



GPO BOX 12  
Sydney NSW 2001

## INDEPENDENT AUDITOR'S REPORT

### Hunter New England Local Health Network

To Members of the New South Wales Parliament

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

#### Opinion

In my opinion, the financial statements:

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

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

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

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

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

#### Auditor's Responsibility

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

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

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

My opinion does *not* provide assurance:

- about the future viability of the Network or the consolidated entity
- that they have carried out their activities effectively, efficiently and economically
- about the effectiveness of their internal control
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about any other information which may have been hyperlinked to/from the financial statements.

### Independence

In conducting my audit, I have complied with the independence requirements of the Australian Auditing Standards and other relevant ethical pronouncements. The PF&A Act further promotes independence by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of public sector agencies but precluding the provision of non-audit services, thus ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their role by the possibility of losing clients or income.



Peter Achterstraat  
Auditor-General

6 October 2011  
SYDNEY

**Hunter New England Local Health Network  
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 Hunter New England Local Health Network 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
- *Health Services Act 1997* and its regulations
- Accounts and Audit Determinations

(ii) The financial statements present fairly the financial position and transactions of the Hunter New England Local Health Network.

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



**Michael Di Rienzo**  
**Chief Executive**  
**Hunter New England Local Health District**  
4 October 2011

**Hunter New England Local Health Network**  
**Statement of Comprehensive Income for the Six Months ended 30 June 2011**

PARENT		CONSOLIDATION			
Actual	Budget (unaudited)	Notes	Actual	Budget (unaudited)	
2011	2011		2011	2011	
\$000	\$000		\$000	\$000	
<b>Expenses excluding losses</b>					
Operating Expenses					
-	-	Employee Related	3	473,658	468,140
473,658	468,140	Personnel Services	4	-	-
38,437	38,184	Visiting Medical Officers		38,437	38,184
251,170	256,638	Other Operating Expenses	5	251,170	256,638
26,693	26,852	Depreciation and Amortisation	2(h), 6	26,693	26,852
1,557	1,612	Grants and Subsidies	7	1,557	1,612
9,862	10,246	Finance Costs	8	9,862	10,246
49,909	50,202	Payments to Affiliated Health Organisations	9	49,909	50,202
<b>851,286</b>	<b>851,874</b>	<b>Total Expenses excluding losses</b>		<b>851,286</b>	<b>851,874</b>
<b>Revenue</b>					
89,655	83,240	Sale of Goods and Services	10	89,655	83,240
2,906	1,152	Investment Revenue	11	2,906	1,152
37,936	36,834	Grants and Contributions	12	12,142	11,069
5,103	10,106	Other Revenue	13	5,103	10,106
<b>135,600</b>	<b>131,332</b>	<b>Total Revenue</b>		<b>109,806</b>	<b>105,567</b>
(9,986)	(2,620)	Gain / (Loss) on Disposal	14	(972)	(2,620)
(231)	(2,196)	Other Gains / (Losses)	15	(231)	(2,196)
<b>725,903</b>	<b>725,358</b>	<b>Net Cost of Services</b>	31	<b>742,683</b>	<b>751,123</b>
<b>Government Contributions</b>					
NSW Department of Health					
696,951	696,951	Recurrent Allocations	2(d)	696,951	696,951
NSW Department of Health					
36,562	35,256	Capital Allocations	2(d)	36,562	35,256
Acceptance by the Crown Entity of					
-	-	Employee Benefits	2(a)(ii)	25,794	25,765
<b>733,513</b>	<b>732,207</b>	<b>Total Government Contributions</b>		<b>759,307</b>	<b>757,972</b>
<b>7,610</b>	<b>6,849</b>	<b>RESULT FOR THE SIX MONTHS ENDED 30 JUNE 2011</b>		<b>16,624</b>	<b>6,849</b>
<b>TOTAL COMPREHENSIVE INCOME</b>					
<b>7,610</b>	<b>6,849</b>	<b>FOR THE SIX MONTHS ENDED 30 JUNE 2011</b>		<b>16,624</b>	<b>6,849</b>

The accompanying notes form part of these financial statements.

# Hunter New England Local Health Network

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
<b>ASSETS</b>					
<b>Current Assets</b>					
85,061	19,746	Cash and Cash Equivalents	18	85,061	19,746
69,937	32,414	Receivables	19	69,937	32,414
2,606	3,031	Inventories	20	2,606	3,031
6,900	(1,134)	Non-Current Assets Held for Sale	22	6,900	(1,134)
<b>164,504</b>	<b>54,057</b>	<b>Total Current Assets</b>		<b>164,504</b>	<b>54,057</b>
<b>Non-Current Assets</b>					
Property, Plant and Equipment					
985,833	960,026	- Land and Buildings	21	985,833	960,026
56,114	86,900	- Plant and Equipment	21	56,114	86,900
73,674	73,940	- Infrastructure Systems	21	73,674	73,940
1,115,621	1,120,866	Total Property, Plant and Equipment		1,115,621	1,120,866
<b>1,115,621</b>	<b>1,120,866</b>	<b>Total Non-Current Assets</b>		<b>1,115,621</b>	<b>1,120,866</b>
<b>1,280,125</b>	<b>1,174,923</b>	<b>Total Assets</b>		<b>1,280,125</b>	<b>1,174,923</b>
<b>LIABILITIES</b>					
<b>Current Liabilities</b>					
130,299	41,355	Payables	24	130,299	41,355
9,074	10,350	Borrowings	25	9,074	10,350
128,343	110,157	Provisions	26	128,343	110,157
3,257	3,701	Other	27	3,257	3,701
<b>270,973</b>	<b>165,563</b>	<b>Total Current Liabilities</b>		<b>270,973</b>	<b>165,563</b>
<b>Non-Current Liabilities</b>					
144,201	154,466	Borrowings	25	144,201	154,466
519	2,248	Provisions	26	519	2,248
360	-	Other	27	360	-
<b>145,080</b>	<b>156,714</b>	<b>Total Non-Current Liabilities</b>		<b>145,080</b>	<b>156,714</b>
<b>416,053</b>	<b>322,277</b>	<b>Total Liabilities</b>		<b>416,053</b>	<b>322,277</b>
<b>864,072</b>	<b>852,646</b>	<b>Net Assets</b>		<b>864,072</b>	<b>852,646</b>
<b>EQUITY</b>					
864,072	6,849	Accumulated Funds		864,072	6,849
<b>864,072</b>	<b>6,849</b>	<b>Total Equity</b>		<b>864,072</b>	<b>6,849</b>

The accompanying notes form part of these financial statements.

**Hunter New England Local Health Network**  
**Statement of Changes in Equity for the Six Months ended 30 June 2011**

	Notes	Accumulated Funds \$000	Asset Revaluation Surplus \$000	Available For Sale Reserve \$000	Total \$000
<b>Balance at 1 January 2011</b>		-	-	-	-
<b>Result For The Six Months Ended 30 June 2011</b>		16,624	-	-	16,624
<b>Total Comprehensive Income For The Six Months Ended 30 June 2011</b>		16,624	-	-	16,624
<b>Transactions With Owners In Their Capacity As Owners</b>					
Increase/(Decrease) in Net Assets From Equity Transfers	35	847,448	-	-	847,448
<b>Balance at 30 June 2011</b>		<b>864,072</b>	-	-	<b>864,072</b>

The accompanying notes form part of these financial statements.

**Hunter New England Local Health Network**  
**Statement of Cash Flows for the Six Months ended 30 June 2011**

PARENT			CONSOLIDATION	
Actual	Budget (unaudited)		Actual	Budget (unaudited)
2011	2011	Notes	2011	2011
\$000	\$000		\$000	\$000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
<b>Payments</b>				
-	-			
(56,115)	(56,689)		(437,296)	(440,948)
(7,294)	(4,826)		(56,115)	(56,689)
(691,018)	(793,054)		(7,294)	(4,826)
<u>(754,427)</u>	<u>(854,569)</u>		<u>(253,722)</u>	<u>(352,106)</u>
		<b>Total Payments</b>	<b>(754,427)</b>	<b>(854,569)</b>
<b>Receipts</b>				
69,547	87,548		69,547	87,548
2,223	571		2,223	571
32,782	53,272		32,782	53,272
<u>104,552</u>	<u>141,391</u>		<u>104,552</u>	<u>141,391</u>
		<b>Total Receipts</b>	<b>104,552</b>	<b>141,391</b>
<b>Cash Flows From Government</b>				
696,951	696,951		696,951	696,951
36,562	35,256		36,562	35,256
-	-		-	-
<u>733,513</u>	<u>732,207</u>		<u>733,513</u>	<u>732,207</u>
		<b>Net Cash Flows From Government</b>	<b>733,513</b>	<b>732,207</b>
<u>83,638</u>	<u>19,029</u>		<u>83,638</u>	<u>19,029</u>
		<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>83,638</b>	<b>19,029</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
599	2,634		599	2,634
(44,029)	(46,768)		(44,029)	(46,768)
<u>(43,430)</u>	<u>(44,134)</u>		<u>(43,430)</u>	<u>(44,134)</u>
		<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>(43,430)</b>	<b>(44,134)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
(2,967)	(2,967)		(2,967)	(2,967)
<u>(2,967)</u>	<u>(2,967)</u>		<u>(2,967)</u>	<u>(2,967)</u>
		<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>(2,967)</b>	<b>(2,967)</b>
<u>37,241</u>	<u>(28,072)</u>		<u>37,241</u>	<u>(28,072)</u>
		<b>NET INCREASE / (DECREASE) IN CASH</b>	<b>37,241</b>	<b>(28,072)</b>
-	-		-	-
47,820	47,818		47,820	47,818
<u>85,061</u>	<u>19,746</u>		<u>85,061</u>	<u>19,746</u>
		<b>CLOSING CASH AND CASH EQUIVALENTS</b>	<b>85,061</b>	<b>19,746</b>

The accompanying notes form part of these financial statements.

Hunter New England Local Health Network  
Service Group Statements  
for the Six Months Ended 30 June 2011

SERVICE'S EXPENSES AND INCOME	Service Group	Service Group	Service Group	Service Group	Service Group	Service Group	Service Group	Service Group	Service Group	Non Attributable	Total
	1.1 *	1.2 *	1.3 *	2.1 *	2.2 *	3.1 *	4.1 *	5.1 *	6.1 *		
	2011	2011	2011	2011	2011	2011	2011	2011	2011	2011	2011
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
<b>Expenses excluding losses</b>											
Operating Expenses											
Employee Related	45,450	2,772	44,654	41,120	202,138	60,861	55,078	1,324	20,261	-	473,658
Visiting Medical Officers	372	48	3,137	6,351	25,034	1,365	1,623	5	502	-	38,437
Other Operating Expenses	18,706	2,749	28,322	23,509	127,350	14,483	22,445	9,325	4,281	-	251,170
Depreciation and Amortisation	1,475	124	2,998	3,067	14,442	1,958	2,582	20	27	-	26,693
Grants and Subsidies	1,216	11	(2)	(7)	(58)	775	58	(495)	59	-	1,557
Finance Costs	843	79	1,029	965	4,667	1,038	1,025	125	91	-	9,862
Payments to Affiliated Health Organisations	909	-	15,593	4,159	25,014	-	3,613	15	606	-	49,909
<b>Total Expenses excluding losses</b>	<b>68,971</b>	<b>5,783</b>	<b>95,731</b>	<b>79,164</b>	<b>398,587</b>	<b>80,479</b>	<b>86,424</b>	<b>10,319</b>	<b>25,827</b>	<b>-</b>	<b>851,286</b>
<b>Revenue</b>											
Sale of Goods and Services	4,180	301	9,900	8,178	43,897	4,293	12,856	284	5,766	-	89,655
Investment Revenue	511	9	184	67	423	29	526	655	502	-	2,906
Grants and Contributions	2,325	58	895	330	2,035	153	2,202	2,619	1,525	-	12,142
Other Revenue	1,074	36	440	164	991	80	928	1,040	350	-	5,103
<b>Total Revenue</b>	<b>8,090</b>	<b>404</b>	<b>11,419</b>	<b>8,739</b>	<b>47,346</b>	<b>4,555</b>	<b>16,512</b>	<b>4,598</b>	<b>8,143</b>	<b>-</b>	<b>109,806</b>
Gain / (Loss) on Disposal	-	-	-	-	(972)	-	-	-	-	-	(972)
Other Gains / (Losses)	-	-	-	-	(231)	-	-	-	-	-	(231)
<b>Net Cost of Services</b>	<b>60,881</b>	<b>5,379</b>	<b>84,312</b>	<b>70,425</b>	<b>352,444</b>	<b>75,924</b>	<b>69,912</b>	<b>5,721</b>	<b>17,684</b>	<b>-</b>	<b>742,683</b>
Government Contributions											759,307
<b>RESULT FOR THE SIX MONTHS ENDED 30 JUNE 2011</b>											<b>16,624</b>
<b>TOTAL COMPREHENSIVE INCOME</b>											<b>16,624</b>

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

\* The name and purpose of each service group is summarised in Note 17.

The Service Group Statement uses statistical data from the Former Hunter New England Area Health Service to 30 June 2010 to allocate the current period's financial information on expenses and revenue to each service group.

No changes have occurred during the period between 1 January 2011 and 30 June 2011 which would materially impact this allocation.



Hunter New England Local Health Network  
Service Group Statements (Continued)  
for the Six Months Ended 30 June 2011

SERVICE'S ASSETS AND LIABILITIES	Service Group 1.1 *	Service Group 1.2 *	Service Group 1.3 *	Service Group 2.1 *	Service Group 2.2 *	Service Group 3.1 *	Service Group 4.1 *	Service Group 5.1 *	Service Group 6.1 *	Non Attributable	Total
	2011	2011	2011	2011	2011	2011	2011	2011	2011	2011	2011
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
<b>ASSETS</b>											
<b>Current Assets</b>											
Cash and Cash Equivalents	6,892	578	9,566	7,910	39,826	8,042	8,635	1,031	2,581	-	85,061
Receivables	5,153	257	7,273	5,566	30,154	2,901	10,517	2,929	5,187	-	69,937
Inventories	194	29	294	244	1,321	150	233	97	44	-	2,606
Non-Current Assets Held for Sale	381	32	775	793	3,733	506	668	5	7	-	6,900
<b>Total Current Assets</b>	<b>12,620</b>	<b>896</b>	<b>17,908</b>	<b>14,513</b>	<b>75,033</b>	<b>11,599</b>	<b>20,053</b>	<b>4,062</b>	<b>7,819</b>	-	<b>164,504</b>
<b>Non-Current Assets</b>											
Property, Plant and Equipment											
- Land and Buildings	54,476	4,580	110,724	113,272	533,371	72,314	95,360	739	997	-	985,833
- Plant and Equipment	3,101	261	6,302	6,448	30,359	4,116	5,428	42	57	-	56,114
- Infrastructure Systems	4,071	342	8,275	8,465	39,860	5,404	7,127	55	75	-	73,674
<b>Total Non-Current Assets</b>	<b>61,648</b>	<b>5,183</b>	<b>125,301</b>	<b>128,185</b>	<b>603,590</b>	<b>81,834</b>	<b>107,915</b>	<b>836</b>	<b>1,129</b>	-	<b>1,115,621</b>
<b>TOTAL ASSETS</b>	<b>74,268</b>	<b>6,079</b>	<b>143,209</b>	<b>142,698</b>	<b>678,624</b>	<b>93,433</b>	<b>127,968</b>	<b>4,898</b>	<b>8,948</b>	-	<b>1,280,125</b>
<b>LIABILITIES</b>											
<b>Current Liabilities</b>											
Payables	9,704	1,426	14,693	12,195	66,066	7,513	11,644	4,837	2,221	-	130,299
Borrowings	735	62	1,020	844	4,249	858	921	110	275	-	9,074
Provisions	12,315	751	12,100	11,142	54,771	16,491	14,924	359	5,490	-	128,343
Other	264	22	366	303	1,525	308	331	39	99	-	3,257
<b>Total Current Liabilities</b>	<b>23,018</b>	<b>2,261</b>	<b>28,179</b>	<b>24,484</b>	<b>126,611</b>	<b>25,170</b>	<b>27,820</b>	<b>5,345</b>	<b>8,085</b>	-	<b>270,973</b>
<b>Non-Current Liabilities</b>											
Borrowings	11,683	980	16,216	13,410	67,518	13,632	14,639	1,748	4,375	-	144,201
Provisions	50	3	49	45	222	67	60	1	22	-	519
Other	29	2	40	33	170	34	37	4	11	-	360
<b>Total Non-Current Liabilities</b>	<b>11,762</b>	<b>985</b>	<b>16,305</b>	<b>13,488</b>	<b>67,910</b>	<b>13,733</b>	<b>14,736</b>	<b>1,753</b>	<b>4,408</b>	-	<b>145,080</b>
<b>TOTAL LIABILITIES</b>	<b>34,780</b>	<b>3,246</b>	<b>44,484</b>	<b>37,972</b>	<b>194,521</b>	<b>38,903</b>	<b>42,556</b>	<b>7,098</b>	<b>12,493</b>	-	<b>416,053</b>
<b>NET ASSETS</b>	<b>39,488</b>	<b>2,833</b>	<b>98,725</b>	<b>104,726</b>	<b>484,103</b>	<b>54,530</b>	<b>85,412</b>	<b>(2,200)</b>	<b>(3,545)</b>	-	<b>864,072</b>

The name and purpose of each service group is summarised in Note 17

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(ad), thereby ensuring that the benefit of each asset and the liabilities incurred in the provision of services are duly recognised in each service group.

Hunter New England Local Health Network  
Notes to and forming part of the Financial Statements  
for the Six Months Ended 30 June 2011

**1. The Health Service Reporting Entity**

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

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

The Network controls the Hunter New England Local Health Network Special Purpose Service Entity which was established as a Division of the Government Service on 1 January 2011 in accordance with the *Public Sector Employment and Management Act 2002* and the *Health Services Act 1997*. These Divisions provide personnel services to enable a Network to exercise its functions.

As a consequence the values in the annual financial statements presented herein consist of the Network (as the parent entity), and the consolidated financial statements of the economic entity. Separate financial statements of the special purpose entity are not presented in the consolidated statements. Notes capture both the parent and consolidated values with notes 3, 4, 12, 24, 26 and 31 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 Executive on 4 October 2011.

**2. Summary of Significant Accounting Policies**

**Basis of Preparation**

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

Notwithstanding the consolidated entity has a working capital deficiency of \$106,469k and in recognition that a significant portion of current annual leave entitlements are not expected to be settled in the next 12 months, the financial statements of Hunter New England Local Health Network have been prepared on a going concern basis.

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

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

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

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

Hunter New England Local Health Network  
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**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 deficiency of working capital of \$106,469. Notwithstanding that a deficiency exists the financial statements have been prepared on a going concern basis because the entity has the support of the New South Wales Department of Health.

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 Network's first reporting period.

No new or revised accounting standards or interpretations are adopted earlier than their prescribed date of application. Set out below are changes to be effected, their date of application and the possible impact on the financial statements of the Hunter New England Local Health Network.

**Accounting Standard/Interpretation**

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

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

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

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

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

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

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

**a) Employee Benefits and Other Provisions**

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

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

All Annual Leave employee benefits are reported as "Current" as there is an unconditional right to payment. Current liabilities are then further classified as "Short Term" or "Long Term" based on past trends and known resignations and retirements. Anticipated payments to be made in the next twelve months are reported as "Short Term". On-costs of 17% 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.

Hunter New England Local Health Network  
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ii) **Long Service Leave and Superannuation**

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

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

The Network's liability for the closed superannuation pool schemes (State Authorities Superannuation Scheme and State Superannuation Scheme) is assumed by the Crown Entity. The Network accounts for the liability as having been extinguished resulting in the amount assumed being shown as part of the non-monetary revenue item described as "Acceptance by the Crown Entity of Employee Benefits". Any liability attached to Superannuation Guarantee Charge cover is reported in Note 24, "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 Network has a present legal or constructive obligation as a result of a past event; it is probable that an outflow of resources will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation.

b) **Insurance**

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

c) **Finance Costs**

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

d) **Income Recognition**

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

*Sale of Goods*

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

*Rendering of Services*

Revenue is recognised when the service is provided.

*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 Network's right to receive payment is established.

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

Hunter New England Local Health Network  
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*Debt Forgiveness*

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

*Use of Hospital Facilities*

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

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

*Use of Outside Facilities*

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

*Grants and Contributions*

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

*NSW Department of Health Allocations*

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

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

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

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

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

**f) Acquisition of Assets**

The cost method of accounting is used for the initial recording of all acquisitions of assets controlled by the Network. Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire the asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Australian Accounting Standards.

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

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**g) Capitalisation Thresholds**

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

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

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

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

Buildings	2.5%
Electro Medical Equipment	
- Costing less than \$200,000	10.0%
- Costing more than or equal to \$200,000	12.5%
Computer Equipment	20.0%
Infrastructure Systems	2.5%
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 and bridges.

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

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

Physical non-current assets are valued in accordance with 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 Network 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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**j) Impairment of Property, Plant and Equipment**

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

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

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

**l) Restoration Costs**

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

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

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

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

**o) Intangible Assets**

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

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

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

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

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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 Reporting Period when impaired, derecognised or through the amortisation process.

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

t) **Investments**

Investments are initially recognised at fair value plus, in the case of investments not at fair value through profit or loss, transaction costs. The Network 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 Hunter New England Local Health Network has the positive intention and ability to hold to maturity are classified as 'held-to-maturity'. These investments are measured at amortised cost using the effective interest method. Changes are recognised in the Result for the Year 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 Network commits to purchase or sell the asset.

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

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.



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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 Network transfers the financial asset:

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

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

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

**w) Payables**

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

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

**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.

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

**(ii) Accumulated Funds**

The category "accumulated funds" includes all current 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 Network receives monies in a trustee capacity for various trusts as set out in Note 29. As the Network performs only a custodial role in respect of these monies, and because the monies cannot be used for the achievement of the Network's own objectives, they are not brought to account in the financial statements.

**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 budget figures are unaudited.

**ac) Emerging Asset**

The Network's emerging interest in the Mater Public Private Partnership Funding has been valued in accordance with the Department of Health's policy for Accounting for Privately Financed Projects. This policy required the Network to initially determine the estimated written down replacement cost by reference to the project's historical cost escalated by a construction index and the system's estimated working life. The estimated written down replacement cost was then allocated on a systematic basis over the concession period of 25 years using the annuity method and the Government Bond rate of 5.63% at commencement of the concession period.

**ad) Service Group Statements Allocation Methodology**

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

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

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<b>PARENT</b>		<b>CONSOLIDATION</b>
<b>2011</b>		<b>2011</b>
<b>\$000</b>		<b>\$000</b>
	<b>3. Employee Related</b>	
	Employee related expenses comprise the following:	
	Salaries and Wages	336,258
	Awards	17,790
	Superannuation - Defined Benefit Plans	9,644
	Superannuation - Defined Contribution Plans	30,587
	Long Service Leave	16,150
	Annual Leave	42,624
	Sick Leave and Other Leave	13,735
	Workers' Compensation Insurance	6,751
	Fringe Benefits Tax	119
		<b>473,658</b>
	The following additional information is provided:	
-	Employee Related Expenses Capitalised - Land and Buildings	62
-	Employee Related Expenses Capitalised - Plant and Equipment	-
	<b>4. Personnel Services</b>	
	Personnel Services comprise the purchase of the following:	
336,258	Salaries and Wages	
17,790	Awards	
9,644	Superannuation - Defined Benefit Plans	
30,587	Superannuation - Defined Contribution Plans	
16,150	Long Service Leave	
42,624	Annual Leave	
13,735	Sick Leave and Other Leave	
6,751	Workers' Compensation Insurance	
119	Fringe Benefits Tax	
<b>473,658</b>		<b>-</b>
	The following additional information is provided:	
62	Personnel Services Expenses Capitalised - Land and Buildings	-
-	Personnel Services Expenses Capitalised - Plant and Equipment	-
	<b>5. Other Operating Expenses</b>	
32,786	Services Purchased from Health Reform Transition Organisation	32,786
3,957	Blood and Blood Products	3,957
8,474	Domestic Supplies and Services	8,474
23,028	Drug Supplies	23,028
40,084	Food Supplies	40,084
6,195	Fuel, Light and Power	6,195
12,188	General Expenses (See (b) below)	12,188
8,113	Hospital Ambulance Transport Costs	8,113
2,110	Information Management Expenses	2,110
922	Insurance	922
	Maintenance (See (c) below)	
2,093	Maintenance Contracts	2,093
7,492	New/Replacement Equipment under \$10,000	7,492
6,734	Repairs Maintenance/Non Contract	6,734
33,441	Medical and Surgical Supplies	33,441
2,024	Motor Vehicle Expenses	2,024
2,526	Postal and Telephone Costs	2,526
2,021	Printing and Stationery	2,021
750	Rates and Charges	750
3,530	Rental	3,530
42,535	Special Service Departments	42,535
4,562	Staff Related Costs	4,562
1,220	Sundry Operating Expenses (See (a) below)	1,220
4,385	Travel Related Costs	4,385
<b>251,170</b>		<b>251,170</b>

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PARENT		CONSOLIDATION
2011 \$000		2011 \$000
	<b>(a) Sundry Operating Expenses comprise :</b>	
1,220	Isolated Patient Travel and Accommodation Assistance Scheme	1,220
<u>1,220</u>		<u>1,220</u>
	<b>(b) General Expenses include :-</b>	
273	Advertising	273
370	Books, Magazines and Journals	370
	Consultancies	
397	- Operating Activities	397
75	- Capital Works	75
472	Courier and Freight	472
186	Auditor's Remuneration - Audit of Financial Statements	186
124	Data Recording and Storage	124
41	Legal Services	41
263	Membership/Professional Fees	263
2,455	Motor Vehicle Operating Lease Expense - Minimum Lease Payments	2,455
422	Other Operating Lease Expense - Minimum Lease Payments	422
2,571	Mater PPP Contract Payments	2,571
159	Quality Assurance/Accreditation	159
369	Security Services	369
17	Translator Services	17
1,383	Shared Corporate Services	1,383
148	Functions	148
620	Other Management Services	620
1,843	Other	1,843
	<b>(c) Reconciliation of Total Maintenance</b>	
16,319	Maintenance Expense - Contracted Labour and Other (Non-Employee Related), included in Note 5	16,319
3,324	Employee Related/Personnel Services Maintenance Expense included in Notes 3 and 4	3,324
<u>19,643</u>	Total Maintenance Expenses included in Notes 3, 4 and 5	<u>19,643</u>

Hunter New England Local Health Network  
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<b>PARENT</b>		<b>CONSOLIDATION</b>
<b>2011</b> <b>\$000</b>		<b>2011</b> <b>\$000</b>
	<b>6. Depreciation and Amortisation</b>	
19,489	Depreciation - Buildings	19,489
117	Amortisation - Leased Buildings	117
5,470	Depreciation - Plant and Equipment	5,470
1,617	Depreciation - Infrastructure Systems	1,617
<u><b>26,693</b></u>		<u><b>26,693</b></u>
	<b>7. Grants and Subsidies</b>	
1,397	Non-Government Organisations	1,397
16	Community Aged Care Packages	16
72	Research Organisations	72
72	Other	72
<u><b>1,557</b></u>		<u><b>1,557</b></u>
	<b>8. Finance Costs</b>	
7,294	Other Interest Charges	7,294
2,568	Interest on Loans	2,568
<u><b>9,862</b></u>	Total Finance Costs	<u><b>9,862</b></u>
	<b>9. Payments to Affiliated Health Organisations</b>	
	(a) Recurrent Sourced	
49,395	<b>Calvary Mater Newcastle</b>	49,395
<u><b>49,395</b></u>		<u><b>49,395</b></u>
	(b) Capital Sourced	
514	<b>Calvary Mater Newcastle</b>	514
<u><b>514</b></u>		<u><b>514</b></u>
<u><b>49,909</b></u>	Total Payments to Affiliated Health Organisations	<u><b>49,909</b></u>

Hunter New England Local Health Network  
Notes to and forming part of the Financial Statements  
for the Six Months Ended 30 June 2011

<b>PARENT</b>		<b>CONSOLIDATION</b>
<b>2011</b>		<b>2011</b>
<b>\$000</b>		<b>\$000</b>
	<b>10. Sale of Goods and Services</b>	
	(a) Sale of Goods comprise the following:-	
2,018	Sale of Prosthesis	2,018
230	Other	230
289	Pharmacy Sales	289
	(b) Rendering of Services comprise the following:-	
51,351	Patient Fees [see note 2(d)]	51,351
151	Staff-Meals and Accommodation	151
5,815	Infrastructure Fees - Monthly Facility Charge [see note 2(d)]	5,815
3,922	- Annual Charge	3,922
2,276	Car Parking	2,276
364	Child Care Fees	364
211	Clinical Services (excluding Clinical Drug Trials)	211
256	Commercial Activities	256
112	Fees for Medical Records	112
8,277	High Cost Drugs	8,277
69	Meals on Wheels	69
5,187	Motor Accident Authority Third Party	5,187
2,122	Services Provided to Non NSW Health Organisations	2,122
1,584	Multi Purpose Service Centre Fees	1,584
5,421	Other	5,421
<b>89,655</b>		<b>89,655</b>
	<b>11. Investment Revenue</b>	
2,223	Interest Revenue	2,223
683	Lease and Rental Income	683
<b>2,906</b>		<b>2,906</b>

Hunter New England Local Health Network  
Notes to and forming part of the Financial Statements  
for the Six Months Ended 30 June 2011

<b>PARENT</b>		<b>CONSOLIDATION</b>
<b>2011</b>		<b>2011</b>
<b>\$000</b>		<b>\$000</b>
	<b>12. Grants and Contributions</b>	
333	Clinical Drug Trials	333
3,915	Commonwealth Government Grants	3,915
52	Commonwealth Teaching Hospital Grants	52
2,229	Industry Contributions/Donations	2,229
1,137	Cancer Institute Grants	1,137
3,801	NSW Government Grants	3,801
9,644	Personnel Services - Superannuation Defined Benefit Plans	-
16,150	Personnel Services - Long Service Leave	-
675	Other Grants	675
<b><u>37,936</u></b>		<b><u>12,142</u></b>
	<b>13. Other Revenue</b>	
	Other Revenue comprises the following:-	
36	Commissions	36
408	Conference and Training Fees	408
290	Discounts	290
42	Sale of Merchandise, Old Wares and Books	42
32	Sponsorship Income	32
3,270	Treasury Managed Fund Hindsight Adjustment	3,270
2	Unclaimed Deposits	2
1,023	Other	1,023
<b><u>5,103</u></b>		<b><u>5,103</u></b>
	<b>14. Gain / (Loss) on Disposal</b>	
6,078	Property, Plant and Equipment	6,078
(4,507)	Less: Accumulated Depreciation	(4,507)
<b>10,585</b>	<b>Written Down Value</b>	<b>1,571</b>
599	Less: Proceeds from Disposal	599
<b><u>(9,986)</u></b>	<b>Gain/(Loss) on Disposal of Property, Plant and Equipment</b>	<b><u>(972)</u></b>
-	Assets Held for Sale	-
-	Less: Proceeds from Disposal	-
<b><u>-</u></b>	<b>Gain/(Loss) on Disposal of Assets Held for Sale</b>	<b><u>-</u></b>
<b><u>(9,986)</u></b>	<b>Total Gain/(Loss) on Disposal</b>	<b><u>(972)</u></b>
	<b>15. Other Gains / (Losses)</b>	
(231)	Impairment of Receivables	(231)
<b><u>(231)</u></b>		<b><u>(231)</u></b>

Hunter New England Local Health Network  
Notes to and forming part of the Financial Statements  
for the Six Months Ended 30 June 2011

**PARENT AND CONSOLIDATION**

**16. 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	1,547	6,057	2,937	10,541
Contributions recognised in equity transfers as at 1st January 2011 which were not expended in the current reporting period	7,845	22,705	6,930	37,480
Total amount of unexpended contributions as at balance date	9,392	28,762	9,867	48,021

Comment on restricted assets appears in Note 23



Hunter New England Local Health Network  
Notes to and forming part of the Financial Statements  
for the Six Months Ended 30 June 2011

**17. 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.

Hunter New England Local Health Network  
Notes to and forming part of the Financial Statements  
for the Six Months Ended 30 June 2011

**17. Service Groups of the Health Service**

**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.

Hunter New England Local Health Network  
Notes to and forming part of the Financial Statements  
for the Six Months Ended 30 June 2011

<b>PARENT</b>		<b>CONSOLIDATION</b>
<b>2011</b>		<b>2011</b>
<b>\$000</b>		<b>\$000</b>
	<b>18. Cash and Cash Equivalents</b>	
25,061	Cash at Bank and On Hand	25,061
60,000	Short Term Deposits	60,000
<b><u>85,061</u></b>		<b><u>85,061</u></b>
	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:	
85,061	Cash and Cash Equivalents (per Statement of Financial Position)	85,061
<b><u>85,061</u></b>	Closing Cash and Cash Equivalents (per Statement of Cash Flows)	<b><u>85,061</u></b>

*Refer to Note 36 for details regarding credit risk, liquidity risk and market risk arising from financial instruments.*

Hunter New England Local Health Network  
Notes to and forming part of the Financial Statements  
for the Six Months Ended 30 June 2011

<b>PARENT</b>		<b>CONSOLIDATION</b>
<b>2011</b>		<b>2011</b>
<b>\$000</b>		<b>\$000</b>
	<b>19. Receivables</b>	
	<b>Current</b>	
17,006	(a) Sale of Goods and Services	17,006
22,300	Intra Health Receivables NSW Health	22,300
17,774	Goods and Services Tax	17,774
12,384	Other Debtors	12,384
69,464	<b>Sub Total</b>	69,464
(234)	Less Allowance for Impairment	(234)
69,230	<b>Sub Total</b>	69,230
707	Prepayments	707
<b>69,937</b>		<b>69,937</b>
	(b) Movement in the Allowance for Impairment	
	Sale of Goods and Services	
-	Balance at 1 Jan 2011	-
-	Amounts written off during the reporting period	-
3	Amounts recovered during the reporting period	3
221	Increase/(decrease) in Allowance Recognised in	221
(224)	Result for the six months ended 30 June 2011	(224)
	Balance at 30 June	
	(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	-
10	Increase/(decrease) in Allowance Recognised in	10
(10)	Result for the six months ended 30 June 2011	(10)
	Balance at 30 June	
<b>(234)</b>		<b>(234)</b>
	(d) Sale of Goods and Services Receivables	
	(Current and Non-Current) include:	
676	Patient Fees - Compensable	676
264	Patient Fees - Ineligible	264
10,198	Patient Fees - Other	10,198
<b>11,138</b>		<b>11,138</b>

*Details regarding credit risk, liquidity risk and market risk, including financial assets that are either past due or impaired are disclosed in Note 36.*

Hunter New England Local Health Network  
Notes to and forming part of the Financial Statements  
for the Six Months Ended 30 June 2011

<b>PARENT</b>		<b>CONSOLIDATION</b>
<b>2011</b>		<b>2011</b>
<b>\$000</b>		<b>\$000</b>
	<b>20. Inventories - Current - Held for Distribution</b>	
2,520	Drugs	2,520
<u>86</u>	Medical and Surgical Supplies	<u>86</u>
<b><u>2,606</u></b>		<b><u>2,606</u></b>

Hunter New England Local Health Network  
Notes to and forming part of the Financial Statements  
for the Six Months Ended 30 June 2011

<b>PARENT</b>		<b>CONSOLIDATION</b>
2011 \$000		2011 \$000
	<b>21. Property, Plant and Equipment</b>	
	<b>Land and Buildings - Fair Value</b>	
1,773,016	Gross Carrying Amount	1,773,016
787,183	Less Accumulated Depreciation and Impairment	787,183
<u><b>985,833</b></u>	Net Carrying Amount	<u><b>985,833</b></u>
	<b>Plant and Equipment - Fair Value</b>	
124,489	Gross Carrying Amount	124,489
68,375	Less Accumulated Depreciation and Impairment	68,375
<u><b>56,114</b></u>	Net Carrying Amount	<u><b>56,114</b></u>
	<b>Infrastructure Systems - Fair Value</b>	
129,339	Gross Carrying Amount	129,339
55,665	Less Accumulated Depreciation and Impairment	55,665
<u><b>73,674</b></u>	Net Carrying Amount	<u><b>73,674</b></u>
<u><b>1,115,621</b></u>	<b>Total Property, Plant and Equipment At Net Carrying Amount</b>	<u><b>1,115,621</b></u>

Hunter New England Local Health Network  
Notes to and forming part of the Financial Statements  
for the Six Months Ended 30 June 2011

**PARENT AND CONSOLIDATION**

**21. 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
<b>2011</b>								
Net Carrying Amount at 1 January 2011	-	-	-	-	-	-	-	-
Additions	-	-	38,772	-	5,257	-	-	44,029
Reclassifications to Intangibles	-	-	-	-	-	-	-	-
Recognition of Assets Held for Sale	(150)	(6,200)	-	-	-	-	-	(6,350)
Disposals	-	-	-	-	(1,571)	-	-	(1,571)
Administrative Restructures - Transfers In/(Out)	110,827	811,373	53,537	3,842	51,337	75,290	-	1,106,206
Net Revaluation Increment Less								
Revaluation Decrements	-	-	-	-	-	-	-	-
Impairment Losses (Recognised in "Other Gains/Losses")	-	-	-	-	-	-	-	-
Depreciation Expense	-	(19,489)	-	(117)	(5,470)	(1,617)	-	(26,693)
Reclassifications	-	104	(6,666)	-	6,561	1	-	-
<b>Net Carrying Amount at 30 June 2011</b>	<b>110,677</b>	<b>785,788</b>	<b>85,643</b>	<b>3,725</b>	<b>56,114</b>	<b>73,674</b>	<b>-</b>	<b>1,115,621</b>

(i) Land and Buildings include land owned by the Health Administration Corporation and administered by the Network [see note 2(f)].

(ii) Land and Buildings of the Hunter New England Local Health Network were valued by Corporeal Pty Ltd, Property Valuers and Consultants (Certified Practising Valuer, Registered Valuer No. 2673) on 1 July 2010 [see note 2(i)]. Corporeal Pty Ltd is not an employee of the Local Health Network.

Hunter New England Local Health Network  
Notes to and forming part of the Financial Statements  
for the Six Months Ended 30 June 2011

<b>PARENT</b>		<b>CONSOLIDATION</b>
<b>2011</b>		<b>2011</b>
<b>\$000</b>		<b>\$000</b>
	<b>22. Non-Current Assets (or Disposal Groups) Held for Sale</b>	
	<b>Assets Held for Sale</b>	
6,900	Land and Buildings	6,900
<b>6,900</b>		<b>6,900</b>

Land, Buildings And Infrastructure held for Sale are:

- Land, Lot 1 Kanagra Drive Taree
- Land, Building and Infrastructure Walcha Hospital
- Land, Gibbon & Cameron Sts-Campus Narrabri
- Land, Tenterfield
- Land, at former David Maddison Building Newcastle

These Assets are surplus to health services requirements and it is expected that the sale will occur within the next 12 months. The sale has management and Department of Health approval and assets are available for immediate sale.



Hunter New England Local Health Network  
Notes to and forming part of the Financial Statements  
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**PARENT**

**CONSOLIDATION**

**2011  
\$000**

**2011  
\$000**

**23. Restricted Assets**

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

Category	Brief Details of Externally Imposed Conditions including Asset Category affected	
9,391	Specific Purposes	Condition Imposed by Donor
16	Perpetually Invested Funds	Original Principal not to be spent
17,524	Research Grants	Condition imposed by granting body
11,223	Private Practice Funds	Trust Deeds
9,867	Other	Condition Imposed by Donor
<b>48,021</b>		<b>48,021</b>

Hunter New England Local Health Network  
Notes to and forming part of the Financial Statements  
for the Six Months Ended 30 June 2011

<b>PARENT</b>		<b>CONSOLIDATION</b>
<b>2011</b> <b>\$000</b>		<b>2011</b> <b>\$000</b>
	<b>24. Payables</b>	
	<b>Current</b>	
-	Accrued Salaries, Wages and On-Costs	16,729
-	Taxation and Payroll Deductions	7,027
23,756	Accrued Liability - Purchase of Personnel Services	-
22,834	Creditors	22,834
	Other Creditors	
3,645	- Capital Works	3,645
39,637	- Intra Health Liability	39,637
38,219	- Accruals	38,219
2,208	- Taxation	2,208
<b>130,299</b>		<b>130,299</b>

*Details regarding credit risk, liquidity risk and market risk, including a maturity analysis of the above payables are disclosed in Note 36.*

**25. Borrowings**

	<b>Current</b>	
2,445	Other Loans and Deposits	2,445
6,629	Novacare - Calvary Mater Newcastle PPP	6,629
<b>9,074</b>		<b>9,074</b>
	<b>Non-Current</b>	
3,991	Other Loans and Deposits	3,991
140,210	Novacare - Calvary Mater Newcastle PPP	140,210
<b>144,201</b>		<b>144,201</b>

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

Other loans still to be extinguished represent monies to be repaid to the Health Services Support.

Final Repayment is scheduled for **June 2014**

Liability to NovaCare, \$147m. Final repayment to NovaCare for Calvary Mater Newcastle Hospital PPP Liability is scheduled for 2033/34

*Details regarding credit risk, liquidity risk and market risk, including a maturity analysis of the above payables are disclosed in Note 36.*

Hunter New England Local Health Network  
Notes to and forming part of the Financial Statements  
for the Six Months Ended 30 June 2011

<b>PARENT</b>		<b>CONSOLIDATION</b>
<b>2011</b> <b>\$000</b>		<b>2011</b> <b>\$000</b>
	<b>26. Provisions</b>	
	<b>Current Employee Benefits and Related On-Costs</b>	
-	Annual Leave - Short Term Benefit	84,682
-	Annual Leave - Long Term Benefit	33,791
-	Long Service Leave On-Costs	9,870
128,343	Provision for Personnel Services Liability	-
<u>128,343</u>	<b>Total Current Provisions</b>	<u>128,343</u>
	<b>Non-Current Employee Benefits and Related On-Costs</b>	
-	Long Service Leave On-Costs	519
519	Provision for Personnel Services Liability	-
<u>519</u>	<b>Total Non-Current Provisions</b>	<u>519</u>
	<b>Aggregate Employee Benefits and Related On-Costs</b>	
128,343	Provisions - Current	128,343
519	Provisions - Non-Current	519
-	Accrued Salaries, Wages and On-Costs (Note 24)	23,756
23,756	Accrued Liability - Purchase of Personnel Services (Note 24)	-
<u>152,618</u>		<u>152,618</u>

Hunter New England Local Health Network  
Notes to and forming part of the Financial Statements  
for the Six Months Ended 30 June 2011

<b>PARENT</b>		<b>CONSOLIDATION</b>
	<b>2011</b>	
	<b>\$000</b>	<b>2011</b>
		<b>\$000</b>
	<b>27. Other Liabilities</b>	
	<b>Current</b>	
3,257	Income in Advance	3,257
<u><b>3,257</b></u>		<u><b>3,257</b></u>
	<b>Non-Current</b>	
360	Income in Advance	360
<u><b>360</b></u>		<u><b>360</b></u>

Hunter New England Local Health Network  
Notes to and forming part of the Financial Statements  
for the Six Months Ended 30 June 2011

<b>PARENT</b>		<b>CONSOLIDATION</b>
<b>2011 \$000</b>	<b>28. Commitments for Expenditure</b>	<b>2011 \$000</b>
	<b>(a) Capital Commitments</b>	
	Aggregate capital expenditure for the acquisition of land and buildings, plant and equipment, infrastructure and intangible assets, contracted for at balance date and not provided for:	
20,695	Not later than one year	20,695
1,899	Later than one year and not later than five years	1,899
-	Later than five years	-
<b>22,594</b>	<b>Total Capital Expenditure Commitments (Including GST)</b>	<b>22,594</b>
	Of the commitments reported at 30 June 2011 it is expected that \$774k will be met from locally generated moneys.	
	<b>(b) Other Expenditure Commitments</b>	
	Aggregate other expenditure contracted for the acquisition of purchases contracted for at balance date and not provided for:	
1,086	Not later than one year	1,086
	Later than one year and not later than five years	-
	Later than five years	-
<b>1,086</b>	<b>Total Other Expenditure Commitments (Including GST)</b>	<b>1,086</b>
	<b>(c) Operating Lease Commitments</b>	
	Commitments in relation to non-cancellable operating leases are payable as follows:	
7,475	Not later than one year	7,475
11,461	Later than one year and not later than five years	11,461
29,912	Later than five years	29,912
<b>48,848</b>	<b>Total Operating Lease Commitments (Including GST)</b>	<b>48,848</b>

Hunter New England Local Health Network  
Notes to and forming part of the Financial Statements  
for the Six Months Ended 30 June 2011

PARENT

CONSOLIDATION

2011  
\$000

28. Commitments for Expenditure (Continued)

2011  
\$000

**(e) Calvary Mater Newcastle Hospital Public, Private Partnership (PPP)**

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

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

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

In addition, the former Hunter New England Area Health Service recognised the liability to NovaCare, payable over the period to 2033, for the construction of both hospitals.

An estimate of the commitments is as follows:

		2011 \$000
<b>(f) (i) Commitments – Repayment of PPP Liability (Borrowings)</b>		
		<b>2011 \$000</b>
7,292	Not later than one year	7,292
39,264	Later than one year and not later than five years	39,264
114,965	Later than five years	114,965
<b>161,521</b>	<b>Total Repayment of PPP Liability Commitments (including GST)</b>	<b>161,521</b>
<b>(ii) Future Interest Charges – New Mental Health Building and Refurbished Buildings (PPP interest)</b>		
15,804	Not later than one year	15,804
54,922	Later than one year and not later than five years	54,922
96,151	Later than five years	96,151
<b>166,877</b>	<b>Total Future Interest Charges (including GST)</b>	<b>166,877</b>
<b>(iii) Other Expenditure Commitments – Redevelopment of Mater Hospital (which will be recognised as a grant after completion of construction) and provision of facilities management and other non-clinical services to both hospitals.</b>		
15,895	Not later than one year	15,895
75,290	Later than one year and not later than five years	75,290
467,348	Later than five years	467,348
<b>558,534</b>	<b>Total Other Expenditure Commitments (including GST)</b>	<b>558,534</b>
<b>886,932</b>	<b>Total</b>	<b>886,932</b>

The expenditure commitments include Goods and Services Tax. Related input tax credits of \$81M are expected to be recoverable from the Australian Taxation Office.

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

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**29. Trust Funds**

The Network holds trust fund moneys of \$2.1 million which are used for the safe keeping of patients' monies, deposits on hired items of equipment and Private Practice Trusts. These monies are excluded from the financial statements as the Network cannot use them for the achievement of its objectives. The following is a summary of the transactions in the trust account:

	<b>Patient Trust</b>	<b>Refundable</b>	<b>Private Practice</b>	
	<b>2011</b>	<b>Deposits</b>	<b>Trust Funds</b>	<b>Total</b>
	<b>\$000</b>	<b>2011</b>	<b>2011</b>	<b>2011</b>
		<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
Cash Balance at the beginning of the financial reporting period	.	.	.	.
Receipts	1,318	313	11,809	<b>13,440</b>
Expenditure	(289)	(5)	(11,028)	<b>(11,322)</b>
Cash Balance at the end of the financial reporting period	<u>1,029</u>	<u>308</u>	<u>781</u>	<u><b>2,118</b></u>

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**30. Contingent Liabilities and Assets**

**a) Claims on Managed Fund**

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

**b) Workers Compensation Hindsight Adjustment**

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 and paid until 2009/10.

It is not possible for the Network 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.



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2011 \$000		2011 \$000
<b>31. Reconciliation of Net Cash Flows from Operating Activities to Net Cost of Services</b>		
83,638	Net Cash Flows from Operating Activities	83,638
(26,693)	Depreciation	(26,693)
(231)	Allowance for Impairment	(231)
(25,794)	Acceptance by the Crown Entity of Employee Benefits	(25,794)
(8,259)	Decrease in Provisions	(8,259)
40,037	Increase / (Decrease) in Prepayments and Other Assets	40,037
(70,896)	(Increase)/ Decrease in Creditors	(70,896)
(972)	Net Gain/ (Loss) on Sale of Property, Plant and Equipment	(972)
(696,951)	NSW Health Department Recurrent Allocations	(696,951)
(36,562)	NSW Health Department Capital Allocations	(36,562)
<u>(742,683)</u>	<b>Net Cost of Services</b>	<u>(742,683)</u>

**32. Voluntary Services**

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

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

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**PARENT AND CONSOLIDATED**

**33. Unclaimed Moneys**

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

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

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

**34. Budget Review - Parent and Consolidated**

**Net Cost of Services**

The actual Net Cost of Services was favourable to budget by \$8.4M. This was primarily due to:

- A. \$4.2M revenue favourability due primarily to due to unbudgeted refund for Workers Compensation Hindsight & higher than anticipated infrastructure fees.
- B. \$1.7M higher than anticipated profit from disposal of assets & non cash gain of \$2.0M for revaluations of assets that occurred as at 31 Dec 2010.
- C. \$0.5m Lower than budgeted expenditure for the six month period ending June 2011.

**Result for the Year**

The actual result for the year was \$9.8M favourable. The result for the year was due to favourable Net Cost Of Services result of \$8.4M and favourable State Government capital payments of \$1.4M.

**Assets and Liabilities**

Current Assets were higher than budget by \$110.5M due to realignment of half year subsidy to match flow of budget transferred from AHS to LHN & higher than anticipated bank balance.

Non Current Assets were lower than budget by \$(5)M.

Current Liabilities were higher than budget by \$(105.4)M due to higher than budgeted creditors \$(59)M, Employee Provisions \$(18)M and Intra Health Creditors \$(27)M.

Non Current Liabilities are favourable to budget by \$(11.6)m due to repayment of loans.

**Cash Flows**

Budget cash was lower than anticipated by \$65M. Budgeted cash flow was adjusted to realign receipt of cash with budget. In addition to this, \$16M additional cash was received by the LHN which will be transferred to another NSW Health entity in 2011/12. ( Northern Transition Org).

Movements in the level of the NSW Department of Health Recurrent Allocation that have occurred since the time of the initial allocation on **Hunter New England Local Health Network** are as follows:

	\$000	
Initial Allocation,	627,454	
Award Increases	17,790	
 <b><u>Special Projects</u></b>		
Caring Together - Improving Workplace Culture	659	
Adult Drug Court	300	
C/W Geriatric Assessment	232	
Caring Together - Hospitalist Training	150	
National Partnership Agreement on Indigenous Early Childhood	123	
Other	111	1,575
 <b><u>Other</u></b>		
Transition Moves	9,630	
NTO Overheads	32,785	
Mental Health	3,256	
VMOs	2,744	
Maitland Emergency	1,490	
SASS/SSF Super	1,069	
Workforce	0	
Other	2,059	
Mater PPP	584	
Nurse/Midwife Strat	303	
Flows	(2,788)	
HRTO Northern Reserve Allocation	(1,000)	50,132
Balance as per Statement of Comprehensive Income	696,951	

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**35. Increase/(Decrease) in Net Assets from Equity Transfers**

Net assets of \$847.5 Million transferred from the former Hunter New England Area Health Service with effect from 1 January 2011 commensurate with the responsibilities for health services assumed by the Network on that date in accordance with the provisions of the *Health Services Act 1989*.

Consistent with Treasury approval, Long Service Leave liability of \$9.5 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
<b>Assets</b>		
Current		
	Cash & Cash Equivalents	47,820
	Inventory	3,028
	Receivables	29,707
	Assets held for sale	550
Non Current		
	Property, Plant & Equipment	1,106,206
		<u>1,187,311</u>
<b>Liabilities</b>		
Current		
	Borrowings	7,990
	Current Liabilities	3,326
	Payables	61,888
	Provisions	120,604
Non Current		
	Non Current Borrowings	145,680
	Other Non Current Liabilities	375
		<u>339,863</u>
	<b>Increase/(Decrease) in Net Assets From Equity Transfers</b>	<b>847,448</b>

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**36. Financial Instruments**

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

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

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

**(a) Financial Instrument Categories**

**PARENT & CONSOLIDATION**

<b>Financial Assets</b>		<b>Carrying</b>
<b>Class:</b>	<b>Category</b>	<b>Amount</b>
		<b>2011</b>
		<b>\$000</b>
Cash and Cash Equivalents (note 18)	N/A	85,061
Receivables (note 19) <sup>1</sup>	Loans and receivables (at amortised cost)	51,456
<b>Total Financial Assets</b>		<u><u>136,517</u></u>
 <b>Financial Liabilities</b>		
Borrowings (note 25)	Financial liabilities	153,275
Payables (note 24) <sup>2</sup>	measured at amortised cost	128,091
<b>Total Financial Liabilities</b>		<u><u>281,366</u></u>

**Notes**

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

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

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**(b) Credit Risk**

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

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

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

**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 5.22% 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 Network 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 Network 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 (2011: \$42.767M) and not more than 3 months past due (2011: \$7.469M) are not considered impaired and together these represent 97.2% of the total trade debtors. The receivables include Patient Fees Compensables which are frequently not settled within 6 months of the date of the service provision due to the length of time it takes to settle legal claims. Most of the Networks' 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.

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.

	\$000		
2011	Total <sup>1,2</sup>	Past due but not impaired <sup>1,2</sup>	Considered impaired <sup>1,2</sup>
<3 months overdue	7,469	7,469	-
3 months - 6 months overdue	547	537	10
> 6 months overdue	907	683	224

**Notes**

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

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

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**(c) Liquidity Risk**

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

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

During the current period there were no defaults or breaches on any loans payable. No assets have been pledged as collateral. The Network's exposure to liquidity risk is considered significant. However, the risk is minimised as the NSW Department of Health has indicated its ongoing financial support for the Hunter New England Local Health Network 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 Health Service's financial liabilities together with the interest rate exposure.

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*Maturity Analysis and interest rate exposure of financial liabilities*

	Interest Rate Exposure						Maturity Dates			
	Weighted Average Effective Int. Rate	\$'000			\$'000			\$'000		
		Nominal Amount 1	Fixed Interest Rate	Variable Interest Rate	Non - Interest Bearing	< 1 Yr	1-5 Yr	> 5Yr		
<b>2011</b>	%	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	
Payables:										
Accrued Salaries										
Wages, On-Costs and Payroll Deductions		23,756			23,756					
Creditors		104,335			104,335					
Borrowings:										
Other Loans and Deposits	6.64%	7,044			7,044	2,809	4,235			
Finance Leases	8.36%	289,566		289,566	20,775	84,313	184,478			
		424,701	-	289,566	135,135	151,675	88,548	184,478		

Notes:

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

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d) Market Risk

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

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

*Interest rate risk*

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

However, Networks 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 Network does not account for any fixed rate financial instruments at fair value through profit or loss or as available-for-sale. Therefore, for these financial instruments, a change of interest rates would not affect profit or loss or equity.

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

\$'000					
	Carrying Amount	-1%		+1%	
		Profit	Equity	Profit	Equity
<b>2011</b>					
<b>Financial Assets</b>					
Cash and Cash Equivalents (note 18)	85,061	(851)	(851)	851	851
Receivables (note 19)	51,456	-	-	-	-
<b>Financial Liabilities</b>					
Payables (note 24)	128,091	-	-	-	-
Borrowings (note 25)	153,275	(1,533)	(1,533)	1,533	1,533



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**Note 37 Post Balance Date Events**

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

END OF AUDITED FINANCIAL STATEMENTS