Southern debtors are Health Insurance Companies or Compensation Insurers settling claims in respect of inpatient treatments. There are no debtors which are currently not past due or impaired whose terms have not been renegotiated.

Financial assets that are past due or impaired could be either 'sales of goods and services' or 'other debtors' in the 'receivables' category of the Statement of Financial Position. Patient Fees Ineligibles represent the majority of financial assets that are past due or impaired.

**Health Reform Transitional Organisation Southern**  
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2011	\$000		
	Total <sup>1,2</sup>	Past due but not impaired <sup>1,2</sup>	Considered impaired <sup>1,2</sup>
<3 months overdue	1,154	1,154	0
3 months - 6 months overdue	1,513	1,300	213
> 6 months overdue	8,271	4,078	4,193

**Notes**

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

2 The ageing analysis excludes statutory receivables, as these are not within the scope of AASB 7 and excludes receivables that are not past due and not impaired. Therefore, the "total" will not reconcile to the receivables total recognised in the statement of financial position.

**Authority Deposits**

The Health Reform Transitional Organisation Southern 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. For fixed term deposits, the interest rate payable by TCorp is negotiated initially and is fixed for the term of the deposit, while the interest rate payable on at call deposits can vary. The deposits at balance date were earning an average interest rate of 7.00% , while over the year the weighted average interest rate was 5.24% on a weighted average balance during the year of \$14.264m. None of these assets is past due or impaired.

**(c) Liquidity Risk**

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

The Organisation has negotiated no loan outside of arrangements with the NSW Department of Health or the Sustainable Energy Development Authority.

During the current and prior year, there were no defaults or breaches on any loans payable. No assets have been pledged as collateral. The Organisation's exposure to liquidity risk is considered significant. However the risk is minimised as the NSW Department of Health has indicated its ongoing financial support for the Organisation. (refer note 2)

The liabilities are recognised for amounts due to be paid in the future for goods or services received, whether or not invoiced. Amounts owing to suppliers (which are unsecured) are generally settled in accordance with the policy set by the NSW Department of Health. If trade terms are not specified, payment is also generally made no later than the end of the month following the month in which an invoice or a statement is received.

In those instances where settlement cannot be effected in accordance with the above, eg due to short term liquidity constraints, contact is made with creditors and terms of payment are negotiated which are suitable to both parties.

The table below summarises the maturity profile of the Health Reform Transitional Organisation Southern financial liabilities together with the interest rate exposure.

**Health Reform Transitional Organisation Southern  
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*Maturity Analysis and interest rate exposure of financial liabilities*

	Weighted Average Effective Int. Rate	Interest Rate Exposure \$'000				Maturity Dates		
		Nominal Amount <sup>1</sup>	Fixed Interest Rate	Variable Interest Rate	Non - Interest Bearing	< 1 Yr	1-5 Yr	> 5Yr
	%	\$000	\$000	\$000	\$000	\$000	\$000	
<b>2011</b>								
Payables:								
Accrued Salaries		4,093			4,093		4,093	
Wages, On-Costs and Payroll Deductions		11,328			11,328		11,328	
Creditors		97,235			97,235		97,235	
Borrowings:								
Bank Overdraft		0						
Non Interest Loans	5.27	5,206			5,206		2,499	
Other Loans and Deposits		2,584	2,584		603	1,981	1,981	
		120,446	2,584	0	117,862	115,966	4,480	
							0	

Notes:

<sup>1</sup> The amounts disclosed are the contractual undiscounted cash flows of each class of financial liabilities based on the earliest date on which the Organisation 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.

**Health Reform Transitional Organisation Southern**  
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**d) Market Risk**

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The Health Reform Transitional Organisation Southern exposures to market risk are primarily through interest rate risk on the Health Reform Transitional Organisation Southern borrowings and other price risks associated with the movement in the unit price of the Hour Glass Investment facilities. The Health Reform Transitional Organisation Southern has no exposure to foreign currency risk and does not enter into commodity contracts.

The effect on profit and equity due to a reasonably possible change in risk variable is outlined in the information below, for interest rate risk and other price risk. A reasonably possible change in risk variable has been determined after taking into account the economic environment in which the Health Reform Transitional Organisation Southern 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 assumes that all other variables remain constant.

*Interest rate risk*

Exposure to interest rate risk arises primarily through the Health Reform Transitional Organisation Southern interest bearing liabilities.

However, Networks are not permitted to borrow external to the NSW Department of Health (Sustainable Energy Development Authority loans which are negotiated through Treasury excepted). Both SEDA and NSW Department of Health loans are set at fixed rates and therefore are generally not affected by fluctuations in market rates. The Health Reform Transitional Organisation Southern does not account for any fixed rate financial instruments at fair value through profit or loss or as available-for-sale. Therefore, for these financial instruments, a change of interest rates would not affect profit or loss or equity. A reasonably possible change of +/-1% is used consistent with current trends in interest rates. The basis will be reviewed annually and amended where there is a structural change in the level of interest rate volatility. The Health Reform Transitional Organisation Southern exposure to interest rate risk is set out below.

	Carrying Amount \$'000	-1%		+1%	
		Profit	Equity	Profit	Equity
<b>2011</b>					
<b>Financial Assets</b>					
Cash and Cash Equivalents	9,805				
Receivables	64,645	-646	-646	646	646
Financial Assets at Fair Value	13,416	-134	-134	134	134
Other Financial Assets	0	0	0	0	0
<b>Financial Liabilities</b>					
Payables	101,245	-1,012	-1,012	1,012	1,012
Borrowings	7,790				



**Health Reform Transitional Organisation Southern**  
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*Other price risk - TCorp Hour-Glass facilities*

Exposure to 'other price risk' primarily arises through the investment in the TCorp Hour Glass Investment facilities, which are held for strategic rather than trading purposes. The Health Reform Transitional Organisation Southern has no direct equity investments. The Health Reform Transitional Organisation Southern holds units in the following Hour-Glass investment trusts:

Facility	Investment Sectors	Investment Horizon	2011 \$'000
Cash facility	Cash, money market instruments	Up to 2 years	846
Strategic cash facility	Cash, money market and other interest rate instruments	2 years to 4 years	2,146
Medium term growth facility	Cash, money market instruments, Australian and International bonds, listed property, Australian and International shares	4 years to 7 years	5,805
Long-term growth facility	Cash, money market instruments, Australian and International bonds listed property, Australian and International shares	7 years and over	5,465

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.

NSW TCorp as trustee for each of the above facilities is required to act in the best interest of the unitholders 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. However, TCorp, acts as manager for part of the Cash and Strategic Cash Facilities and also manages the Australian Bond portfolio. A significant portion of the administration of the facilities is outsourced to an external custodian.

Investment in the Hour Glass facilities limits the Health Reform Transitional Organisation Southern exposure to risk, as it allows diversification across a pool of funds, with different investment horizons and a mix of investments.

NSW TCorp provides sensitivity analysis information for each of the facilities, using historically based volatility information collected over a ten year period, quoted at two standard deviations (ie 95% probability) . The TCorp Hour Glass Investment facilities are designated at fair value through profit or loss and therefore any change in unit price impacts directly on profit (rather than equity).

A reasonable possible change is based on the percentage change in unit price multiplied by the redemption price as at 30 June each year for each facility ( as advised by TCorp).

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	Change in unit price	Impact on profit/loss
		2011 \$'000
Hour-Glass Investment - Cash facility	+/- 2.69%	23
Hour-Glass Investment - Strategic cash facility	+/- 5.08%	109
Hour-Glass Investment - Medium-term growth facility	+/- 7.35%	427
Hour-Glass Investment - Long-term growth facility	+/-9.60%	525

**(e) Fair Value recognised in the Statement of Financial Position**

The Health Reform Transitional Organisation Southern uses the following hierarchy for disclosing the fair value of financial instruments by valuation technique.

Level 1 - derived from quoted prices in active markets for identical assets/liabilities.

Level 2 - derived from inputs other than quoted prices that are observable directly or indirectly.

Level 3 - derived from valuation techniques that include inputs for the asset/liability not based on observable market data (unobservable inputs).

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	2011 Total \$'000
TCorp Hour-Glass Invt.Facility		14.262		14.262

(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 2011.

**Note 38 Post Balance Date Events**

There are no known post balance day events which affect the 2010/11 financial statements. However, the Health Services Amendment (Local Health Districts and Boards) Act 2011 No. 4 established Local Health Districts with effect from 1 July 2011 in lieu of the previous network structure. A local health district board has been established for each District with the Minister selecting the membership of each board so that the membership has an appropriate mix of skills and expertise to oversee and provide guidance to the district.

A revised governance framework, endorsed by the Minister of Health, requires the dissolution of the three Health Reform Transitional Organisations which operated in 2010/11 to oversight the establishment of Local Health Districts and provide specialty services. Under the revised framework the majority of staff and services will be assigned to Local Health Districts.

**END OF AUDITED FINANCIAL STATEMENTS**