



INDEPENDENT AUDITOR'S REPORT

Illawarra Shoalhaven Local Health Network

To Members of the New South Wales Parliament

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

Opinion

In my opinion, the financial statements:

- give a true and fair view of the financial position of the Network and the consolidated entity, as at 30 June 2011, and of the financial performance 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 cashflows.

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

The Chief Executive's Responsibility for the Financial Statements

The Chief Executive is responsible for the preparation and fair presentation of 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 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 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 entity's preparation and fair presentation of the financial statements 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 entity'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.

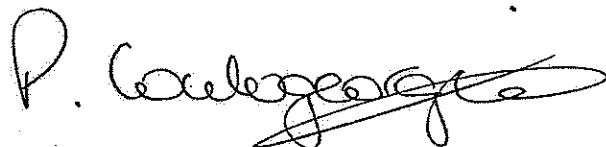
My opinion does *not* provide assurance:

- about the future viability of the Network or the consolidated entity
- that they have carried out their activities effectively, efficiently and economically
- about the effectiveness of their 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

8 December 2011
SYDNEY



**Certification of Parent/Consolidated Financial Statements
Illawarra Shoalhaven Local Hospital Network
For Six Months 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 Illawarra Shoalhaven Local Hospital Network.
- 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.

Chief Executive

Date 7/12/11

Monetary Misstatements and Disclosure Deficiencies in the Financial Statements

Auditing Standards require me to bring to your attention matters of governance interest which we identified during the audit of the financial statements. The following tables detail the effect of monetary misstatements and disclosure deficiencies in the financial statements.

The Act requires your agency to request the Auditor-General to approve amendments to the financial statements. Such amendments can delay the audit and may increase audit costs. Management can reduce the number of amendments by implementing additional review procedures. Monetary misstatements and disclosure deficiencies identified after the financial statements were submitted for audit, even if corrected, will be reported in the Statutory Audit Report and if indicative of systemic weaknesses will be reported in the Management Letter.

Corrected Monetary Misstatements

Description of Error/ Account Balance	Assets	Liabilities	Retained Earnings	Other Equity	Statement of Comprehensive Income
	DR/(CR)	DR/(CR)	DR/(CR)	DR/(CR)	DR/(CR)
	('000s)	('000s)	('000s)	('000s)	('000s)
Misstatements identified in previous periods and corrected in this period					
Subtotal	--	--	--	--	--
Misstatements identified and corrected in this period					
Factual Misstatements					
Adjustment to recurrent subsidy and intra health payables.	--	31,136	--	--	(31,136)
Adjustment to the long service leave opening balance. This relates to an amount being included in ISLHN's acceptance by the crown which related to pre 1 January 2011.	--	--	--	3,089	(3,089)
Total impact	--	31,136	--	3,089	(34,225)

Corrected Disclosure Deficiencies

AASB Reference	Disclosure Title	Description of Disclosure Deficiency
AASB 107	Statement of Cash Flows	Allocation of GST across various categories within the statement of cash flows was incorrect.
AASB 101	Commitments for expenditure	Lease related commitments of \$2.2 million were incorrectly disclosed as other expenditure commitments.

Uncorrected Monetary Misstatements

The following monetary misstatements have been identified and discussed with management. Management determined them to be immaterial both individually and in aggregate to the financial statements taken as a whole. I do not consider these uncorrected misstatements significant enough to result in a modification to the opinion in the Independent Auditor's Report. However, management must attach this schedule of misstatements to the Representation Letter and we will also include it in the Statutory Audit Report.

These misstatements were discussed with Henry Kornacki, Director of Finance on 26 October 2011.

Description of Error/ Account Balance	Assets	Liabilities	Retained Earnings	Other Equity	Statement of Comprehensive Income
	DR/(CR)	DR/(CR)	DR/(CR)	DR/(CR)	DR/(CR)
	('000s)	('000s)	('000s)	('000s)	('000s)
Uncorrected misstatements identified in previous periods					
	--	--	--	--	--
Subtotal	--	--	--	--	--
Uncorrected misstatements identified in this period					
<u>Factual Misstatements</u>					
Revenue recorded from the Motor Accidents Authority (MAA) did not reconcile with the correspondence provided by MAA	179		--		(179)
Adjustment for Intra Health variances with Health Support Services (HSS). ISLHN did not recognise some HSS accruals at 30 June 2011.	--	(497)	--		497
Purchase order accruals which are greater than 6 months. These relate to the previous SESIAHS entity. New orders will need to be raised.	--	400	--	(400)	--
Subtotal	179	(97)	--	(400)	318

Description of Error/ Account Balance	Assets	Liabilities	Retained Earnings	Other Equity	Statement of Comprehensive Income
	DR/(CR)	DR/(CR)	DR/(CR)	DR/(CR)	DR/(CR)
	('000s)	('000s)	('000s)	('000s)	('000s)
Projected/Judgemental Misstatements					
Nurses back pay for the period 1 July 2010 to 31 December 2010 has been included in ISLHN's net cost of services.			--	3,197	(3,197)
VMO accruals in Vmoney do not include short term contracts. The accrual has also omitted some locums.		(394)	--		394
Not all prosthesis revenue was accrued at 30 June 2011	208		--		(208)
Incorrect cut-off of infrastructure revenue. Revenue relating to pre-year end infrastructure fees have not been recognised due to the timing of invoices raised	83		--		(83)
Provision for impairment of patient fees understated.		(292)	--		292
Subtotal	291	(686)	--	3,197	(2,802)
Aggregate effect of trivial uncorrected misstatements					
	(122)	--	--	15	107
Total impact	348	(783)	--	2,812	(2,377)

Uncorrected Disclosure Deficiencies

Management has determined the following disclosure deficiencies in the financial statements to be immaterial. From an audit perspective, I agree with management's determination and do not believe these are significant enough to result in a modification to the opinion in the Independent Auditor's Report.

AASB Reference	Disclosure Title	Description of Disclosure Deficiency
AASB 101	Commitments for expenditure	ISLHN included Non-Government Organisation commitments of \$3.4 million. These should be included in the HRTO Southern's financial statements.
AASB 101	Receivables	Cash receipts of \$180,000 recorded in the wrong entity

Illawarra Shoalhaven Local Health Network
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
Balance at 1 January 2011					0
Result For The Six Months Ended 30 June 2011		(46)			(46)
Other Comprehensive Income		0			0
Total Comprehensive Income For The Six Months Ended 30 June 2011		(46)	0	0	(46)
Transactions With Owners In Their Capacity As Owners					
Increase/(Decrease) in Net Assets From Equity Transfers	32	345,978			345,978
Balance at 30 June 2011		345,932	0	0	345,932

The accompanying notes form part of these financial statements.

**Illawarra Shoalhaven Local Health Network
Statement of Financial Position as at 30 June 2011**

PARENT			CONSOLIDATION		
Actual	Budget (unaudited)		Actual	Budget (unaudited)	
2011	2011	Notes	2011	2011	
\$000	\$000		\$000	\$000	
ASSETS					
Current Assets					
2,151	2,367	Cash and Cash Equivalents	16	2,151	2,367
27,057	6,421	Receivables	17	27,057	6,421
7,012	6,611	Inventories	18	7,012	6,611
12,118	11,860	Financial Assets at Fair Value	19	12,118	11,860
<u>48,338</u>	<u>27,259</u>	Total Current Assets		<u>48,338</u>	<u>27,259</u>
Non-Current Assets					
Property, Plant and Equipment					
334,721	337,577	- Land and Buildings	20	334,721	337,577
19,030	15,633	- Plant and Equipment	20	19,030	15,633
31,325	31,945	- Infrastructure Systems	20	31,325	31,945
<u>385,076</u>	<u>385,155</u>	Total Property, Plant and Equipment		<u>385,076</u>	<u>385,155</u>
774	0	Intangible Assets	21	774	0
<u>385,850</u>	<u>385,155</u>	Total Non-Current Assets		<u>385,850</u>	<u>385,155</u>
<u>434,188</u>	<u>412,414</u>	Total Assets		<u>434,188</u>	<u>412,414</u>
LIABILITIES					
Current Liabilities					
38,402	24,305	Payables	23	38,402	24,305
49,659	45,230	Provisions	24	49,659	45,230
<u>88,061</u>	<u>69,535</u>	Total Current Liabilities		<u>88,061</u>	<u>69,535</u>
Non-Current Liabilities					
195	195	Provisions	24	195	195
<u>195</u>	<u>195</u>	Total Non-Current Liabilities		<u>195</u>	<u>195</u>
<u>88,256</u>	<u>69,730</u>	Total Liabilities		<u>88,256</u>	<u>69,730</u>
<u>345,932</u>	<u>342,684</u>	Net Assets		<u>345,932</u>	<u>342,684</u>
EQUITY					
345,932	342,684	Accumulated Funds		345,932	342,684
<u>345,932</u>	<u>342,684</u>	Total Equity		<u>345,932</u>	<u>342,684</u>

The accompanying notes form part of these financial statements

**Illawarra Shoalhaven Local Health Network
Network Group Statements
for the Six Months Ended 30 June 2011**

NETWORK'S EXPENSES AND INCOME	Network Group 1.1 *		Network Group 1.2 *		Network Group 1.3 *		Network Group 2.1 *		Network Group 2.2 *		Network Group 3.1 *		Network Group 4.1 *		Network Group 5.1 *		Network Group 6.1 *		Not Attributable		Total	
	2011	\$000	2011	\$000	2011	\$000	2011	\$000	2011	\$000	2011	\$000	2011	\$000	2011	\$000	2011	\$000	2011	\$000	2011	\$000
Expenses excluding losses																						
Operating Expenses	10,381	648	16,339	18,352	89,002	31,625	26,690	948	6,549	0	200,534											
Employee Related	101	11	1,262	1,783	7,802	1,989	660	5	452	0	14,065											
Visiting Medical Officers	5,288	327	8,926	10,353	51,930	10,212	8,297	3,635	3,519	0	102,487											
Other Operating Expenses	127	11	777	864	4,526	764	1,302	10	327	0	8,708											
Depreciation and Amortisation	0	0	1	1	4	62	1	0	1	0	70											
Grants and Subsidies	0	0	0	0	0	0	0	0	0	0	0											
Finance Costs	15,897	997	27,305	31,353	153,264	44,652	36,950	4,598	10,848	0	325,864											
Total Expenses excluding losses																						
Revenue																						
Sale of Goods and Services	1,255	13	8,357	374	19,203	1,143	3,647	29	299	0	34,320											
Investment Revenue	15	0	11	15	230	1	38	1	20	0	331											
Grants and Contributions	572	5	606	46	2,237	39	77	8	135	0	3,725											
Other Revenue	17	0	987	8	1,746	51	614	2	20	0	3,445											
Total Revenue	1,859	18	9,961	443	23,416	1,234	4,376	40	474	0	41,821											
Gain / (Loss) on Disposal	(229)	(2)	(13)	0	(21)	(6)	(10)	0	(2)	0	(283)											
Other Gains / (Losses)	(2)	0	(12)	0	(25)	(2)	(5)	0	0	0	(46)											
Net Cost of Services	14,269	981	17,369	30,910	129,894	43,426	32,589	4,558	10,376	0	284,372											
Government Contributions	0	0	0	0	0	0	0	0	0	0	284,326											
RESULT FOR THE YEAR	(14,269)	(981)	(17,369)	(30,910)	(129,894)	(43,426)	(32,589)	(4,558)	(10,376)	0	284,326											
Other Comprehensive Income	0	0	0	0	0	0	0	0	0	0	0											
Total Other Comprehensive Income	0	0	0	0	0	0	0	0	0	0	0											
Total COMPREHENSIVE INCOME	(14,269)	(981)	(17,369)	(30,910)	(129,894)	(43,426)	(32,589)	(4,558)	(10,376)	0	284,326											

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

* The name and purpose of each network group is summarised in Note 15.

The Network Group Statement uses statistical data from the former South Eastern Sydney and Illawarra Area Health Service to 31 December 2010 to allocate the current periods 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.

**Illawarra Shoalhaven Local Health Network
Network Group Statements
for the Six Months Ended 30 June 2011**

NETWORK'S ASSETS AND LIABILITIES	Network Group 1.1 *		Network Group 1.2 *		Network Group 1.3 *		Network Group 2.1 *		Network Group 2.2 *		Network Group 3.1 *		Network Group 4.1 *		Network Group 5.1 *		Network Group 6.1 *		Not Attributable	Total	
	2011	\$000	2011	\$000	2011	\$000	2011	\$000	2011	\$000	2011	\$000	2011	\$000	2011	\$000	2011	\$000			2011
ASSETS																					
Current Assets																					
Cash and Cash Equivalents	105		7		180		207		1,011		295		244		30		72		0		2,151
Receivables	1,220		12		6,537		291		14,980		809		2,871		27		310		0		27,057
Inventories	362		22		611		708		3,552		699		568		249		241		0		7,012
Financial Assets at Fair Value	591		37		1,015		1,166		5,701		1,660		1,374		171		403		0		12,118
Total Current Assets	2,278		78		8,343		2,372		25,244		3,463		5,057		477		1,026		0		48,338
Non-Current Assets																					
Property, Plant and Equipment																					
- Land and Buildings	4,874		416		29,856		33,223		173,985		29,355		50,073		378		12,561		0		334,721
- Plant and Equipment	277		23		1,698		1,889		9,890		1,669		2,847		22		715		0		19,030
- Infrastructure Systems	456		39		2,794		3,109		16,283		2,747		4,686		35		1,176		0		31,325
Intangible Assets	11		1		69		77		402		68		116		1		29		0		774
Total Non-Current Assets	5,618		479		34,417		38,298		200,560		33,839		57,722		436		14,481		0		385,850
TOTAL ASSETS	7,896		557		42,760		40,670		225,804		37,302		62,779		913		15,507		0		434,188
LIABILITIES																					
Current Liabilities																					
Payables	1,981		123		3,345		3,879		19,458		3,826		3,109		1,362		1,319		0		38,402
Provisions	2,571		160		4,046		4,545		22,040		7,831		6,609		235		1,622		0		49,659
Total Current Liabilities	4,552		283		7,391		8,424		41,498		11,657		9,718		1,597		2,941		0		88,061
Non-Current Liabilities																					
Provisions	10		1		16		18		86		31		26		1		6		0		195
Total Non-Current Liabilities	10		1		16		18		86		31		26		1		6		0		195
TOTAL LIABILITIES	4,562		284		7,407		8,442		41,584		11,688		9,744		1,598		2,947		0		88,256
NET ASSETS	3,334		273		35,353		32,228		184,220		25,614		53,035		(685)		12,560		0		345,932

*The name and purpose of each network group is summarised in Note 15

Assets and liabilities that are specific to network groups are allocated accordingly. Remaining assets and liabilities are apportioned to network 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 network group.

Illawarra Shoalhaven Local Health Network
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
CASH FLOWS FROM OPERATING ACTIVITIES				
Payments				
(194,465)	(192,371)	Employee Related	(194,465)	(192,371)
(76)	(46)	Grants and Subsidies	(76)	(46)
(94,312)	(108,967)	Other	(94,312)	(108,967)
<u>(288,853)</u>	<u>(301,384)</u>	Total Payments	<u>(288,853)</u>	<u>(301,384)</u>
Receipts				
16,343	37,111	Sale of Goods and Services	16,343	37,111
331	620	Interest Received	331	620
3,446	269	Other	3,446	269
<u>20,120</u>	<u>38,000</u>	Total Receipts	<u>20,120</u>	<u>38,000</u>
Cash Flows From Government				
265,913	265,913	NSW Department of Health Recurrent Allocations	265,913	265,913
11,464	12,612	NSW Department of Health Capital Allocations	11,464	12,612
6,949	0	Cash Reimbursements from the Crown Entity	6,949	0
<u>284,326</u>	<u>278,525</u>	Net Cash Flows From Government	<u>284,326</u>	<u>278,525</u>
<u>15,593</u>	<u>15,141</u>	NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>15,593</u>	<u>15,141</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
424	424	Proceeds from Sale of Land and Buildings, Plant and Equipment and Infrastructure Systems	424	424
(14,703)	(14,292)	Purchases of Land and Buildings, Plant and Equipment and Infrastructure Systems	(14,703)	(14,292)
(257)	0	Purchases of Investments	(257)	0
<u>(14,536)</u>	<u>(13,868)</u>	NET CASH FLOWS FROM INVESTING ACTIVITIES	<u>(14,536)</u>	<u>(13,868)</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
0	0	Proceeds from Borrowings and Advances	0	0
0	0	Repayment of Borrowings and Advances	0	0
<u>0</u>	<u>0</u>	NET CASH FLOWS FROM FINANCING ACTIVITIES	<u>0</u>	<u>0</u>
<u>1,057</u>	<u>1,273</u>	NET INCREASE / (DECREASE) IN CASH	<u>1,057</u>	<u>1,273</u>
0	0	Opening Cash and Cash Equivalents	0	0
1,094	1,094	Cash Transferred In as a Result of Equity Transfers	1,094	1,094
<u>2,151</u>	<u>2,367</u>	CLOSING CASH AND CASH EQUIVALENTS	<u>2,151</u>	<u>2,367</u>

The accompanying notes form part of these financial statements.

Illawarra Shoalhaven Local Health Network
Notes to and forming part of the Financial Statements
for the Six Months Ended 30 June 2011

1 The Illawarra Shoalhaven Local Health Network Reporting Entity

The Illawarra Shoalhaven Local Health Network, "the Network", was established under the provisions of the Health Services Act 1997 with effect from 1 January 2011.

The Network, 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 Network. The Network is a not-for-profit entity (as profit is not its principal objective).

The Network controls the Illawarra Shoalhaven Local Health Network 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. This Division provides personnel services to enable a Network to exercise its functions.

As a consequence the values in the six monthly financial statements presented herein consist of the Illawarra Shoalhaven Local Health Network (as the parent entity) and the consolidated financial statements of the economic entity. Notes capture both the parent and consolidated values with notes 3, 4, 10, 23, 24 and 28 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 Network 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 Executive Officer and the Director of Finance on 7 December 2011..

2 Summary of Significant Accounting Policies

Basis of Preparation

The Illawarra Shoalhaven Local Health Network'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 B18 or issued by 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 been observed.

Apart from the basis for the Network'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 \$39.723 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 Illawarra Shoalhaven Local Hospital Network have been prepared on a going concern basis.

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 Illawarra Shoalhaven Local Hospital Network 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.

Other mitigating circumstances why the going concern basis is appropriate include:

- Local Health Districts have the capacity to review timing of subsidy cashflows to ensure that they can pay debts as and when they become due and payable.
- The Illawarra Shoalhaven Local Hospital Network has developed an Efficiency and Improvement Plan (EIP) which identifies revenue improvement and cost saving strategies. Benefits from the EIP are retained by the entity and assist in meeting its overall budget target. The EIP is monitored and evaluated by the Department throughout the financial year.

Illawarra Shoalhaven Local Health Network
Notes to and forming part of the Financial Statements
for the Six Months Ended 30 June 2011

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 \$39.723 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 Network in accordance with the Appropriation Act to enable the Network to pay its debts as and when they fall due (ref. Note 33).

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 Illawarra Shoalhaven Local Health Network'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 Illawarra Shoalhaven Local Health Network.

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 Network.

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 Network.

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

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 Network.

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 Network.

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 based on actuarial assessment.

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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 Network 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 Network. 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 Network's liability for the closed superannuation pool schemes (State Authorities Superannuation Scheme and State Superannuation Scheme) is assumed by the Crown Entity. The Network 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 23, "Payables".

The superannuation expense for the reporting period is determined by using the formulae specified NSW Treasury and communicated via 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.

iii) Other Provisions

Other provisions exist when the Network 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 Network'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.

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Patient Fees

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

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 Network'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 Network based on a percentage of receipts generated
- * the residue of the Private Practice Trust Fund at the end of each financial year, such sum being credited for Network use in the advancement of the Network or individuals within it.

Use of Outside Facilities

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

Grants and Contributions

Grants and Contributions are generally recognised as revenues when the Network 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 Network 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 Network 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) Interstate Patient Flows

Networks recognise the value of inflows for acute inpatient treatment provided to residents of other States and Territories. For this period only, the revenue values were reported by the Health Transition Office Southern.

Illawarra Shoalhaven Local Health Network
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g) Acquisition of Assets

The cost method of accounting is used for the initial recording of all acquisitions of assets controlled by the Network. 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.

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 Network are deemed to be controlled by the Network and are reflected as such in the financial statements.

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(z))

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

h) Capitalisation Thresholds

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

i) 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 Network. 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%
MV Passengers	12.5%
MV Other	20.0%
Office Equipment	10.0%
Plant and Machinery	10.0%
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.

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j) 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 Network to revalue its Land and Buildings and Infrastructure assets at minimum every three years by independent valuation.

Fair value of property, plant and equipment is determined based on best available market evidence, including current market selling price for the same or similar assets. Where there is no available market evidence, the assets's fair value is measured at its market buying price, the best indicator of which is depreciated replacement cost.

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.

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.

k) Impairment of Property, Plant and Equipment

As a not-for-profit entity with no cash generating units, the Network 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 as immaterial.

l) Assets Not Able to be Reliably Measured

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

m) 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.

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

The Network 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.

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o) 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 Network does not have any property that meets the definition of Investment Property.

p) Intangible Assets

The Network recognises intangible assets only if it is probable that future economic benefits will flow to the Network 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 Network's intangible assets, the assets are carried at cost less any accumulated amortisation.

Computer software developed or acquired by the Network 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.

q) 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.

r) Leased Assets

Leased assets are treated in accordance with AASB 117, Leases.

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.

s) 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.

t) 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.

Illawarra Shoalhaven Local Health Network
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u) 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 Illawarra Shoalhaven Local Health Network 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 Illawarra Shoalhaven Local Health Network 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 Network's key management personnel.

The risk management strategy of the Network 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.

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 Illawarra Shoalhaven Local Health Network 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 Network 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.

v) 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.

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w) 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 Network transfers the financial asset:

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

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

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

x) Payables

These amounts represent liabilities for goods and services provided to the Network 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 Network.

y) 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*.

z) 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.

aa) 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 Network's policy on the revaluation of property, plant and equipment as discussed in Note 2(j).

(ii) Accumulated Funds

The category "accumulated funds" includes all current and retained funds transferred from the former South Eastern Sydney & Illawarra AHS.

(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.

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ab) Trust Funds

The Network receives monies in a trustee capacity for various trusts as set out in Note 26. As the Network performs only a custodial role in respect of these monies, and because the monies cannot be used for the achievement of the Network's own objectives, they are not brought to account in the financial statements.

ac) Budgeted Amounts

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.

ad) Network Group Statements Allocation Methodology

General Fund Expenses are assigned to Network 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 Network group.

In respect of assets and liabilities the Department requires that all Networks 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.

af) Joint Ventures

The Illawarra Shoalhaven Local Health Network is a registered member of the Illawarra Health and Medical Research Institute (IHMRI).

The IHMRI was established in April 2008 as a collaborative venture between the University of Wollongong and the South Eastern Sydney Illawarra Area Health Service. The IHMRI is incorporated in Australia as a company limited by guarantee under the Corporations Act 2001.

The objectives of the company are to initiate, promote, undertake, develop, conduct, carry out and directly facilitate Health and Medical research through grants and donations; and to make available knowledge obtained from Health and Medical research to the health and medical professions and the general public.

The profits (if any) or other income of the Company, however derived, must be applied solely towards the promotion of the above objectives and may not be paid or transferred to the Members, either directly or indirectly by way of dividend, bonus or otherwise.

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PARENT 2011 \$000		CONSOLIDATION 2011 \$000
	3 Employee Related	
	Employee related expenses comprise the following:	
0	Salaries and Wages	148,649
0	Awards	6,286
0	Superannuation - Defined Benefit Plans	3,803
0	Superannuation - Defined Contribution Plans	13,445
0	Long Service Leave	3,775
0	Annual Leave	16,490
0	Sick Leave and Other Leave	5,384
0	Workers' Compensation Insurance	2,666
0	Fringe Benefit Tax	36
<u>0</u>	Total	<u>200,534</u>
	 No employee related expenses were capitalised during the reporting period	
	4 Personnel Services	
	Personnel Services comprise the purchase of the following:	
148,649	Salaries and Wages	0
6,286	Awards	0
3,803	Superannuation - Defined Benefit Plans	0
13,445	Superannuation - Defined Contribution Plans	0
3,775	Long Service Leave	0
16,490	Annual Leave	0
5,384	Sick Leave and Other Leave	0
2,666	Workers' Compensation Insurance	0
36	Fringe Benefit Tax	0
<u>200,534</u>	Total	<u>0</u>
	5 Other Operating Expenses	
2,459	Blood and Blood Products	2,459
3,294	Domestic Supplies and Services	3,294
14,258	Drug Supplies	14,258
7,291	Food Supplies	7,291
1,935	Fuel, Light and Power	1,935
18,975	General Expenses (See (b) below)	18,975
2,463	Hospital Ambulance Transport Costs	2,463
921	Information Management Expenses	921
199	Insurance	199
	Maintenance (See (c) below)	
1,005	Maintenance Contracts	1,005
1,410	New/Replacement Equipment under \$10,000	1,410
1,712	Repairs Maintenance/Non Contract	1,712
14,455	Medical and Surgical Supplies	14,455
494	Postal and Telephone Costs	494
578	Printing and Stationery	578
469	Rates and Charges	469
1,387	Rental	1,387
25,897	Special Service Departments	25,897
1,006	Staff Related Costs	1,006
1,604	Sundry Operating Expenses (See (a) below)	1,604
675	Travel Related Costs	675
<u>102,487</u>		<u>102,487</u>

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PARENT		CONSOLIDATION
2011		2011
\$000		\$000
	5 (a) Sundry Operating Expenses comprise:	
1,469	Contract for Patient Services	1,469
135	Isolated Patient Travel and Accommodation Assistance Scheme	135
<u>1,604</u>		<u>1,604</u>
	(b) General Expenses include:-	
73	Advertising	73
113	Books, Magazines and Journals	113
	Consultancies	
58	- Operating Activities	58
5	- Capital Works	5
194	Courier and Freight	194
158	Auditor's Remuneration - Audit of Financial Statements	158
60	Data Recording and Storage	60
104	Legal Services	104
70	Membership/Professional Fees	70
615	Motor Vehicle Expenses	615
1,004	Motor Vehicle Operating Lease Expense - Minimum Lease Payments	1,004
554	Other Operating Lease Expense - Minimum Lease Payments	554
46	Quality Assurance/Accreditation	46
48	Translator Services	48
637	Other	637
7,075	- Services purchased from HRTO	7,075
177	- Other Management Services	177
7,681	- Corporate Services purchased from HRTO	7,681
303	- G&S Cap Exp DOH Funding	303
<u>18,975</u>		<u>18,975</u>
	(c) Reconciliation Total Maintenance	
4,127	Maintenance Expense - Contracted Labour and Other (Non Employee Related included in Note 5)	4,127
1,138	Employee Related/Personnel Services Maintenance included in Notes 3 and 4	1,138
<u>5,265</u>	Total Maintenance Expenses included in Notes 3, 4 and 5	<u>5,265</u>
	6 Depreciation and Amortisation	
6,324	Depreciation - Buildings	6,324
1,748	Depreciation - Plant and Equipment	1,748
636	Depreciation - Infrastructure Systems	636
<u>8,708</u>		<u>8,708</u>
	7 Grants and Subsidies	
0	Non-Government Voluntary Organisations	0
0	Community Aged Care Packages	0
0	Research Organisations	0
70	Other	70
<u>70</u>		<u>70</u>

Illawarra Shoalhaven Local Health Network
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PARENT 2011 \$000		CONSOLIDATION 2011 \$000
8 Sale of Goods and Services		
(a) Sale of Goods comprise the following:-		
1,074	Sales of Prosthesis	1,074
20	Other - Equipment Sales	20
217	Pharmacy Sales	217
<u>1,311</u>		<u>1,311</u>
(b) Rendering of Services comprise the following:-		
19,575	Patient Fees	19,575
158	Staff-Meals and Accommodation	158
2,611	Infrastructure Fees - Monthly Facility Charge [see note 2(d)]	2,611
2,593	- Annual Charge	2,593
11	Cafeteria/Kiosk	11
370	Car Parking	370
154	Child Care Fees	154
90	Clinical Services (excluding Clinical Drug Trials)	90
14	Commercial Activities	14
40	Fees for Medical Records	40
5,992	Highly Specialised Drugs	5,992
1,006	Motor Accidents Authority - 3rd Party receipts	1,006
268	Services Provided to Non NSW Health Organisations	268
127	Other	127
<u>33,009</u>		<u>33,009</u>
<u>34,320</u>		<u>34,320</u>
9 Investment Revenue		
Interest		
278	- T Corp Hour Glass Investment Facilities Designated at Fair Value through Profit or Loss	278
48	- Other	48
5	Lease and Rental Income	5
<u>331</u>		<u>331</u>
10 Grants and Contributions		
348	Clinical Drug Trials	348
689	Commonwealth Government Grants	689
970	Commonwealth Teaching Hospital Grants	970
491	Industry Contributions/Donations	491
525	Cancer Institute Grants	525
91	NSW Government Grants	91
50	Research Grants	50
53	Cancer Care Research	53
448	Health Program Grants	448
60	Home & Community Care Grants	60
<u>3,725</u>		<u>3,725</u>

Illawarra Shoalhaven Local Health Network
Notes to and forming part of the Financial Statements
for the Six Months Ended 30 June 2011

PARENT 2011 \$000		CONSOLIDATION 2011 \$000
	11 Other Revenue	
	Other Revenue comprises the following:-	
30	Commissions	30
31	Conference and Training Fees	31
11	Sale of Merchandise, Old Wares and Books	11
3,321	Treasury Managed Fund Hindsight Adjustment	3,321
52	Other	52
<u>3,445</u>		<u>3,445</u>
	12 Gain/(Loss) on Disposal	
2,289	Property Plant and Equipment	2,289
(1,582)	Less Accumulated Depreciation	(1,582)
<u>707</u>	Written Down Value	<u>707</u>
(424)	Less Proceeds from Disposal	(424)
<u>(283)</u>	Gain/(Loss) on Disposal of Property Plant and Equipment	<u>(283)</u>
	13 Other Gains/(Losses)	
(46)	Impairment of Receivables	(46)
<u>(46)</u>		<u>(46)</u>

14 Conditions on Contributions

	Purchase of Assets	Health Promotion, Education and Research	Total
	\$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	0	2,221	2,221
Contributions recognised in equity transfer as at 1 January 2011 which were not expended in the current reporting period	187	12,708	12,895
Total amount of unexpended contributions as at balance date	<u>187</u>	<u>14,929</u>	<u>15,116</u>

Comment on restricted assets appears in Note 22

Illawarra Shoalhaven Local Health Network
Notes to and forming part of the Financial Statements
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15 Network Groups of the Local Health Network

Network 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.

Network 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.

Network 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.

Network 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.

Network 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.

Illawarra Shoalhaven Local Health Network
Notes to and forming part of the Financial Statements
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Network Group 3.1 - Mental Health Services

Service Description: This service group covers the provision of an integrated and comprehensive network of services by Local Health 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.

Network 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.

Network 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.

Network 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.

Illawarra Shoalhaven Local Health Network
Notes to and forming part of the Financial Statements
for the Six Months Ended 30 June 2011

PARENT		CONSOLIDATION
2011		2011
\$000		\$000
16 Cash and Cash Equivalents		
36	Cash on Hand	36
(2,433)	Cash at Bank	(2,433)
3,784	Cash at Bank Capital	3,784
764	Short Term Deposits	764
<u>2,151</u>		<u>2,151</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>2,151</u>	Cash and Cash Equivalents (per Statement of Financial Position)	<u>2,151</u>
<u>2,151</u>	Closing Cash and Cash Equivalents (per Statement of Cash Flows)	<u>2,151</u>

Refer to Note 33 for details regarding credit risk, liquidity risk and market risk arising from financial instruments.

Illawarra Shoalhaven Local Health Network
Notes to and forming part of the Financial Statements
for the Year Ended 20 June 2011

PARENT		CONSOLIDATION
2011		2011
\$000		\$000
	17 Receivables	
	Current	
	(a) Sale of Goods and Services	
4,148	- Patient Fees	4,148
2,029	- Other	2,029
13,174	Intra Health Receivables NSW Health	13,174
5,661	Good and Services Tax	5,661
1,701	Other Debtors	1,701
<u>26,713</u>	Sub Total	<u>26,713</u>
(75)	Less Allowance for Impairment	(75)
<u>26,638</u>	Sub Total	<u>26,638</u>
419	Prepayments	419
<u>27,057</u>	Total	<u>27,057</u>
	(b) Movement in the Allowance for Impairment	
	Sale of Goods and Services	
0	Balance at 1 January 2011	0
	Increase/(decrease) in Allowance Recognised in	
(75)	Result for the Six Months Ended 30 June 2011	(75)
<u>(75)</u>	Balance at 30 June	<u>(75)</u>
	(c) Movement in the Allowance for Impairment	
	Other Debtors	
0	Balance at 1 January 2011	0
0	Result for the Six Months Ended 30 June 2011	0
<u>0</u>	Balance at 30 June	<u>0</u>
<u>(75)</u>		<u>(75)</u>
	(d) Sale of Goods and Services Receivables	
	(Current and Non-Current) include:	
127	Patient Fees - Compensable	127
297	Patient Fees - Ineligible	297
3,724	Patient Fees - Other	3,724
<u>4,148</u>		<u>4,148</u>

Details regarding credit risk, liquidity and market risk, including financial assets that are either past due or impaired are disclosed in Note 33.

18 Inventories

	Current- Held for Distribution	
2,760	Drugs	2,760
4,081	Medical and Surgical Supplies	4,081
171	Other including Goods in Transit	171
<u>7,012</u>		<u>7,012</u>

19 Financial Assets at Fair Value

	Current	
12,118	Treasury Corporation - Hour-Glass Investment Facilities	12,118
<u>12,118</u>		<u>12,118</u>

Refer to Note 33 for further information regarding credit risk, liquidity risk and market risk arising from financial investments

Illawarra Shoalhaven Local Health Network
Notes to and forming part of the Financial Statements
for the Six Months Ended 30 June 2011

PARENT		CONSOLIDATION
2011		2011
\$000		\$000
20 Property, Plant and Equipment		
	Land and Buildings - Fair Value	
559,274	Gross Carrying Amount	559,274
(224,553)	Less Accumulated Depreciation and Impairment	(224,553)
<u>334,721</u>	Net Carrying Amount	<u>334,721</u>
	Plant and Equipment - Fair Value	
49,500	Gross Carrying Amount	49,500
(30,470)	Less Accumulated Depreciation and Impairment	(30,470)
<u>19,030</u>	Net Carrying Amount	<u>19,030</u>
	Infrastructure Systems - Fair Value	
50,844	Gross Carrying Amount	50,844
(19,519)	Less Accumulated Depreciation and Impairment	(19,519)
<u>31,325</u>	Net Carrying Amount	<u>31,325</u>
	Total Property, Plant and Equipment	
<u>385,076</u>	At Net Carrying Amount	<u>385,076</u>

PARENT AND CONSOLIDATION

20 Property, Plant and Equipment - Reconciliation

	Land \$000	Buildings \$000	Work in Progress \$000	Plant and Equipment \$000	Infrastructure Systems \$000	Total \$000
2011						
Net Carrying Amount at 1 January 2011			0			0
Additions		231	9,757	3,941		13,929
Reclassifications		4,448	(4,203)	(245)		0
Disposals	(211)	(40)		(455)		(706)
Administrative Restructures - Transfers In/(Out)	42,015	282,200	6,848	17,537	31,961	380,561
Depreciation Expense		(6,324)		(1,748)	(636)	(8,708)
Net Carrying Amount at 30 June 2011	41,804	280,515	12,402	19,030	31,325	385,076

- (i) Land and Buildings include land owned by the Health Administration Corporation and administered by the Network [see note 2(g)].
- (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 (j). 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	103	103
10/11	100	100	100

Illawarra Shoalhaven Local Health Network
Notes to and forming part of the Financial Statements
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PARENT
2011
\$000

CONSOLIDATION
2011
\$000

21 Intangible Assets

	Software	
774	Cost (Gross Carrying Amount)	774
0	Less Accumulated Amortisation and Impairment	0
<u>774</u>	Net Carrying Amount	<u>774</u>

Intangibles - Reconciliation

	Software WIP \$000	Other \$000	Total \$000
2011			
Net Carrying Amount at 1 January 2011	0	0	0
Additions (From Internal Development or Acquired Separately)	774	0	774
Amortisation (Recognised in Depreciation and Amortisation)	0	0	0
Net Carrying Amount at 30 June 2011	774	0	774

22 Restricted Assets

The Network'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	
4,161	Specific Purposes	4,161
4,364	Research Grants	4,364
6,591	Private Practice Funds	6,591
<u>15,116</u>	Total	<u>15,116</u>

Illawarra Shoalhaven Local Health Network
Notes to and forming part of the Financial Statements
for the Six Months Ended 30 June 2011

PARENT 2011 \$000		CONSOLIDATION 2011 \$000
	23 Payables	
	Current	
3,733	Accrued Salaries, Wages and On-Costs, Accrued Purchase of Personnel Services	3,733
4,621	Taxation and Payroll Deductions	4,621
16,713	Creditors	16,713
	Other Creditors	
835	- Capital Works	835
3,677	- Intra Health Liability	3,677
8,823	- Other	8,823
38,402		38,402
	No assets have been pledged as security/collateral for liabilities and there are no restrictions on any title to property	
	24 Provisions	
	Current Employee Benefits and Related On-Costs	
32,315	Annual Leave - Short Term Benefit	32,315
13,637	Annual Leave - Long Term Benefit	13,637
3,707	Long Service Leave On-Costs	3,707
49,659	Total Current Provisions	49,659
	Non Current Employee Benefits and Related On-Costs	
195	Long Service Leave On-Costs	195
195	Total Non-Current Provisions	195
	Aggregate Employee Benefits and Related On-Costs	
49,659	Provisions - Current	49,659
195	Provisions - Non-Current	195
3,733	Accrued Salaries, Wages and On-Costs (Note 23)	3,733
53,587		53,587

Illawarra Shoalhaven Local Health Network
Notes to and forming part of the Financial Statements
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PARENT		CONSOLIDATION
2011 \$000	25 Commitments for Expenditure	2011 \$000
	(a) Capital Commitments 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:	
6,212	Not later than one year	6,212
4,057	Later than one year and not later than five years	4,057
10,269	Total Capital Expenditure Commitments (Including GST)	10,269
	<p>Of the commitments reported at 30 June 2011 it is expected that \$0m will be met from locally generated moneys.</p>	
	(b) Other Expenditure Commitments Aggregate other expenditure contracted for the acquisition of goods and services contracted for at balance date and not provided for:	
3,395	Not later than one year	3,395
0	Later than one year and not later than five years	0
3,395	Total Other Expenditure Commitments (Including GST)	3,395
	(c) Operating Lease Commitments Commitments in relation to non-cancellable operating leases are payable as follows:	
1,578	Not later than one year	1,578
663	Later than one year and not later than five years	663
2,241	Total Operating Lease Commitments (Including GST)	2,241
	<p>The operating lease commitments above are for motor vehicles information technology equipment including personal computers, medical equipment and other equipment.</p>	
	(d) Contingent Asset Related to Commitments for Expenditure The total of "Commitments for Expenditure" above, i.e. \$15.921m as at 30 June 2011 includes input tax credits of \$1.592m that are expected to be recoverable from the Australian Taxation Office.	

Illawarra Shoalhaven Local Health Network
Notes to and forming part of the Financial Statements
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26 Trust Funds

The Network holds trust fund moneys of \$0.112 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 Network cannot use them for the achievement of its objectives. The following is a summary of the transactions in the

	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	92	1,568	1,660
Receipts	0	11	6,301	6,312
Payments	0	0	(7,860)	(7,860)
Cash balance at the end of the financial reporting period	<u>0</u>	<u>103</u>	<u>9</u>	<u>112</u>

27 Contingent Liabilities or Assets

a) Claims on NSW Treasury Managed Fund

The Network is a member of the NSW Treasury Managed Fund. The predecessor organisation was also a member since 1 July 1989. The Fund will pay to or on behalf of the Network 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 Network. As such, since 1 July 1989, apart from the exceptions noted above no contingent liabilities exist in respect of liability claims against the Network 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 Network.

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 Network to reliably quantify the benefit to be received.

Illawarra Shoalhaven Local Health Network
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PARENT		CONSOLIDATION
2011		2011
\$000		\$000
28 Reconciliation of Net Cash Flows from Operating Activities to Net Cost of Services		
15,593	Net Cash Flows from Operating Activities	15,593
(8,707)	Depreciation	(8,707)
(75)	Allowance for Impairment	(75)
(6,949)	Acceptance by the Crown Entity of Employee Superannuation and LSL Benefits	(6,949)
(3,076)	Decrease/(Increase) in Provisions	(3,076)
(3,016)	Increase / (Decrease) in Prepayments and Other Assets	(3,016)
(482)	(Increase)/ Decrease in Payables	(482)
(283)	Net Gain/ (Loss) on Sale of Property, Plant and Equipment	(283)
(265,913)	NSW Health Department Recurrent Allocations	(265,913)
(11,464)	NSW Health Department Capital Allocations	(11,464)
0	Cash Reimbursements from the Government	0
<u>(284,372)</u>	Net Cost of Services	<u>(284,372)</u>

29 2011 Voluntary Services

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

- | | |
|---|--|
| <ul style="list-style-type: none"> · Chaplaincies and Pastoral Care - · Pink Ladies/Hospital Auxiliaries - · Patient Support Groups - · Community Organisations - | <ul style="list-style-type: none"> · Patient & Family Support · Patient Services, Fund Raising · Practical Support to Patients and Relative · Counselling, Health Education, Transport, Home Help & Patient Activities |
|---|--|

30 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 Network 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 Network.

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

**Illawarra Shoalhaven Local Health Network
Notes to and forming part of the Financial Statements
for the Six Months Ended 30 June 2011**

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31 Budget Review

Net Cost of Services

The actual Net Cost of Services was lower than budget by \$3.807m, primarily due to receipt of TMF Workers Compensation Hindsight revenue of \$3.321m.

Result for the Year

The result for the year from ordinary activities was lower than budget by \$.895m.

Assets and Liabilities

Current Assets

The variance of \$21.079m above budget was mainly due to Intra Health Receivables where settlements between the Network, South Eastern Sydney Local Hospital Network and Southern Transition Organisation are yet to occur. Debtors GST of \$6.091m are also outstanding at year end.

Non Current Assets

Non Current Assets were \$0.695m above budget

Current Liabilities

The variance of \$18.526m was mainly due to Intra Health Creditors where settlements between ISLHN and SESLHN, Southern Transition Organisation and Health Support Services are yet to occur.

Non Current Liabilities

Non Current Liabilities were on budget

Cash Flows

Cash inflows from Operating Activities were \$3.541m higher than budget.

Cash outflows from Investing Activities were \$3.757m higher than budget.

Movements in the level of the NSW Department of Health Recurrent Allocation that have occurred since the time of the initial allocation on 1 January 2011 are as follows:

	\$'000
Initial Allocation NCOS as per DOH Letter (note 1 below)	252,923
Initial Allocation Rollover of Net Assets & Contributions	(8,129)
Balance Sheet and SPF Realignment	1,019
Award Increases	6,286
Additional Bed Capacity & Planned Surgery Activity through COAG	2,000
Mental Health Funding	1,533
Additional Surgery Activity	150
National Partnership Agreement on Early Childhood Development	123
Caring Together 10/11 Funding	332
EAP Action Plan	100
Health Services Performance Improvement	100
Staff Specialist Allowance	527
Rural Doctors	694
Tsf LSL to Crown from STO	(2,920)
Distribution of STO to LHN's	14,756
Doubtful Debts and Gain/Loss on Disposal from STO	403
SASS/SSS Super Exp to Super Guarantee Charge	424
Shellharbour Hospital EF Adj from STO	429
Health Joint Investigative Response Teams	109
Liquidity Assistance	(5,442)
Other Service Enhancements	496
Balance as per Statement of Comprehensive Income	265,913

Note 1: IA Budget NCOS does not include new account A473999 Budget (Overrun)/Favourability (\$2,979k)

Illawarra Shoalhaven Local Health Network
Notes to and forming part of the Financial Statements
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32 Increase/(Decrease) in Net Assets from Equity Transfers

Net assets of \$345.978 million transferred from the former South Eastern Sydney and Illawarra Area Health Service with effect from 1 January 2011 commensurate with the responsibilities for health services assumed by the Network on that date in accordance with the provisions of the Health Services Act 1989.

Assets and Liabilities transferred are as follows:

	\$000
Assets	
Cash & Cash Equivalents	12,954
Receivables	3,255
Inventories	6,606
Prepayments	3,436
Property Plant & Equipment	380,561
Liabilities	
Payables	(14,057)
Provisions	(46,777)
Increase/(Decrease) in Net Assets From Equity Transfers	<u>345,978</u>

Illawarra Shoalhaven Local Hospital Network
Notes to and forming part of the Financial Statements
for the Six Months Ended 30 June 2011

33 Financial Instruments

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

The Network's main risks arising from financial instruments are outlined below, together with the Network'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 Network, 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

Financial Assets		Carrying
Class:	Category	Amount
		2011
		\$000
Cash and Cash Equivalents (note 16)		2,151
Receivables (note 17) ¹	Loans and receivables (at amortised cost)	20,977
Financial Assets at Fair Value (note 19)	At fair value through profit or loss (designated as such upon initial recognition)	12,118
Total Financial Assets		<u>35,246</u>
Financial Liabilities		
Payables (note 23) ²	Financial liabilities	33,781
Total Financial Liabilities		<u>33,781</u>

Notes

1 Excludes statutory receivables and prepayments (ie not within scope of AASB 7)

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

Illawarra Shoalhaven Local Hospital Network
Notes to and forming part of the Financial Statements
for the Six Months Ended 30 June 2011

(b) Credit Risk

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

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

Credit risk associated with the Network's financial assets, other than receivables, is managed through the selection of counterparties and establishment of minimum credit rating standards.

The Network 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 Network 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 Network 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, \$5.022m related to debtors that were not past due and not considered impaired, and debtors of \$1.080m were past due but not considered impaired. Together these represent 98.79% 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 Network's 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.

\$000

2011	Total ^{1,2}	Past due but not impaired ^{1,2}	Considered impaired ^{1,2}
<3 months overdue	1,510	1,510	0
3 months - 6 months overdue	466	391	75
> 6 months overdue	0	0	0

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.

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Authority Deposits

The Network 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 \$12.883m. None of these assets is past due or impaired.

(c) Liquidity Risk

Liquidity risk is the risk that the Network will be unable to meet its payment obligations when they fall due. The Illawarra Shoalhaven Local Health Network 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 Network 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 Network'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 Network. (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 Network's financial liabilities together with the interest rate exposure.

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Maturity Analysis and interest rate exposure of financial liabilities

	\$'000				Maturity Dates			
	Interest Rate Exposure							
	Weighted Average Effective Int. Rate	Nominal Amount ¹	Fixed Interest Rate	Variable Interest Rate	Non - Interest Bearing	< 1 Yr	1-5 Yr	> 5Yr
	%	\$000	\$000	\$000	\$000	\$000	\$000	\$000
2011								
Payables:								
Accrued Salaries								
Wages, On-Costs and Payroll Deductions		8,354			8,354	8,354		
Creditors		30,048			30,048	30,048		
		38,402			38,402	38,402		

Notes:

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

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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 Network's exposures to market risk are primarily through interest rate risk on the Network's borrowings and other price risks associated with the movement in the unit price of the Hour Glass Investment facilities. The Network 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 Network 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 Network's interest bearing liabilities.

However, Health 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 Network 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 Network's exposure to interest rate risk is set out below.

	Carrying Amount \$'000	-1%		+1%	
		Profit	Equity	Profit	Equity
2011					
Financial Assets					
Cash and Cash Equivalents	2,151	-22	-22	22	22
Receivables	20,977	0	0	0	0
Financial Assets at Fair Value	12,118	-121	-121	121	121
Financial Liabilities					
Payables	33,781	0	0	0	0

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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 Network has no direct equity investments. The Network 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	764
Strategic cash facility	Cash, money market and other interest rate instruments	2 years to 4 years	1,939
Medium term growth facility	Cash, money market instruments, Australian and International bonds, listed property, Australian and International shares	4 years to 7 years	5,243
Long-term growth facility	Cash, money market instruments, Australian and International bonds listed property, Australian and International shares	7 years and over	4,936

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 unit holders and to administer the trusts in accordance with the trust deeds. As trustee, TCorp has appointed external managers to manage the performance and risk of each facility in accordance with a mandate agreed by the parties. 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 Network's 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).

	Change in unit price	Impact on profit/loss	
			2011 \$'000
Hour-Glass Investment - Cash facility	+/- 2.69%		0
Hour-Glass Investment - Strategic cash facility	+/-5.08%		0
Hour-Glass Investment - Medium-term growth facility	+/-7.35%		0
Hour-Glass Investment - Long-term growth facility	+/- 9.6%		0

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

The Network 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 Invnt.Facility		12,881		12,881

(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.

34 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 Transition 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