



GPO BOX 12
Sydney NSW 2001

INDEPENDENT AUDITOR'S REPORT

Health Reform Transition Organisation Northern

To Members of the New South Wales Parliament

I have audited the accompanying financial statements of the Health Reform Transition Organisation Northern (the Organisation), 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 Organisation and the consolidated entity. The consolidated entity comprises the Organisation and the entities it controlled at the period's end or from time to time during the period.

Opinion

In my opinion, the financial statements:

- give a true and fair view of the financial position of the Organisation and the consolidated entity, as at 30 June 2011, and of the financial performance 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 Operating Officer's Responsibility for the Financial Statements

The Chief Operating Officer 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 Operating Officer 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 Operating Officer, as well as evaluating the overall presentation of the financial statements.

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

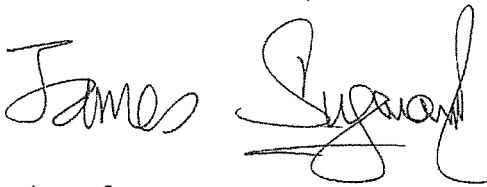
My opinion does *not* provide assurance:

- about the future viability of the Organisation or the consolidated entity
- that 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.



James Sugumar
Director, Financial Audit Services

18 October 2011
SYDNEY

Health Reform Transition Organisation Northern
Certification of Financial Statements as at 30 June 2011

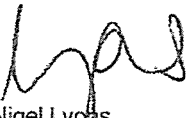
Pursuant to Section 45F of the *Public Finance and Audit Act 1983*, I state that to the best of my knowledge:

(i) The financial statements of the Health Reform Transitional Organisation Northern for the six months ended 30 June 2011 have been prepared in accordance with:

- the requirements of applicable Australian Accounting Standards (which include Australian Accounting Interpretations)
- the requirements of the *Public Finance and Audit Act 1983* and its regulations
- *Health Services Act 1997* and its regulations
- Accounts and Audit Determinations

(ii) The financial statements present fairly the financial position and transactions of the Health Reform Transitional Organisation Northern.

(iii) There are no circumstances which would render any particulars in the accounts to be misleading or inaccurate.



Nigel Lyons
Chief Operating Officer
Health Reform Transition Organisation Northern
10 October 2011

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

PARENT					CONSOLIDATION	
Actual	Budget (unaudited)		Notes	Actual	Budget (unaudited)	
2011 \$000	2011 \$000			2011 \$000	2011 \$000	
		Expenses excluding losses				
		Operating Expenses				
-	-	Employee Related	3	190,687	193,669	
190,687	193,669	Personnel Services	4	-	-	
4,897	4,423	Visiting Medical Officers		4,897	4,423	
87,463	90,121	Other Operating Expenses	5	87,463	90,121	
9,985	14,960	Depreciation and Amortisation	2(i), 6	9,985	14,960	
10,067	7,916	Grants and Subsidies	7	10,067	7,916	
57	467	Finance Costs	8	57	467	
303,156	311,556	Total Expenses excluding losses		303,156	311,556	
		Revenue				
287,021	272,861	Sale of Goods and Services	9	287,021	272,861	
2,632	2,896	Investment Revenue	10	2,632	2,896	
25,927	35,991	Grants and Contributions	11	12,952	16,153	
2,995	2,004	Other Revenue	12	2,995	2,004	
318,575	313,752	Total Revenue		305,600	293,914	
(636)	(547)	Gain / (Loss) on Disposal	13	(636)	(547)	
(1,286)	(59)	Other Gains / (Losses)	14	(1,286)	(59)	
(13,497)	(1,590)	Net Cost of Services	29	(522)	18,248	
		Government Contributions				
		NSW Department of Health				
8,761	8,761	Recurrent Allocations	2(d)	8,761	8,761	
		NSW Department of Health				
414	15,605	Capital Allocations	2(d)	414	15,605	
		Acceptance by the Crown Entity of				
-	-	Employee Benefits	2(a)(ii)	12,975	19,838	
9,175	24,366	Total Government Contributions		22,150	44,204	
22,672	25,956	RESULT FOR THE SIX MONTHS ENDED 30 JUNE 2011		22,672	25,956	
		TOTAL COMPREHENSIVE INCOME				
22,672	25,956	FOR THE SIX MONTHS ENDED 30 JUNE 2011		22,672	25,956	

The accompanying notes form part of these financial statements.

Health Reform Transitional Organisation Northern
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					
Result For The Six Months Ended 30 June 2011		22,672	-	-	22,672
Total Comprehensive Income For The Six Months Ended 30 June 2011		22,672	-	-	22,672
Transactions With Owners In Their Capacity As Owners					
Increase/(Decrease) in Net Assets From Equity Transfers	32	126,083	-	-	126,083
Balance at 30 June 2011		148,755	-	-	148,755

The accompanying notes form part of these financial statements.

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

PARENT			CONSOLIDATION		
Actual	Budget (unaudited)		Notes	Actual	Budget (unaudited)
2011	2011			2011	2011
\$000	\$000			\$000	\$000
ASSETS					
Current Assets					
75,573	146,243	Cash and Cash Equivalents	17	75,573	146,243
125,498	86,863	Receivables	18	125,498	86,863
5,544	6,117	Inventories	19	5,544	6,117
206,615	239,223	Total Current Assets		206,615	239,223
Non-Current Assets					
317	11,676	Receivables	18	317	11,676
Property, Plant and Equipment					
43,846	18,207	- Land and Buildings	20	43,846	18,207
86,604	103,103	- Plant and Equipment	20	86,604	103,103
977	600	- Infrastructure Systems	20	977	600
131,427	121,910	Total Property, Plant and Equipment		131,427	121,910
131,744	133,586	Total Non-Current Assets		131,744	133,586
338,359	372,809	Total Assets		338,359	372,809
LIABILITIES					
Current Liabilities					
132,515	179,767	Payables	22	132,515	179,767
1,538	5,098	Borrowings	23	1,538	5,098
52,308	51,767	Provisions	24	52,308	51,767
439	1,357	Other	25	439	1,357
186,800	237,989	Total Current Liabilities		186,800	237,989
Non-Current Liabilities					
2,336	(17,879)	Borrowings	23	2,336	(17,879)
242	177	Provisions	24	242	177
226	-	- Other	25	226	-
2,804	(17,702)	Total Non-Current Liabilities		2,804	(17,702)
189,604	220,287	Total Liabilities		189,604	220,287
148,755	152,522	Net Assets		148,755	152,522
EQUITY					
148,755	152,522	Accumulated Funds		148,755	152,522
148,755	152,522	Total Equity		148,755	152,522

The accompanying notes form part of these financial statements.

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

PARENT			CONSOLIDATION	
Actual	Budget (unaudited)		Actual	Budget (unaudited)
2011 \$000	2011 \$000	Notes	2011 \$000	2011 \$000
CASH FLOWS FROM OPERATING ACTIVITIES				
Payments				
		Employee Related	(170,654)	(123,054)
(12,477)	(9,556)	Grants and Subsidies	(12,477)	(9,556)
(839)	(17,904)	Finance Costs	(839)	(17,904)
<u>(322,769)</u>	<u>(269,795)</u>	Other	<u>(152,115)</u>	<u>(146,741)</u>
(336,085)	(297,255)	Total Payments	(336,085)	(297,255)
Receipts				
303,829	331,996	Sale of Goods and Services	303,829	331,996
2,189	2,547	Interest Received	2,189	2,547
20,659	8,011	Other	20,659	8,011
<u>326,677</u>	<u>342,554</u>	Total Receipts	<u>326,677</u>	<u>342,554</u>
Cash Flows From Government				
8,761	8,761	NSW Department of Health Recurrent Allocations	8,761	8,761
414	15,605	NSW Department of Health Capital Allocations	414	15,605
<u>9,175</u>	<u>24,366</u>	Net Cash Flows From Government	<u>9,175</u>	<u>24,366</u>
<u>(233)</u>	<u>69,665</u>	NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>(233)</u>	<u>69,665</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
822	116	Proceeds from Sale of Land and Buildings, Plant and Equipment and Infrastructure Systems	822	116
<u>(9,265)</u>	<u>(7,787)</u>	Purchases of Land and Buildings, Plant and Equipment and Infrastructure Systems	<u>(9,265)</u>	<u>(7,787)</u>
(8,443)	(7,671)	NET CASH FLOWS FROM INVESTING ACTIVITIES	(8,443)	(7,671)
CASH FLOWS FROM FINANCING ACTIVITIES				
-	-	Proceeds from Borrowings and Advances	-	-
<u>-</u>	<u>-</u>	Repayment of Borrowings and Advances	<u>-</u>	<u>-</u>
-	-	NET CASH FLOWS FROM FINANCING ACTIVITIES	-	-
<u>(8,676)</u>	<u>61,994</u>	NET INCREASE / (DECREASE) IN CASH	<u>(8,676)</u>	<u>61,994</u>
-	-	Opening Cash and Cash Equivalents	-	-
84,249	84,249	Cash Transferred In as a Result of Equity Transfers	84,249	84,249
<u>75,573</u>	<u>146,243</u>	CLOSING CASH AND CASH EQUIVALENTS	<u>75,573</u>	<u>146,243</u>

The accompanying notes form part of these financial statements.

Health Reform Transitional Organisation Northern
Service Group Statements (Continued)
for the Six Months Ended 30 June 2011

SERVICE'S ASSETS AND LIABILITIES	1.1 *		1.2 *		1.3 *		2.1 *		2.2 *		3.1 *		4.1 *		5.1 *		6.1 *		Total		
	2011	\$000	2011	\$000	2011	\$000	2011	\$000	2011	\$000	2011	\$000	2011	\$000	2011	\$000	2011	\$000		2011	\$000
ASSETS																					
Current Assets																					
Cash and Cash Equivalents	4,691	1,158	6,774	3,252	47,185	2,374	2,997	4,559	2,583	75,573											
Receivables	7,819	1,621	10,439	6,006	79,635	3,380	4,025	8,046	4,525	125,408											
Inventories	312	71	395	259	3,542	133	342	245	245	5,544											
Total Current Assets	12,922	2,850	17,608	9,517	130,362	5,887	7,364	12,852	7,353	205,615											
Non-Current Assets																					
Receivables	20	4	25	15	202	9	10	20	11	317											
Property, Plant and Equipment																					
- Land and Buildings	1,410	141	7,333	2,465	20,226	1,234	1,164	1,278	575	43,846											
- Plant and Equipment	2,784	278	14,485	4,909	55,753	2,437	2,299	2,524	1,136	86,604											
- Infrastructure Systems	31	3	163	55	631	27	26	28	13	977											
Total Non-Current Assets	4,245	426	22,007	7,464	84,812	3,707	3,493	3,850	1,735	131,744											
TOTAL ASSETS	17,067	3,276	39,615	16,981	215,174	9,594	10,857	16,702	9,088	338,359											
LIABILITIES																					
Current Liabilities																					
Payables	7,454	1,692	9,448	6,183	84,632	3,180	6,172	5,659	5,845	132,515											
Borrowings	95	24	138	68	960	48	61	95	53	1,538											
Provisions	2,807	814	5,147	2,175	33,800	1,189	1,322	3,390	1,594	52,308											
Other	27	7	39	19	275	14	17	26	15	439											
Total Current Liabilities	10,383	2,537	14,772	8,443	119,777	4,441	9,572	9,369	7,507	186,600											
Non-Current Liabilities																					
Borrowings	145	36	209	101	1,459	73	93	141	80	2,339											
Provisions	13	4	24	10	156	6	6	16	7	242											
Other	14	3	20	10	141	7	9	14	8	228											
Total Non-Current Liabilities	172	43	253	121	1,755	86	108	171	95	2,804											
TOTAL LIABILITIES	10,555	2,980	15,025	8,564	121,532	4,527	9,680	9,539	7,602	189,404											
NET ASSETS	6,512	696	24,590	8,417	93,642	5,067	1,182	7,163	1,486	148,755											

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

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

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

1. The Health Service Reporting Entity

The Health Reform Transitional Organisation Northern was established under the provisions of the Health Services Act 1997 with effect from 1 January 2011.

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

The Transitional Organisation controls the former Hunter New England, North Coast and North Sydney Central Coast Area Health Service Special Purpose Service Entity commencing from 1 January 2011 in accordance with the Public Sector Employment and Management Act 2002 and the Health Services Act 1997. These Divisions provide personnel services to enable a Transitional Organisation to exercise its functions.

As a consequence the values in the annual financial statements presented herein consist of the Transitional Organisation (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, 11, 22, 24 and 29 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 reporting entity is consolidated as part of the NSW Department of Health and NSW Total State Sector Accounts.

These consolidated financial statements for the six months ended 30 June 2011 have been authorised for issue by the Chief Operating Officer on 10th October.

2. Summary of Significant Accounting Policies

Basis of Preparation

The Transitional Organisation's financial statements are general purpose financial statements which have been prepared in accordance with applicable Australian Accounting Standards (which include Australian Accounting Interpretations), the requirements of the Public Finance and Audit Act 1983, Public Finance and Audit Regulation 2010, and the Financial Reporting Directions published in the Financial Reporting Code for Budget Dependent General Government Sector Agencies or issued 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 Transitional Organisation's budget figures, the financial statements comply with the Financial Reporting Code for Budget Dependent General Government Sector Agencies. Further information on the budget figures can be found at note 2(ab).

Statement of Compliance

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

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 surplus of working capital of \$19,815.

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 Transitional Organisation's first reporting period.

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

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 Transitional Organisation.

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

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

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

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

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

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 Transitional Organisation.

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

a) **Employee Benefits and Other Provisions**

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

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

All Annual Leave employee benefits are reported as "Current" as there is an unconditional right to payment. Current liabilities are then further classified as "Short Term" or "Long Term" based on past trends and known resignations and retirements. Anticipated payments to be made in the next twelve months are reported as "Short Term". On-costs of 17% are applied to the value of leave payable at 30 June 2011, such on-costs being based on actuarial assessment.

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

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

ii) **Long Service Leave and Superannuation**

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

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

The Transitional Organisation's liability for the closed superannuation pool schemes (State Authorities Superannuation Scheme and State Superannuation Scheme) is assumed by the Crown Entity. The Transitional Organisation accounts for the liability as having been extinguished resulting in the amount assumed being shown as part of the non-monetary revenue item described as "Acceptance by the Crown Entity of Employee Benefits". Any liability attached to Superannuation Guarantee Charge cover is reported in Note 22, "Payables".

The superannuation expense for the reporting period is determined by using the formulae specified by 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 Transitional Organisation has a present legal or constructive obligation as a result of a past event; it is probable that an outflow of resources will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation.

b) **Insurance**

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

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

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.

Patient Fees

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

Investment Revenue

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

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

Debt Forbearance

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 Transitional Organisation 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 Transitional Organisation use in the advancement of the Transitional Organisation or individuals within it.

Use of Outside Facilities

The Transitional Organisation uses a number of facilities owned and maintained by the local authorities in the area to deliver community health services for which no charges are raised by the authorities. 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 Transitional Organisation obtains control over the assets comprising the contributions. Control over contributions is normally obtained upon the receipt of cash.

NSW Department of Health Allocations

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

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

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

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

f) **Interstate Patient Flows**

Transitional Organisations recognise the value of inflows for acute inpatient treatment provided to residents from other States and territories. The revenue values reported within the financial statements have been based on 2009/10 activity data for the former Hunter New England Area Health Service using standard cost weighted separation values to reflect estimated costs in 2010/11 for acute weighted inpatient separations.

The composition of interstate patient flow revenue is disclosed in Note 9.

g) **Acquisition of Assets**

The cost method of accounting is used for the initial recording of all acquisitions of assets controlled by the Transitional Organisation. Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire the asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Australian Accounting Standards. Assets acquired at no cost, or for nominal consideration, are initially recognised as assets and revenues at their fair value at the date of acquisition (See also assets transferred as a result of an equity transfer Note 2(y)).

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

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

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

h) **Capitalisation Thresholds**

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

Health Reform Transitional Organisation Northern
Notes to and forming part of the Financial Statements
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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 Transitional Organisation. Land is not a depreciable asset. All material separately identifiable components of assets are depreciated over their shorter useful lives.

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

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

"Infrastructure Systems" means assets that comprise public facilities and which provide essential services and enhance the productive capacity of the economy including roads, bridges and seawalls.

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

Physical non-current assets are valued in accordance with Guidelines Paper (TPP07-1). 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(n).

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 Transitional Organisation to revalue its Land and Buildings and Infrastructure at minimum every three years by independent valuation and with sufficient regularity to ensure that the carrying amount of each asset does not differ materially from its fair value at reporting date.

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.

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k) Impairment of Property, Plant and Equipment

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

l) Assets Not Able to be Reliably Measured

The Transitional Organisation may at times hold certain assets that are not recognised in the Statement of Financial Position because the Transitional Organisation is unable to measure reliably the value of the assets. An example of an asset that may not be capable of reliable measurement is land under roads.

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) 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 Transitional Organisation does not have any property that meets the definition of Investment Property.

o) Intangible Assets

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

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

Computer software developed or acquired by the Transitional Organisation are recognised as intangible assets and are amortised over five 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.

p) Maintenance

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

q) Leased Assets

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

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

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

Health Reform Transitional Organisation Northern
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r) **Inventories**

Inventories are stated at the lower of cost and net realisable value. 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 upon identification in accordance with delegated authority.

s) **Loans and Receivables**

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

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

t) **Investments**

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

* Held-to-maturity investments – Non-derivative financial assets with fixed or determinable payments and fixed maturity that the Health Reform Transitional Organisation Northern 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.

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 Transitional Organisation commits to purchase or sell the asset.

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

u) **Impairment of financial assets**

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

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

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

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

Health Reform Transitional Organisation Northern
Notes to and forming part of the Financial Statements
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v) De-recognition of financial assets and financial liabilities

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

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

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

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

w) Payables

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

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

x) Borrowings

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

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

y) Equity Transfers

The transfer of net assets between agencies as a result of an administrative restructure, transfers of programs/functions and parts thereof between NSW public sector agencies is designated or required by Accounting Standards to be treated as contributions by owners and is recognised as an adjustment to "Accumulated Funds". This treatment is consistent with AASB1004, *Contributions and Australian Interpretation 1038 Contributions by Owners Made to Wholly-Owned Public Sector Entities*.

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

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

z) Equity and Reserves

(i) Asset Revaluation Reserve

The asset revaluation reserve is used to record increments and decrements on the revaluation of non-current assets. This accords with the Transitional Organisation'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 period retained funds.

(iii) Separate Reserves

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

aa) Trust Funds

The Transitional Organisation receives monies in a trustee capacity for various trusts as set out in Note 27. As the Transitional Organisation performs only a custodial role in respect of these monies, and because the monies cannot be used for the achievement of the Transitional Organisation's own objectives, they are not brought to account in the financial statements.

Health Reform Transitional Organisation Northern
Notes to and forming part of the Financial Statements
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ab) Budgeted Amounts

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

ac) Service Group Statements Allocation Methodology

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

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

Health Reform Transitional Organisation Northern
Notes to and forming part of the Financial Statements
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PARENT		CONSOLIDATION
2011 \$000		2011 \$000
	3. Employee Related	
	Employee related expenses comprise the following:	
	Salaries and Wages	141,412
	Awards	1,013
	Superannuation - Defined Benefit Plans	5,113
	Superannuation - Defined Contribution Plans	11,697
	Long Service Leave	7,871
	Annual Leave	14,234
	Sick Leave and Other Leave	5,103
	Redundancies	50
	Workers' Compensation Insurance	4,142
	Fringe Benefits Tax	52
		190,687
	4. Personnel Services	
	Personnel Services comprise the purchase of the following:	
141,412	Salaries and Wages	
1,013	Awards	
5,113	Superannuation - Defined Benefit Plans	
11,697	Superannuation - Defined Contribution Plans	
7,871	Long Service Leave	
14,234	Annual Leave	
5,103	Sick Leave and Other Leave	
50	Redundancies	
4,142	Workers' Compensation Insurance	
52	Fringe Benefits Tax	
190,687		
	5. Other Operating Expenses	
61	Blood and Blood Products	61
947	Domestic Supplies and Services	947
291	Drug Supplies	291
175	Food Supplies	175
791	Fuel, Light and Power	791
15,517	General Expenses (See (b) below)	15,517
278	Hospital Ambulance Transport Costs	278
10,750	Information Management Expenses	10,750
906	Insurance	906
	Maintenance (See (c) below)	
10,466	Maintenance Contracts	10,466
3,113	New/Replacement Equipment under \$10,000	3,113
2,391	Repairs Maintenance/Non Contract	2,391
4,873	Medical and Surgical Supplies	4,873
543	Motor Vehicle Expenses	543
1,892	Postal and Telephone Costs	1,892
1,176	Printing and Stationery	1,176
356	Rates and Charges	356
1,006	Rental	1,006
26,264	Special Service Departments	26,264
1,988	Staff Related Costs	1,988
1,034	Sundry Operating Expenses (See (a) below)	1,034
2,645	Travel Related Costs	2,645
87,463		87,463

Health Reform Transitional Organisation Northern
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PARENT		CONSOLIDATION
2011 \$000		2011 \$000
1,034	(a) Sundry Operating Expenses comprise :	
	Isolated Patient Travel and Accommodation Assistance Scheme	1,034
<u>1,034</u>		<u>1,034</u>
	(b) General Expenses include :-	
254	Advertising	254
150	Books, Magazines and Journals	150
	Consultancies	
513	- Operating Activities	513
9	- Capital Works	9
1,117	Courier and Freight	1,117
546	Auditor's Remuneration - Audit of Financial Statements	546
67	Auditor's Remuneration - Other Services	67
72	Data Recording and Storage	72
47	Legal Services	47
332	Membership/Professional Fees	332
1,072	Motor Vehicle Operating Lease Expense - Minimum Lease Payments	1,072
391	Other Operating Lease Expense - Minimum Lease Payments	391
21	Payroll Services	21
870	Quality Assurance/Accreditation	870
372	Security Services	372
33	Translator Services	33
5,946	Shared Corporate Services	5,946
3,705	Other	3,705
	(c) Reconciliation of Total Maintenance	
15,970	Maintenance Expense - Contracted Labour and Other (Non-Employee Related), included in Note 5	15,970
166	Employee Related/Personnel Services Maintenance Expense included in Notes 3 and 4	166
<u>16,136</u>	Total Maintenance Expenses included in Notes 3, 4 and 5	<u>16,136</u>

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Notes to and forming part of the Financial Statements
for the Six Months Ended 30 June 2011

PARENT		CONSOLIDATION
2011		2011
\$000		\$000
	6. Depreciation and Amortisation	
748	Depreciation - Buildings	748
11	Amortisation - Leased Buildings	11
9,217	Depreciation - Plant and Equipment	9,217
9	Depreciation - Infrastructure Systems	9
<u>9,985</u>		<u>9,985</u>
	7. Grants and Subsidies	
9,445	Non-Government Organisations	9,445
63	Promotion of Research	63
559	Other Grants	559
<u>10,067</u>		<u>10,067</u>
	8. Finance Costs	
57	Interest on Loans	57
<u>57</u>	Total Finance Costs	<u>57</u>

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

PARENT		CONSOLIDATION
2011 \$000		2011 \$000
	9. Sale of Goods and Services	
	(a) Sale of Goods comprise the following:-	
166	Sale of Prosthesis	166
1,872	Other	1,872
	(b) Rendering of Services comprise the following:-	
299	Patient Fees [see note 2(d)]	299
9	Staff-Meals and Accommodation	9
30,663	Infrastructure Fees - Monthly Facility Charge [see note 2(d)]	30,663
7,734	- Annual Charge	7,734
93	Car Parking	93
1,303	Clinical Services (excluding Clinical Drug Trials)	1,303
93,196	Commercial Activities	93,196
4	Fees for Medical Records	4
6	Information Retrieval	6
127	High Cost Drugs	127
309	Motor Accident Authority Third Party	309
18,649	Patient Inflows from Interstate [see note (c) below]	18,649
303	Salary Packaging Fee	303
629	Services Provided to Non NSW Health Organisations	629
129,308	Shared Corporate Services	129,308
2,351	Other	2,351
<u>287,021</u>		<u>287,021</u>
	(c) Revenues from Patient Inflows from Interstate are as follows:-	
459	Australian Capital Territory	459
133	Northern Territory	133
15,735	Queensland	15,735
397	South Australia	397
175	Tasmania	175
1,494	Victoria	1,494
257	Western Australia	257
<u>18,649</u>		<u>18,649</u>
	10. Investment Revenue	
2,189	Interest Revenue	2,189
443	Lease and Rental Income	443
<u>2,632</u>		<u>2,632</u>

Health Reform Transitional Organisation Northern
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PARENT		CONSOLIDATION
2011 \$000		2011 \$000
11. Grants and Contributions		
8	Clinical Drug Trials	8
294	Commonwealth Government Grants	294
1,488	Industry Contributions/Donations	1,488
8,399	Cancer Institute Grants	8,399
1,017	NSW Government Grants	1,017
170	Research Grants	170
1,576	Other Grants	1,576
12,975	Acceptance by the Crown Entity of Employee Benefits	-
<u>25,927</u>		<u>12,952</u>
12. Other Revenue		
Other Revenue comprises the following:-		
7	Bad Debts Recovered	7
206	Commissions	206
3	Conference and Training Fees	3
5	Sale of Merchandise, Old Wares and Books	5
11	Sponsorship Income	11
1,623	Treasury Managed Fund Hindsight Adjustment	1,623
12	Unclaimed Deposits	12
1,128	Other	1,128
<u>2,995</u>		<u>2,995</u>
13. Gain / (Loss) on Disposal		
25,341	Property, Plant and Equipment	25,341
(23,883)	Less: Accumulated Depreciation	(23,883)
1,458	Written Down Value	1,458
822	Less: Proceeds from Disposal	822
<u>(636)</u>	Gain/(Loss) on Disposal of Property, Plant and Equipment	<u>(636)</u>
14. Other Gains / (Losses)		
(1,286)	Impairment of Receivables	(1,286)
<u>(1,286)</u>		<u>(1,286)</u>

Health Reform Transitional Organisation Northern
Notes to and forming part of the Financial Statements
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PARENT AND CONSOLIDATED

15. Conditions on Contributions

	Purchase of Assets	Health Promotion, Education and Research	Other	Total
	\$000	\$000	\$000	\$000
Contributions recognised as revenues during the current reporting period for which expenditure in the manner specified had not occurred as at balance date	4	11,596	134	11,734
Contributions recognised in equity transfer as at 1 January 2011 which were not expended in the current reporting period	111	25,978	697	26,786
Total amount of unexpended contributions as at balance date	115	37,574	831	38,520

Comment on restricted assets appears in Note 21

Health Reform Transitional Organisation Northern
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16. Service Groups of the Health Service

Service Group 1.1 - Primary and Community Based Services

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

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

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

Service Group 1.2 - Aboriginal Health Services

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

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

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

Service Group 1.3 - Outpatient Services

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

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

Service Group 2.1 - Emergency Services

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

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

Service Group 2.2 - Inpatient Hospital Services

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

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

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

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Service Group 3.1 - Mental Health Services

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

Service Group 4.1 - Rehabilitation and Extended Care Services

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

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

Service Group 5.1 - Population Health Services

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

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

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

Service Group 6.1 - Teaching and Research

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

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

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

Health Reform Transitional Organisation Northern
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PARENT		CONSOLIDATION
2011 \$000		2011 \$000
	17. Cash and Cash Equivalents	
60,573	Cash at Bank and On Hand	60,573
15,000	Short Term Deposits	15,000
<u>75,573</u>		<u>75,573</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:	
75,573	Cash and Cash Equivalents (per Statement of Financial Position)	75,573
<u>75,573</u>	Closing Cash and Cash Equivalents (per Statement of Cash Flows)	<u>75,573</u>

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

Health Reform Transitional Organisation Northern
Notes to and forming part of the Financial Statements
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PARENT		CONSOLIDATION
2011 \$000		2011 \$000
	18. Receivables	
	Current	
7,231	(a) Sale of Goods and Services	7,231
108,431	NSW Health Department	108,431
8,890	Goods and Services Tax	8,890
<u>4,559</u>	Other Debtors	<u>4,559</u>
129,111	Sub Total	129,111
<u>(5,064)</u>	Less Allowance for Impairment	<u>(5,064)</u>
124,047	Sub Total	124,047
1,451	Prepayments	1,451
<u>125,498</u>		<u>125,498</u>
	(b) Movement in the Allowance for Impairment	
	Sale of Goods and Services	
-	Balance at 1 Jan 2011	-
-	Amounts written off during the reporting period	-
2,535	Amounts recovered during the reporting period	2,535
971	Increase/(decrease) in Allowance Recognised in	
(3,506)	Result for the reporting period	971
	Balance at 30 June 2011	(3,506)
	(c) Movement in the Allowance for Impairment	
	Other Debtors	
-	Balance at 1 Jan 2011	-
-	Amounts written off during the reporting period	-
1,529	Amounts recovered during the reporting period	1,529
29	Increase/(decrease) in Allowance Recognised in	
(1,558)	Result for the reporting period	29
	Balance at 30 June 2011	(1,558)
<u>(5,064)</u>		<u>(5,064)</u>

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

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

PARENT		CONSOLIDATION
2011 \$000		2011 \$000
	18. Receivables	
	Non-Current	
569	(a) Sale of Goods and Services	569
<u>34</u>	Other Debtors	<u>34</u>
603	Sub Total	603
<u>(286)</u>	Less Allowance for Impairment	<u>(286)</u>
317	Sub Total	317
<u><u>317</u></u>		<u><u>317</u></u>
	(b) Movement in the Allowance for Impairment	
	Sale of Goods and Services	
-	Balance at 1 Jan 2011	-
-	Amounts written off during the reporting period	-
-	Amounts recovered during the reporting period	-
252	Increase/(decrease) in Allowance Recognised in Result for the reporting period	252
(252)	Balance at 30 June 2011	(252)
	(c) Movement in the Allowance for Impairment	
	Other Debtors	
-	Balance at 1 Jan 2011	-
-	Amounts written off during the reporting period	-
-	Amounts recovered during the reporting period	-
34	Increase/(decrease) in Allowance Recognised in Result for the reporting period	34
(34)	Balance at 30 June 2011	(34)
<u>(286)</u>		<u>(286)</u>
	(d) Sale of Goods and Services Receivables	
	(Current and Non-Current) include:	
765	Patient Fees - Compensable	765
1,507	Patient Fees - Ineligible	1,507
1,775	Patient Fees - Other	1,775
<u><u>4,047</u></u>		<u><u>4,047</u></u>

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

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

PARENT		CONSOLIDATION
2011		2011
\$000		\$000
	19. Inventories - Current - Held for Distribution	
17	Drugs	17
5,036	Medical and Surgical Supplies	5,036
491	Other Including Goods in Transit	491
<u>5,544</u>		<u>5,544</u>

Health Reform Transitional Organisation Northern
Notes to and forming part of the Financial Statements
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PARENT		CONSOLIDATION
2011 \$000		2011 \$000
	20. Property, Plant and Equipment	
	Land and Buildings - Fair Value	
60,235	Gross Carrying Amount	60,235
16,389	Less Accumulated Depreciation and Impairment	16,389
<u>43,846</u>	Net Carrying Amount	<u>43,846</u>
	Plant and Equipment - Fair Value	
184,396	Gross Carrying Amount	184,396
97,792	Less Accumulated Depreciation and Impairment	97,792
<u>86,604</u>	Net Carrying Amount	<u>86,604</u>
	Infrastructure Systems - Fair Value	
1,027	Gross Carrying Amount	1,027
50	Less Accumulated Depreciation and Impairment	50
<u>977</u>	Net Carrying Amount	<u>977</u>
<u>131,427</u>	Total Property, Plant and Equipment At Net Carrying Amount	<u>131,427</u>

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

PARENT & CONSOLIDATION

20. Property, Plant and Equipment - Reconciliation

	Land	Buildings	Work in Progress	Leased Buildings	Plant and Equipment	Infrastructure Systems	Other Leased Assets	Total
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
2011								
Net Carrying Amount at Start of Year	-	-	-	-	-	-	-	-
Additions	-	44	250	-	8,591	379	-	9,264
Reclassifications to Intangibles	-	-	-	-	-	-	-	-
Recognition of Assets Held for Sale	-	-	-	-	-	-	-	-
Disposals	-	(12)	-	-	(1,446)	-	-	(1,458)
Administrative Restructures - Transfers In/(Out)	1,370	40,641	4,510	240	86,237	608	-	133,606
Net Revaluation Increment Less Revaluation Decrements	-	-	-	-	-	-	-	-
Impairment Losses (Recognised in "Other Gains/Losses")	-	-	-	-	-	-	-	-
Depreciation Expense	-	(748)	-	(11)	(9,217)	(9)	-	(9,985)
Reclassifications	-	159	(2,597)	-	2,439	(1)	-	-
Net Carrying Amount at End of Year	1,370	40,084	2,163	229	86,604	977	-	131,427

- (i) Land and Buildings include land owned by the Health Administration Corporation and administered by the Transitional Organisation [see note 2(g)].
- (ii) Land and Buildings of the Hunter New England component of the Transitional Organisation were valued by Corporeal Pty Ltd, Property Valuers and Consultants (Certified Practising Valuer, Registered Valuer No. 2673) on 1 July 2010 [see note 2(j)]. Corporeal Pty Ltd is not an employee of the Transitional Organisation.
- (iii) Land and Buildings of the North Sydney Central Coast component of the Transitional Organisation were valued by Graham Scrymgeour AAPI (Certified Practising Valuer), NSW registration No '1578 for and on behalf of Global Valuation Services Ltd as at 1 July 2007 [see note 2(j)]. Graham Scrymgeour is not an employee of the Transitional Organisation.
- (iv) Land, Buildings and Infrastructure of the North Coast component of the Transitional Organisation were valued by Benjamin Kingsberry (AAPI/CPV) of Australian Pacific Valuers Pty Ltd, registered valuers on 01 July 2008 [see note 2(j)]. Australian Pacific Valuers Pty Ltd is not an employee of the Health Service.
- (v) 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.

- North Coast component of the Transitional Organisation:

Year	Land	Buildings	Infrastructure
08/09	100.00	100.00	100.00
09/10	105.50	109.18	109.18
10/11	100.00	100.00	100.00

- North Sydney Central Coast component of the Transitional Organisation:

Year	Land	Buildings	Infrastructure
08/09	100.00	106.00	106.00
09/10	93.00	106.00	106.00
10/11	105.00	103.00	103.00

Health Reform Transitional Organisation Northern
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PARENT

CONSOLIDATION

2011
\$000

2011
\$000

21. Restricted Assets

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

Category	Brief Details of Externally Imposed Conditions including Asset Category affected	
2,320	Specific Purposes	Condition Imposed by Donor 2,320
3,098	Research Grants	Condition imposed by granting body 3,098
32,271	Private Practice Funds	Trust Deeds 32,271
831	Other	Condition Imposed by Donor 831
<u>38,520</u>		<u>38,520</u>

Health Reform Transitional Organisation Northern
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PARENT		CONSOLIDATION
2011 \$000		2011 \$000
	22. Payables	
	Current	
-	Accrued Salaries, Wages and On-Costs	7,312
-	Taxation and Payroll Deductions	20,245
27,557	Accrued Liability - Purchase of Personnel Services	-
41,758	Creditors	41,758
	Other Creditors	
1,764	- Capital Works	1,764
56,520	- Intra Health Liability	56,520
4,916	- Taxation	4,916
<u>132,515</u>		<u>132,515</u>

Details regarding credit risk, liquidity risk and market risk, including a maturity analysis of the above payables are disclosed in Note 33.

	23. Borrowings	
	Current	
1,538	Other Loans and Deposits	1,538
<u>1,538</u>		<u>1,538</u>
	Non-Current	
2,336	Other Loans and Deposits	2,336
<u>2,336</u>		<u>2,336</u>

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

Other loans still to be extinguished represent monies to be repaid to the NSW Health Support Services and Agency for Clinical Innovation. Final repayments are scheduled for **30 June 2014**.

Details regarding credit risk, liquidity risk and market risk, including a maturity analysis of the above payables are disclosed in Note 33.

Health Reform Transitional Organisation Northern
Notes to and forming part of the Financial Statements
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PARENT		CONSOLIDATION
2011 \$000		2011 \$000
	24. Provisions	
	Current Employee Benefits and Related On-Costs	
-	Annual Leave - Short Term Benefit	34,520
-	Annual Leave - Long Term Benefit	13,171
-	Long Service Leave On-Costs	4,598
-	Other	19
52,308	Provision for Personnel Services Liability	-
<u>52,308</u>	Total Current Provisions	<u>52,308</u>
	Non-Current Employee Benefits and Related On-Costs	
-	Long Service Leave On-Costs	242
242	Provision for Personnel Services Liability	-
<u>242</u>	Total Non-Current Provisions	<u>242</u>
	Aggregate Employee Benefits and Related On-Costs	
52,308	Provisions - Current	52,308
242	Provisions - Non-Current	242
-	Accrued Salaries, Wages and On-Costs (Note 22)	27,557
27,557	Accrued Liability - Purchase of Personnel Services (Note 22)	-
<u>80,107</u>		<u>80,107</u>

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

PARENT		CONSOLIDATION
2011		2011
\$000		\$000
	25. Other Liabilities	
	Current	
439	Income in Advance	439
<u>439</u>		<u>439</u>
	Non-Current	
226	Other	226
<u>226</u>		<u>226</u>

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

PARENT		CONSOLIDATION
2011 \$000	26. 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:	
495	Not later than one year	495
-	Later than one year and not later than five years	-
-	Later than five years	-
<u>495</u>	Total Capital Expenditure Commitments (Including GST)	<u>495</u>
	Of the commitments reported at 30 June 2011 it is expected that \$0.146M will be met from locally generated moneys.	
	(b) Other Expenditure Commitments	
	Aggregate other expenditure contracted for the acquisition of purchases contracted for at balance date and not provided for:	
8,689	Not later than one year	8,689
-	Later than one year and not later than five years	-
-	Later than five years	-
<u>8,689</u>	Total Other Expenditure Commitments (Including GST)	<u>8,689</u>
	(c) Operating Lease Commitments	
	Commitments in relation to non-cancellable operating leases are payable as follows:	
2,583	Not later than one year	2,583
1,972	Later than one year and not later than five years	1,972
-	Later than five years	-
<u>4,555</u>	Total Operating Lease Commitments (Including GST)	<u>4,555</u>
	(d) Contingent Asset Related to Commitments for Expenditure	
	The total of 'Commitments for Expenditure' above, i.e. \$13.7M as at 30 June 2011 includes input tax credits of \$1.3M that are expected to be recoverable from the Australian Taxation Office.	

Health Reform Transitional Organisation Northern
Notes to and forming part of the Financial Statements
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PARENT & CONSOLIDATION

27. Trust Funds

The Transitional Organisation holds trust fund moneys of \$2.4 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 Transitional Organisation cannot use them for the achievement of its objectives. The following is a summary of the transactions in the trust account:

	Patient Trust	Refundable Deposits	Private Practice Trust Funds	Total
	2011 \$000	2011 \$000	2011 \$000	2011 \$000
Cash Balance at the beginning of the financial reporting period	-	-	-	-
Receipts	-	124	41,689	41,813
Expenditure	-	-	39,364	39,364
Cash Balance at the end of the financial reporting period	-	124	2,325	2,449

Health Reform Transitional Organisation Northern
Notes to and forming part of the Financial Statements
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PARENT AND CONSOLIDATED

28. Contingent Liabilities and Assets

a) Claims on Managed Fund

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

b) Workers Compensation Hindsight Adjustment

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 2009/10. As a result, the 2004/05 final and 2006/07 interim hindsight calculations will be paid/received in 2011/12. It is not possible for the Transitional Organisation to reliably quantify the expense/benefit to be received.

c) Affiliated Health Organisations

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

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

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

PARENT		CONSOLIDATION
2011 \$000		2011 \$000
29. Reconciliation of Net Cash Flows from Operating Activities to Net Cost of Services		
(233)	Net Cash Flows from Operating Activities	(233)
(9,985)	Depreciation	(9,985)
(1,286)	Allowance for Impairment	(1,286)
	Acceptance by the Crown Entity of Employee Benefits	(12,975)
388	(Increase) in Provisions	388
45,796	Increase / (Decrease) in Prepayments and Other Assets	45,796
(11,372)	(Increase)/ Decrease in Creditors	(11,372)
(636)	Net Gain/ (Loss) on Sale of Property, Plant and Equipment	(636)
(8,761)	NSW Health Department Recurrent Allocations	(8,761)
(414)	NSW Health Department Capital Allocations	(414)
<u>13,497</u>	Net Cost of Services	<u>522</u>

Health Reform Transitional Organisation Northern
Notes to and forming part of the Financial Statements
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PARENT AND CONSOLIDATED

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*.

31. Budget Review - Parent and Consolidated

Net Cost of Services

The actual Net Cost of Services was lower than budget by \$18,770k, primarily due to favourability in expenses for employee related, other operating expenses & depreciation and favourability in revenue.

Result for the Six month ended 30 June 2011

The result for the six month ended 30 June 2011 was unfavourable \$3,284k. Net Cost of Services was favourable \$18,770k offset by unfavourability in capital allocations of \$15,191k.

Assets and Liabilities

Total Assets were \$34,450k lower than budget. This was due primarily to budget for balance sheet items remaining in the Health Reform Transitional Organisation rather than being transferred to the Local Health Network.

Total Liabilities were lower than budget by \$30,683k. This was also due primarily to budget for balance sheet items remaining in the Health Reform Transitional Organisation rather than being transferred to the Local Health Network.

Cash Flows

Total Cash was lower than budget by \$70,670k. This was also due primarily to balance sheet budget for cash remaining in the Health Reform Transitional Organisation rather than being transferred to the Local Health Network.

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

	\$000
Initial Allocation, 1 January 2011	164,750
Awards	1,482
Services Provided to Local Health Networks	(129,303)
Transfer of Services/Allocations to Northern NSW & Mid North Coast Local Health Networks	(14,035)
Transfer of Services/Allocations to Hunter New England Local Health Network	(9,241)
Transfer of Services/Allocations to Northern Sydney & Central Coast Local Health Networks	(12,433)
Interstate patient flows funding allocations	(12,688)
Other	20,230
Balance as per Statement of Comprehensive Income	<u>8,761</u>

Health Reform Transitional Organisation Northern
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 \$126.1 Million transferred from the former Hunter New England, North Coast & North Sydney Central Coast Area Health Services 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.

Consistent with Treasury approval, Long Service Leave liability of \$5.1 Million transferred from the Health Service with effect from 31 December 2010 from which time the Crown Entity assumed responsibility for Long Service Leave.

Assets and Liabilities transferred are as follows:

		2011
		\$000
Assets		
Current		
	Cash & Cash Equivalents	84,249
	Inventory	6,117
	Receivables	80,302
Non Current		
	Property, Plant & Equipment	133,606
	- Land and Buildings	46,762
	- Plant and Equipment	86,237
	- Infrastructure Systems	607
	Non Current Receivables	430
		<u>304,704</u>
	Liabilities	
Current		
	Current Liabilities	308
	Payables	120,543
	Provisions	52,664
	Borrowings	3,071
Non Current		
	Other liabilities	195
	Provisions	255
	Borrowings	1,585
		<u>178,621</u>
	Increase/(Decrease) in Net Assets From Equity Transfers	<u>126,083</u>

Health Reform Transitional Organisation Northern
Notes to and forming part of the Financial Statements
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33. Financial Instruments

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

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

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

(a) Financial Instrument Categories

PARENT

Financial Assets Class:	Category	Carrying Amount
		2011 \$000
Cash and Cash Equivalents (note 17)	N/A	75,573
Receivables (note 18) ¹	Loans and receivables (at amortised cost)	115,474
Total Financial Assets		<u>191,047</u>
Financial Liabilities		
Borrowings (note 23)	Financial liabilities	3,874
Payables (note 22) ²	measured at	127,599
Other (note 25)	amortised cost	665
Total Financial Liabilities		<u>132,138</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)

Health Reform Transitional Organisation Northern
Notes to and forming part of the Financial Statements
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(b) Credit Risk

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

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

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

Cash

Cash comprises cash on hand and bank balances deposited in accordance with Public Authorities (Financial Arrangements) Act approvals. Interest is earned on daily bank balances at rates of approximately 5.47% in 2010/11.

Receivables - trade debtors

All trade debtors are recognised as amounts receivable at balance date. Collectability of trade debtors is reviewed on an ongoing basis. Procedures as established in the NSW 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 Transitional Organisation will not be able to collect all amounts due. This evidence includes past experience and current and expected changes in economic conditions and debtor credit ratings. No interest is earned on trade debtors.

The Transitional Organisation is not materially exposed to concentrations of credit risk to a single trade debtor or group of debtors. Based on past experience, debtors that are not past due (32.7M) and not more than 3 months past due (5.4M) are not considered impaired and together these represent 75% of the total trade debtors. In addition Patient Fees Compensables are frequently not settled within 6 months of the date of the service provision due to the length of time it takes to settle legal claims. Most of the Transitional Organisations' 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 been renegotiated.

The only financial assets that are past due or impaired are 'sales of goods and services' in the receivables' category of the Statement of Financial Position. Patient Fees Ineligibles represent the majority of financial assets that are past due or impaired.

Health Reform Transitional Organisation Northern
Notes to and forming part of the Financial Statements
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2011	\$000		
	Total ^{1,2}	Past due but not impaired ^{1,2}	Considered impaired ^{1,2}
<3 months overdue	5,429	5,429	-
3 months - 6 months overdue	8,199	7,934	265
> 6 months overdue	4,626	964	3,662

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.

(c) Liquidity Risk

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

The Transitional Organisation has negotiated no loan outside of arrangements with the NSW Department of Health or NSW Treasury.

During the current period, there were no defaults or breaches on any loans payable. No assets have been pledged as collateral. The Transitional Organisation's exposure to liquidity risk is considered significant. However, the risk is minimised as the NSW Department of Health has indicated its ongoing financial support for the Health Reform Transitional Organisation Northern Service (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 settled in accordance with the policy set by the NSW Department of Health. If trade terms are not specified, payment is made no later than the end of the month following the month in which an invoice or a statement is received.

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 advantageous to both parties.

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

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

	Note	weighted Average Effective Int. Rate	Interest Rate Exposure \$'000				Maturity Dates		
			Nominal Amount ¹	Fixed Interest Rate	Variable Interest Rate	Non - Interest Bearing	< 1 Yr	1-5 Yr	> 5Yr
2011		%	\$000	\$000	\$000	\$000	\$000	\$000	
Payables:									
Accrued Salaries									
Wages, On-Costs and Payroll Deductions	22		27,557			27,557			
Creditors	22		100,042			100,042			
Other	25		665			665			
Borrowings:									
Bank Overdraft									
Non Interest Loans									
Other Loans and Deposits	22		3,874			3,874	1,538	2,336	
Finance Leases									
			<u>132,138</u>	<u>-</u>	<u>-</u>	<u>132,138</u>	<u>129,802</u>	<u>2,336</u>	

Notes:

- The amounts disclosed are the contractual undiscounted cash flows of each class of financial liabilities based on the earliest date on which the Health Service 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.
- Of the \$3,874 disclosed in the other loans and deposits' time band 1-5 yrs, the Health Service has no intention to effect payments in advance of maturity dates on or prior to 30 September 2011.

Health Reform Transitional Organisation Northern
Notes to and forming part of the Financial Statements
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d) Market Risk

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

The effect on profit and equity due to a reasonably possible change in risk variable is outlined in the information below, for interest rate risk and other price risk. A reasonably possible change in risk variable has been determined after taking into account the economic environment in which the Health Service operates and the time frame for the assessment (i.e. until the end of the next annual reporting period). The sensitivity analysis is based on risk exposures in existence at the Statement of Financial Position date. The analysis is performed on the same basis for 2009. The analysis assumes that all other variables remain constant.

Interest rate risk

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

However, Health Services are not permitted to borrow external to the NSW Department of Health (Energy loans which are negotiated through Treasury excepted).

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

A reasonably possible change of +/-1% is used consistent with current trends in interest rates. The basis will be reviewed annually and amended where there is a structural change in the level of interest rate volatility. The Health Service's exposure to interest rate risk is set out below.

\$'000						
	Note	Carrying Amount	-1%		+1%	
			Profit	Equity	Profit	Equity
2011						
Financial Assets						
Cash and Cash Equivalents	17	75,573	(756)	(756)	756	756
Receivables	18	115,474	(1,155)	(1,155)	1,155	1,155
Financial Liabilities						
Payables	22	127,599	(1,276)	(1,276)	1,276	1,276
Borrowings	23	3,874	(39)	(39)	39	39

Health Reform Transitional Organisation Northern
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Note 34 Post Balance Date Events

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

However, the revised governance framework, endorsed by the Minister for Health requires the dissolution of the three Health Reform Transitional Organisations, which operated in 2010/11 to oversee the establishment of Local Health Districts and provide speciality services.

Under the revised framework the majority of staff and services will be assigned to Local Health Districts, although some statewide services, eg pathology will be established where it is sufficiently demonstrated that the service will result in improved quality and/or efficiency and the establishment of the service is also consistent with whole NSW government policies.

END OF AUDITED FINANCIAL STATEMENTS