



## Independent Auditor's Report

### Sydney Local Health Network

To Members of the New South Wales Parliament

I have audited the accompanying financial statements of the Sydney 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, service group statements and notes comprising a summary of significant accounting policies and other explanatory information of the Network and the consolidated entity. The consolidated entity comprises the Sydney Local Health Network and the entities it controlled at the period's end or from time to time during the financial period.

#### Opinion

In my opinion, the financial statements:

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

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

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

The Chief Executive is responsible for the preparation of the financial statements that give a true and fair view in accordance with Australian Accounting Standards and the PF&A Act and for such internal control as the Chief Executive determines is necessary to enable the preparation of 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 of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 Sydney Local Health 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 assumptions used in formulating the budget figures disclosed in the financial statements
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about any other information which may have been hyperlinked to/from the financial statements.

### **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.



David Nolan  
Director, Financial Audit Services

2 December 2011  
SYDNEY



**Certification of Parent/Consolidated Financial Statements  
Sydney Local Health Network  
For Period Ended 30 June 2011**

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

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

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

Dr. Teresa Anderson  
Chief Executive  
30 November 2011

**Sydney Local Health Network**  
Statement of Comprehensive Income for the Six Months Ended 30 June 2011

PARENT		CONSOLIDATION		
Actual 2011 \$'000	Budget (unaudited) 2011 \$'000	Notes	Actual 2011 \$'000	Budget (unaudited) 2011 \$'000
<b>Expenses excluding losses</b>				
Operating Expenses				
			403,653	391,228
		3		
		4		
401,389	391,228			
20,640	17,417		20,640	17,417
202,929	215,015	5	205,505	215,015
17,117	18,177	2(h), 6	17,463	18,177
1,979		7	2,045	
(28)		8	(28)	
3,548	4,232	9	3,548	4,232
			<u>652,826</u>	<u>646,069</u>
<u>647,574</u>	<u>646,069</u>			
<b>Revenue</b>				
80,303	77,107	10	81,214	77,107
3,242	4,066	11	3,760	4,066
35,144	23,746	12	19,072	8,634
5,732	546	13	6,114	546
			<u>110,160</u>	<u>90,353</u>
<u>124,421</u>	<u>105,465</u>			
733		14	733	
(1,394)	(770)	15	(1,394)	(770)
			<u>543,327</u>	<u>556,486</u>
<u>523,814</u>	<u>541,374</u>	31		
<b>Government Contributions</b>				
NSW Department of Health				
498,507	498,507	2(d)	498,507	498,507
4,172	2,615	2(d)	4,172	4,172
(4,545)			(4,545)	
			20,796	15,112
		2(a)(ii)		
<u>498,134</u>	<u>501,122</u>		<u>518,930</u>	<u>517,791</u>
<u>(25,680)</u>	<u>(40,252)</u>		<u>(24,397)</u>	<u>(38,695)</u>
<b>Other Comprehensive Income</b>				
for the six months ended 30 June 2011				
<u>(25,680)</u>	<u>(40,252)</u>		<u>(24,397)</u>	<u>(38,695)</u>
<b>TOTAL COMPREHENSIVE INCOME</b>				
FOR THE SIX MONTHS ENDED 30 JUNE 2011				
			<u>(24,397)</u>	<u>(38,695)</u>

The accompanying notes form part of these financial statements.

Sydney Local Health Network  
Statement of Financial Position as at 30 June 2011

PARENT		CONSOLIDATION		
Actual 2011 \$'000	Budget (unaudited) 2011 \$'000	Notes	Actual 2011 \$'000	Budget (unaudited) 2011 \$'000
<b>ASSETS</b>				
<b>Current Assets</b>				
103,081	130,140		117,325	130,140
44,397	50,899	18	45,929	50,899
6,659	7,326	19	6,659	7,326
-	2,892	20	2,698	2,892
1,200	1,543	21	1,200	1,543
		23		
<u>155,337</u>	<u>192,800</u>		<u>173,811</u>	<u>192,800</u>
<b>Non-Current Assets</b>				
<b>Property, Plant and Equipment</b>				
762,597	771,981		770,509	771,981
64,110	59,231	22	65,221	59,231
<u>826,707</u>	<u>831,212</u>	22	<u>835,730</u>	<u>831,212</u>
<u>826,707</u>	<u>831,212</u>		<u>835,730</u>	<u>831,212</u>
<u>982,044</u>	<u>1,024,012</u>		<u>1,009,541</u>	<u>1,024,012</u>
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
83,642	25,154		84,242	25,154
137,237	150,763	25	137,676	150,763
<u>220,879</u>	<u>175,917</u>	27	<u>221,918</u>	<u>175,917</u>
<b>Non-Current Liabilities</b>				
1,568	1,935		3,503	1,935
855	-	26	859	-
-	1,888	27	-	1,888
<u>2,423</u>	<u>3,823</u>		<u>4,362</u>	<u>3,823</u>
<u>223,302</u>	<u>179,740</u>		<u>226,280</u>	<u>179,740</u>
<u>758,742</u>	<u>844,272</u>		<u>793,261</u>	<u>844,272</u>
<b>EQUITY</b>				
758,742	844,272		783,261	844,272
<u>758,742</u>	<u>844,272</u>		<u>783,261</u>	<u>844,272</u>

The accompanying notes form part of these financial statements.

Sydney Local Health Network  
Statement of Changes in Equity for the Six Months ended 30 June 2011

PARENT		CONSOLIDATION
Accumulated Funds \$'000		Accumulated Funds \$'000
	Notes	
-	Balance at 1 January 2011	-
<u>(25,680)</u>	Result For The Six Months Ended 30 June 2011	<u>(24,397)</u>
<u>(25,680)</u>	Total Comprehensive Income For The Six Months Ended 30 June 2011	<u>(24,397)</u>
<u>784,422</u>	Transactions With Owners In Their Capacity As Owners Increase/(Decrease) in Net Assets From Equity Transfers	<u>807,658</u>
<u><u>758,742</u></u>	Balance at 30 June 2011	<u><u>783,261</u></u>

The accompanying notes form part of these financial statements.

Sydney Local Health Network  
Statement of Cash Flows for the Six Months Ended 30 June 2011

PARENT			CONSOLIDATION	
Actual 2011 \$'000	Budget (unaudited) 2011 \$'000	Notes	Actual 2011 \$'000	Budget (unaudited) 2011 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
<b>Payments</b>				
411,356	395,570	Employee Related	408,139	395,570
1,979	1,980	Grants and Subsidies	2,045	1,980
206,814	202,527	Other	208,996	202,527
<u>620,149</u>	<u>600,077</u>	<b>Total Payments</b>	<u>619,180</u>	<u>600,077</u>
<b>Receipts</b>				
69,159	65,557	Sale of Goods and Services	70,070	65,557
3,242	3,458	Interest Received	3,691	3,458
32,055	28,459	Other	23,986	22,444
<u>104,456</u>	<u>97,474</u>	<b>Total Receipts</b>	<u>97,747</u>	<u>91,459</u>
<b>Cash Flows From Government</b>				
498,507	498,507	NSW Department of Health Recurrent Allocations	498,507	498,507
1,939	1,939	NSW Department of Health Capital Allocations	1,939	1,939
(4,545)	(4,545)	NSW Department of Health Asset Sale Proceeds Transferred to the Cash Reimbursements from the Crown Entity	(4,545)	(4,545)
<u>495,901</u>	<u>495,901</u>	<b>Net Cash Flows From Government</b>	<u>501,916</u>	<u>501,916</u>
<u>(19,792)</u>	<u>(6,702)</u>	<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<u>(19,517)</u>	<u>(6,702)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
4,561	4,561	Proceeds from Sale of Land and Buildings, Plant and Equipment and Infrastructure Systems	4,561	4,561
(8,932)	(9,071)	Purchases of Land and Buildings, Plant and Equipment and Infrastructure Systems	(9,071)	(9,071)
<u>(4,371)</u>	<u>(4,510)</u>	<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>	<u>(4,510)</u>	<u>(4,510)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
-	-	Proceeds from Borrowings and Advances	-	-
<u>-</u>	<u>-</u>	<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>	<u>-</u>	<u>-</u>
<u>(24,163)</u>	<u>(11,212)</u>	<b>NET INCREASE / (DECREASE) IN CASH</b>	<u>(24,027)</u>	<u>(11,212)</u>
127,244	141,352	Cash Transferred In as a Result of Equity Transfer	141,352	141,352
<u>103,081</u>	<u>130,140</u>	<b>CLOSING CASH AND CASH EQUIVALENTS</b>	<u>117,325</u>	<u>130,140</u>

The accompanying notes form part of these financial statements.

Sydney Local Health Network  
Service Group Statements  
for the Six Months Ended 30 June 2011

	2011	2011	2011	2011	2011	2011	2011	2011	2011	2011	2011	2011	2011	2011	2011	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
	1.1	1.2	1.3	2.1	2.2	3.1	4.1	5.1	6.1	Not Attributable	Not Attributable	Not Attributable	Not Attributable	Not Attributable	Not Attributable	Total
<b>SERVICES EXPENSES AND INCOME</b>																
Expenses excluding leases																
Operating Expenses	26,236	323	54,090	28,215	199,887	35,562	27,206	6,902	23,372							403,853
Employee Related	508	6	3,296	471	13,958	952	844	235	372							20,640
Visiting Medical Officers	4,800	65	12,652	13,039	157,440	3,479	10,153	1,394	2,483							205,505
Other Operating Expenses	967	12	2,487	1,334	9,906	726	1,310	183	538							17,463
Depreciation and Amortisation	1,299					746										2,045
Grants and Subsidies					(28)											(28)
Finance Costs	804				2,658											3,548
Payments to Affiliated Health Organisations																
Other Expenses																
Other Expenses excluding leases	36,472	408	72,811	43,059	389,621	41,465	39,513	8,714	28,765							852,826
Revenue																
Sale of Goods and Services	109		14,331	2,183	62,150	20	2,047	27	347							81,214
Investment Revenue	202	2	296	108	1,295		223	156	1,398							3,780
Grants and Contributions	1,142		1,834	563	5,825	116	2,125	154	7,263							19,072
Other Revenue	619	4	447	227	1,123	17	516	1,108	2,053							6,114
Total Revenue	2,152	6	16,958	3,081	70,393	153	4,911	1,445	11,061							110,180
Gain / (Loss) on Disposal					733											733
Other Gains / (Losses)					(1,394)											(1,394)
Net Cost of Services	34,320	400	55,853	39,978	313,889	41,312	34,602	7,269	15,704							543,327
Government Contributions																518,930
<b>RESULT FOR THE SIX MONTHS ENDED 30 JUNE 2011</b>	<b>(34,320)</b>	<b>(400)</b>	<b>(55,853)</b>	<b>(39,978)</b>	<b>(313,889)</b>	<b>(41,312)</b>	<b>(34,602)</b>	<b>(7,269)</b>	<b>(15,704)</b>							<b>(24,397)</b>
Other Comprehensive Income																
Increase/(Decrease) in Asset Revaluation Reserve																
Other (Administrative Restructure)																
Total Other Comprehensive Income																
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>(34,320)</b>	<b>(400)</b>	<b>(55,853)</b>	<b>(39,978)</b>	<b>(313,889)</b>	<b>(41,312)</b>	<b>(34,602)</b>	<b>(7,269)</b>	<b>(15,704)</b>							<b>(24,397)</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 Sydney South West Area Health Service to 31 December 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.



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

SERVICES ASSETS AND LIABILITIES	2011	2011						2011		Total		
	\$'000	1.1	1.2	1.3	2.1	2.2	3.1	4.1	5.1		6.1	\$'000
<b>ASSETS</b>												
Current Assets												
Cash and Cash Equivalents	6,355	73	13,085	7,739	68,944	7,452	7,101	1,566	4,810			117,325
Receivables	697	3	7,070	1,285	29,348	64	2,048	602	4,812			45,929
Inventories	158	2	410	423	5,101	113	329	45	80			6,659
Financial Assets at Fair Value	151	2	301	178	1,585	171	163	36	111			2,698
Other Financial Assets												
Other												
Non-Current Assets Held for Sale	23		185	34	767	2	53	18	120			1,200
Total Current Assets	7,782	80	21,051	9,659	105,745	7,802	9,694	2,265	9,733			173,811
Non-Current Assets												
Receivables												
Financial Assets at Fair Value												
Other Financial Assets												
Property, Plant and Equipment												
• Land and Buildings	38,027	468	97,721	52,419	389,165	49,909	51,452	7,212	21,136		63,000	770,509
• Plant and Equipment	3,612	45	9,268	4,982	36,998	2,711	4,893	683	2,009			65,221
• Infrastructure Systems												
Intangible Assets												
Other												
Total Non-Current Assets	41,639	513	107,009	57,401	426,163	52,620	56,345	7,895	23,145		63,000	635,730
<b>TOTAL ASSETS</b>	49,421	593	128,060	67,060	531,908	60,422	66,039	10,160	32,878		63,000	1,009,541
<b>LIABILITIES</b>												
Current Liabilities												
Payables	1,968	27	5,186	5,345	64,539	1,426	4,162	571	1,018			84,242
Borrowings												
Provisions	9,651	110	18,449	9,623	68,109	12,129	9,278	2,354	7,972			137,676
Other												
Total Current Liabilities	11,619	137	23,635	14,968	132,648	13,555	13,441	2,925	8,990			221,918
Non-Current Liabilities												
Borrowings	196	2	391	231	2,058	222	212	47	144			3,503
Provisions	60	1	115	60	424	78	56	15	50			859
Other												
Total Non-Current Liabilities	256	3	506	291	2,482	298	270	62	194			4,362
<b>TOTAL LIABILITIES</b>	11,875	140	24,141	15,259	135,130	13,853	13,711	2,987	9,184			226,280
<b>NET ASSETS</b>	37,546	453	103,919	51,801	396,778	46,569	52,328	7,173	23,694		63,000	783,261

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

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

1. **The Local Health Network Reporting Entity**

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

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

The Network controls the Sydney 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.

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.

The Network incorporates and manages all the operating activities of the following hospitals, community health services and other facilities under its control:

- Balmain Hospital
- Canterbury Hospital
- Concord Repatriation General Hospital (including Concord Centre for Mental Health)
- Department of Forensic Medicine
- Institute of Rheumatology and Orthopaedics
- Royal Prince Alfred Hospital
- Sydney Dental Hospital
- Thomas Walker Hospital
- ANZAC Health and Medical Research Foundation

In addition, the following Affiliated Health Organisations are associated by special arrangements with the Network:

- Central Sydney Scarba Services and South West Sydney Scarba Services
- Tresillian Family Care Centre at Belmore

The ANZAC Health and Medical Research Foundation is a controlled entity of the Network. The Foundation is incorporated in Australia as a company limited by guarantee under the *Corporations Act 2001*, and it is an economic entity whose principal activity is research. The beneficial interest held by the Network is 100%.

These consolidated financial statements for the six months ended 30 June 2011 have been authorised for issue by the Chief Executive on 30 November 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 (y).

Notwithstanding the consolidated entity has a working capital deficiency of (\$40.107) million and in recognition that a significant portion of current annual leave entitlements are not expected to be settled in the next 12 months, the financial statements of the 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 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*.

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

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:

- The Network has the capacity to review timing of subsidy cashflows to ensure that they can pay debts as and when they become due and payable.

- The 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.

#### 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 and financial assets at "fair value through profit and loss" are measured at fair value. Other financial statement items are prepared in accordance with the historical cost convention.

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 Sydney Local Health Network.

#### Accounting Standard/Interpretation

AASB 10, *Consolidated Financial Statements*, has mandatory application from 1 January 2013 and is assessed as having no material impact on the Network.

AASB 11, *Joint Arrangement*, has mandatory application from 1 January 2013 and is assessed as having no material impact on the Network.

AASB 12, *Disclosure of Interests in Other Entities*, has mandatory application from 1 January 2013 and is assessed as having no material impact on the Network.

AASB 13, *Fair Value Measurement* (issued September 2011), has mandatory application from 1 January 2013 and is assessed as having no material impact on the Network.

AASB 127, *Separate Financial Statements*, has mandatory application from 1 January 2013 and is assessed as having no material impact on the Network.

AASB 128, *Investments in Associated and Joint Ventures*, has mandatory application from 1 January 2013 and is assessed as having no material impact on the Network.

AASB 2009-11, *Amendments to Australian Accounting Standards arising from AASB 9*, have application from 1 January 2013 and is assessed as having no material impact on 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 1054, *Australian Additional Disclosure*, have application from 1 July 2011 and is assessed as having no material impact on the Network.

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

AASB 2010-07, *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) Financial Instruments*, has mandatory application from 1 January 2013 and will not be early adopted by the Network.

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

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

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

AASB 2011-1, *Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project*, has mandatory application from 1 July 2011 and is assessed as having no material impact on the Network.

AASB 2011-2, *Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project - Reduced Disclosure Requirements*, has mandatory application from 1 July 2013 and is assessed as having no material impact on the Network.

AASB 2011-3, *Amendments to Australian Accounting Standards - Orderly Adoption of Changes to the ABSGFS Manual and Related Amendments*, has mandatory application from 1 July 2012 and is assessed as having no material impact on the Network.

AASB 2011-4, *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements*, has mandatory application from 1 July 2013 and is assessed as having no material impact on the Network.

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AASB 2011-5, *Amendments to Australian Accounting Standards - Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation*, has mandatory application from 1 July 2011 and is assessed as having no material impact on the Network.

AASB 2011-6, *Amendments to Australian Accounting Standards - Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation - Reduced Disclosure Requirements*, has mandatory application from 1 July 2013 and is assessed as having no material impact on the Network.

AASB 2011-7, *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards*, has mandatory application from 1 January 2013 and is assessed as having no material impact on the Network.

AASB 2011-8, *Amendments to Australian Accounting Standards arising from AASB 13*, has mandatory application from 1 January 2013 and is assessed as having no material impact on the Network.

AASB 2011-9, *Amendments to Australian Accounting Standards - Presentation of Items of Other Comprehensive Income*, has mandatory application from 1 July 2012 and is assessed as having no material impact on the Network.

AASB 2011-10, *Amendments to Australian Accounting Standards arising from AASB 119*, has mandatory application from 1 January 2013 and is assessed as having no material impact on the Network.

AASB 2011-11, *Amendments to AASB 119 arising from Reduced Disclosure Requirements*, has mandatory application from 1 July 2013 and is assessed as having no material 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.

**ii) Long Service Leave and Superannuation**

Responsibility for Long Service Leave liability attached to employees of the Network was transferred to the Crown Entity from the former Sydney South West 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 AASB 119, *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 25, "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 Area Health Service claim experience.

c) **Finance Costs**

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

d) **Income Recognition**

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

*Sale of Goods*

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

*Rendering of Services*

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

*Patient Fees*

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

*Investment Revenue*

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

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

*Debt Forgiveness*

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

*Use of Hospital Facilities*

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

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

*Use of Outside Facilities*

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

*Grants and Contributions*

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

*NSW Department of Health Allocations*

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

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General operating expenses/revenues of Scarba Services and Tresillian Family Care Centres have only been included in the Statement of Comprehensive Income prepared to the extent of the cash payments made to the Health Organisations concerned. The Network is not deemed to own or control the various assets/liabilities of the aforementioned Health Organisations and such amounts have been excluded from the Statement of Financial Position.

**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(v)).

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.

**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% - 4.0%
Electro Medical Equipment	
- Costing less than \$200,000	10.0%
- Costing more than or equal to \$200,000	12.5%
Computer Equipment	20.0%
Infrastructure Systems	2.5%
Motor Vehicle Sedans	12.5%
Motor Vehicles, Trucks & Vans	20.0%
Office Equipment	10% - 12.5%
Plant and Machinery	10.0%
Furniture, Fittings and Furnishings	5.0%

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

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

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

Physical non-current assets are valued in accordance with the NSW Department of Health's "Valuation of Physical Non-Current Assets at Fair Value" policy. This policy adopts fair value in accordance with AASB116, *Property, Plant and Equipment*.

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.

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

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 Six Months, the increment is recognised immediately as revenue in the Result for the Six Months.

Revaluation decrements are recognised immediately as expenses in the Result for the Six Months, except that, to the extent that a credit balance exists in the asset revaluation reserve in respect of the same class of assets, they are debited directly to the asset revaluation reserve.

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

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

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

As a not-for-profit entity with no cash generating units, the Network is effectively exempt from AASB 136 Impairment of Assets and Impairment testing. This is because AASB 136 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) 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.

**l) 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.

**m) 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.

**n) 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.

**o) Inventories**

Inventories are stated at cost adjusted when applicable for any loss of service potential. A loss of service potential is identified and measured based on the existence of a non-current replacement cost that is lower than the carrying amount. Costs are assigned to individual items of stock mainly on the basis of weighted average costs. All inventory at period end is to be consumed in the course of business and is not held for distribution.

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

**p) 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.

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q) 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.

- \* Fair value through profit or loss - The Network subsequently measures investments classified as "held for trading" or designated upon initial recognition "at fair value through profit or loss" at fair value. Financial assets are classified as "held for trading" if they are acquired for the purpose of selling in the near term.

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

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

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

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.

r) 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.

s) 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.

t) 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.



u) **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.

v) **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.

w) **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(f).

(ii) **Accumulated Funds**

The category "accumulated funds" includes all current and prior 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.

x) **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.

y) **Budgeted Amounts**

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

z) **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 31 December 2010 which is then applied to the current period's financial information. The same methodology is applied to attribute assets and liabilities to each service group.

In respect of assets and liabilities the Department requires that all 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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PARENT		CONSOLIDATION
2011 S'000		2011 S'000
	<b>3. Employee Related</b>	
	Employee related expenses comprise the following:	
-	Salaries and Wages	303,486
-	Superannuation - Defined Benefit Plans	7,152
-	Superannuation - Defined Contribution Plans	31,229
-	Long Service Leave	16,240
-	Annual Leave	35,673
-	Sick Leave and Other Leave	9,856
-	Redundancies	17
<u>-</u>		<u>403,653</u>
	<b>4. Personnel Services</b>	
	Personnel Services comprise the purchase of the following:	
301,620	Salaries and Wages	-
7,143	Superannuation - Defined Benefit Plans	-
31,073	Superannuation - Defined Contribution Plans	-
16,211	Long Service Leave	-
35,505	Annual Leave	-
9,820	Sick Leave and Other Leave	-
17	Redundancies	-
<u>401,389</u>		<u>-</u>
	<b>5. Other Operating Expenses</b>	
10,121	Blood and Blood Products	10,121
7,103	Domestic Supplies and Services	7,111
34,492	Drug Supplies	34,506
9,506	Food Supplies	9,512
6,313	Fuel, Light and Power	6,313
8,511	General Expenses (See (b) below)	8,797
1,241	Hospital Ambulance Transport Costs	1,241
1,928	Information Management Expenses	1,931
164	Insurance	166
	Maintenance (See (c) below)	
9,282	- Maintenance Contracts	9,290
2,390	- New/Replacement Equipment under \$10,000	2,677
1,591	- Repairs Maintenance/Non Contract	1,592
37,670	Medical and Surgical Supplies	37,685
701	Motor Vehicle Expenses	703
1,116	Postal and Telephone Costs	1,120
1,953	Printing and Stationery	1,975
1,134	Rates and Charges	1,138
1,341	Rental	1,341
6,839	Special Service Departments	7,591
2,074	Staff Related Costs	2,259
1,506	Sundry Operating Expenses (See (a) below)	2,418
2,186	Travel Related Costs	2,251
53,767	Services Purchases from HRTO	53,767
<u>202,929</u>		<u>205,505</u>

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PARENT		CONSOLIDATION
2011		2011
\$'000		\$'000
	(a) Sundry Operating Expenses comprise:	
3,231	Contract for Patient Services	3,231
<u>(1,725)</u>	Others Industry Recoveries	<u>(813)</u>
<u>1,506</u>		<u>2,418</u>
	(b) General Expenses include:-	
274	Advertising	275
177	Books, Magazines and Journals	180
	Consultancies	
793	- Operating Activities	893
26	- Capital Works	26
220	Courier and Freight	245
175	Auditor's Remuneration - Audit of Financial Statements	195
1,298	Legal Services	1,298
148	Membership/Professional Fees	156
701	Motor Vehicle Expenses	703
1,389	Motor Vehicle Operating Lease Expense - Minimum Lease Payments	1,392
1,035	Other Operating Lease Expense - Minimum Lease Payments	1,035
118	Quality Assurance/Accreditation	123
474	Security Services	608
115	Translator Services	115
<u>1,568</u>	Other	<u>1,553</u>
<u>8,511</u>		<u>8,797</u>
	(c) Total Maintenance Expenses comprise:	
	Maintenance Expense - Contracted Labour and Other (Non-Employee Related)	
13,263	included in Note 5	13,559
<u>8,340</u>	Employee Related/Personnel Services Maintenance Expense included in Notes 3 and 4	<u>8,340</u>
<u>21,603</u>	Total Maintenance Expenses included in Notes 3, 4 and 5	<u>21,899</u>
	<b>6. Depreciation and Amortisation</b>	
10,768	Depreciation - Buildings	10,998
<u>6,349</u>	Depreciation - Plant and Equipment	<u>6,465</u>
<u>17,117</u>		<u>17,463</u>
	<b>7. Grants and Subsidies</b>	
746	Budget Sector Other Grants	746
33	Other Grants	99
1,200	Payment to University of Sydney - Clinical Education Centre at Concord Hospital (NSW Health Grant)	1,200
<u>1,979</u>		<u>2,045</u>
	<b>8. Finance Costs</b>	
<u>(28)</u>	Interest on Bank Overdrafts and Loans	<u>(28)</u>
<u>(29)</u>	Total Finance Costs	<u>(29)</u>
	<b>9. Payments to Affiliated Health Organisations</b>	
3,286	Tresillian Family Care Centre at Belmore	3,286
<u>262</u>	Central Sydney Scarba Service	<u>262</u>
<u>3,548</u>		<u>3,548</u>

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PARENT		CONSOLIDATION
2011		2011
\$'000		\$'000
	<b>10. Sale of Goods and Services</b>	
	(a) Sale of Goods comprise the following:-	
5,000	Sale of Prosthesis	5,000
637	Pharmacy Sales	637
	(b) Rendering of Services comprise the following:-	
35,605	Patient Fees	35,605
189	Staff-Meals and Accommodation	189
6,533	Infrastructure Fee - Monthly Facility Charge [see note 2(d)]	6,533
13,358	- Annual Charge	13,358
1,353	Cafeteria/Kiosk	1,353
918	Car Parking	918
799	Child Care Fees	799
95	Commercial Activities	95
66	Fees for Medical Records	66
13,209	Highly Specialised Drugs	13,209
19	Information Retrieval	19
942	Motor Accident Authority Third Party	942
1,334	Services Provided to Non NSW Health Organisations	1,334
246	Other	1,157
<u>80,303</u>		<u>81,214</u>
	<b>11. Investment Revenue</b>	
	Interest	
	- T Corp Hour Glass Investment Facilities Designated at Fair Value through Profit or Loss	
2,343	- Other	2,858
887	Lease and Rental Income	890
12	Royalties	12
<u>3,242</u>		<u>3,760</u>
	<b>12. Grants and Contributions</b>	
1,352	Clinical Drug Trials	1,711
2,074	Commonwealth Government Grants	2,074
2,754	Industry Contributions/Donations	2,929
3,396	Cancer Institute Grants	4,145
1,732	NSW Government Grants	3,125
7,143	Personnel Services - Superannuation Defined Benefit Plans	-
13,644	Personnel Services - Long Service Leave	-
1,531	Research Grants	3,570
1,518	Other Grants	1,518
<u>35,144</u>		<u>19,072</u>
	<b>13. Other Revenue</b>	
	Other Revenue comprises the following:-	
21	Commissions	21
374	Conference and Training Fees	374
2	Sale of Merchandise, Old Wares and Books	2
87	Sponsorship Income	87
3,564	Treasury Managed Fund Hindsight Adjustment	3,564
484	Other	866
1,200	Property Not Brought Into Account Previously	1,200
<u>5,732</u>		<u>6,114</u>

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

PARENT		CONSOLIDATION
2011 \$'000		2011 \$'000
	<b>14. Gain/(Loss) on Disposal</b>	
9,367	Property, Plant and Equipment	9,367
<u>5,539</u>	Less Accumulated Depreciation	<u>5,539</u>
3,828	Written Down Value	3,828
<u>4,561</u>	Less Proceeds from Disposal	<u>4,561</u>
<u>733</u>	<b>Gain/(Loss) on Disposal of Property, Plant and Equipment</b>	<u>733</u>
<u>733</u>	<b>Total Gain/(Loss) on Disposal</b>	<u>733</u>
	<b>15. Other Gains/(Losses)</b>	
<u>(1,394)</u>	Impairment of Receivables	<u>(1,394)</u>
<u>(1,394)</u>		<u>(1,394)</u>

**16. Conditions on Contributions**

PARENT	Specific Purpose	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	1,789	6,965	14,390	23,144
Contributions recognised in equity transfer as at 1 January 2011 which were not expended in the current reporting period	18,030	30,993	31,415	80,438
<b>Total amount of unexpended contributions as at balance date</b>	<u>19,819</u>	<u>37,958</u>	<u>45,805</u>	<u>103,582</u>

CONSOLIDATION	Specific Purpose	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	1,789	11,662	14,390	27,841
Contributions recognised in equity transfer as at 1 January 2011 which were not expended in the current reporting period	34,308	34,539	31,415	100,262
<b>Total amount of unexpended contributions as at balance date</b>	<u>36,097</u>	<u>46,201</u>	<u>45,805</u>	<u>128,103</u>

*Comment on restricted assets appears in Note 24*

Sydney Local Health Network  
Notes to and forming part of the Financial Statements  
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17. Service Groups of the Local Health Network

**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.

**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.

Sydney Local Health Network  
Notes to and forming part of the Financial Statements  
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**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.

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

PARENT		CONSOLIDATION
2011 \$'000		2011 \$'000
	<b>18. Cash and Cash Equivalents</b>	
30,361	Cash at Bank and On Hand	28,766
72,720	Short Term Deposits	88,559
<u>103,081</u>		<u>117,325</u>
	Cash & cash equivalent assets recognised in the Statement of Financial Position are reconciled at the end of the financial year to the Statement of Cash Flows as follows:	
<u>103,081</u>	Cash and Cash Equivalents (per Statement of Financial Position)	<u>117,325</u>
<u>103,081</u>	Closing Cash and Cash Equivalents (per Statement of Cash Flows)	<u>117,325</u>
	<i>Refer to Note 37 for details regarding credit risk, liquidity risk and market risk arising from financial instruments.</i>	
	<b>19. Receivables</b>	
	<b>Current</b>	
16,673	(a) Sale of Goods and Services *	18,214
17,582	NSW Health - Intra Health Debtors	17,582
8,037	Goods and Services Tax	7,911
	Other Debtors	
170	-LSL Recovery from Crown	170
656	-Salary overpayment	661
3,148	-Others	<u>3,264</u>
46,266	<b>Sub Total</b>	47,802
(1,901)	Less Allowance for Impairment	<u>(1,905)</u>
44,365	<b>Sub Total</b>	45,897
32	Prepayments	<u>32</u>
<u>44,397</u>		<u>45,929</u>
	(b) Movement in the Allowance for Impairment	
	Sale of Goods and Services	
	Balance at 1 January 2011	581
581	Amounts written off during the reporting period	581
(1,354)	Increase/(decrease) in Allowance Recognised in	
(773)	Result for the Six Months Ended 30 June 2011	(1,354)
	Balance at 30 June	<u>(773)</u>
	(c) Movement in the Allowance for Impairment	
	Other Debtors	
(1,090)	Balance at 1 January 2011	(1,094)
2	Amounts written off during the reporting period	2
(40)	Increase/(decrease) in Allowance Recognised in	
(1,128)	Result for the Six Months Ended 30 June 2011	(40)
	Balance at 30 June	<u>(1,132)</u>
<u>(1,901)</u>		<u>(1,905)</u>
	* Sale of Goods and Services Receivables	
	(Current and Non-Current) include:	
243	Patient Fees - Compensable	243
1,259	Patient Fees - Ineligible	1,259
15,171	Patient Fees - Other	<u>16,712</u>
<u>16,673</u>		<u>18,214</u>

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



Sydney Local Health Network  
Notes to and forming part of the Financial Statements  
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PARENT		CONSOLIDATION
2011 \$'000		2011 \$'000
	<b>20. Inventories - Current - Held for Distribution</b>	
5,755	Drugs	5,755
872	Medical and Surgical Supplies	872
<u>32</u>	Engineering Supplies	<u>32</u>
<u>6,659</u>		<u>6,659</u>
	 <b>21. Financial Assets at Fair Value</b>	
	Current	
<u>-</u>	Treasury Corporation - Hour-Glass Investment Facilities	<u>2,698</u>
<u>-</u>		<u>2,698</u>
	 <b>22. Property, Plant and Equipment</b>	
	<b>Land and Buildings - Fair Value</b>	
1,318,017	Gross Carrying Amount	1,329,500
<u>555,420</u>	Less Accumulated Depreciation and Impairment	<u>558,991</u>
<u>762,597</u>	Net Carrying Amount	<u>770,509</u>
	 <b>Plant and Equipment - Fair Value</b>	
208,941	Gross Carrying Amount	211,667
<u>144,831</u>	Less Accumulated Depreciation and Impairment	<u>146,446</u>
<u>64,110</u>	Net Carrying Amount	<u>65,221</u>
<u>826,707</u>	<b>Total Property, Plant and Equipment At Net Carrying Amount</b>	<u>835,730</u>

*Refer to Note 37 for further information regarding credit risk, liquidity risk and market risk arising from financial investments.*

Sydney Local Health Network  
Notes to and forming part of the Financial Statements  
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22. Property, Plant and Equipment - Reconciliation

PARENT

	Land	Buildings	Work in Progress	Plant and Equipment	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>2011</b>					
Net Carrying Amount at 1 January 2011	-	-	-	-	-
Additions	1,200	1,212	3,624	6,329	12,365
Reclassifications to Intangibles	-	-	-	-	-
Recognition of Assets Held for Sale	(1,200)	-	-	-	(1,200)
Disposals	(2,400)	(1,421)	-	(7)	(3,828)
Administrative Restructures - Transfers In/(Out)	241,070	490,578	45,790	59,049	836,487
Net Revaluation Increment Less Revaluation Decrements Recognised in Reserves	-	-	-	-	-
Impairment Losses (Recognised in "Other Gains/Losses")	-	-	-	-	-
Depreciation Expense	-	(10,768)	-	(6,349)	(17,117)
Reclassifications	-	13	(1,615)	1,602	-
<b>Net Carrying Amount at 30 June 2011</b>	<b>238,670</b>	<b>479,614</b>	<b>47,799</b>	<b>60,624</b>	<b>826,707</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 were valued by Corporeal Property Valuers (Registered Property Valuers and Consultants) on 1 July 2009 [see note 2(f)]. Corporeal Property Valuers is not an employee of the Network.
- (iii) The value of Work in Progress \$47,799 million at 30 June 2011 is represented by \$44.312 million for Building and \$3.487 million for Plant & Equipment.

CONSOLIDATION

	Land	Buildings	Work in Progress	Plant and Equipment	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>2011</b>					
Net Carrying Amount at 1 January 2011	-	-	-	-	-
Additions	1,200	1,212	3,624	6,468	12,504
Reclassifications to Intangibles	-	-	-	-	-
Recognition of Assets Held for Sale	(1,200)	-	-	-	(1,200)
Disposals	(2,400)	(1,421)	-	(7)	(3,828)
Administrative Restructures - Transfers In/(Out)	241,070	498,721	45,790	60,136	845,717
Net Revaluation Increment Less Revaluation Decrements Recognised in Reserves	-	-	-	-	-
Impairment Losses (Recognised in "Other Gains/Losses")	-	-	-	-	-
Depreciation Expense	-	(10,998)	-	(6,465)	(17,463)
Reclassifications	-	13	(1,615)	1,602	-
<b>Net Carrying Amount at 30 June 2011</b>	<b>238,670</b>	<b>487,527</b>	<b>47,799</b>	<b>61,734</b>	<b>835,730</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 were valued by Corporeal Property Valuers (Registered Property Valuers and Consultants) on 1 July 2009 [see note 2(f)]. Corporeal Property Valuers is not an employee of the Network.
- (iii) The value of Work in Progress \$47,799 million at 30 June 2011 is represented by \$44.312 million for Building and \$3.487 million for Plant & Equipment.

Sydney Local Health Network  
Notes to and forming part of the Financial Statements  
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PARENT		CONSOLIDATION
2011 \$'000		2011 \$'000
	<b>23. Non-Current Assets (or Disposal Groups) Held for Sale</b>	
	<b>Assets Held for Sale</b>	
<u>1,200</u>	Land and Buildings                      120-122 Lawson Street Redfern	<u>1,200</u>
<u>1,200</u>		<u>1,200</u>
	<b>24. Restricted Assets</b>	
	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.	
	<b>Category</b>	
20,979	Specific Purposes	37,257
37,958	Research Grants	46,201
<u>44,645</u>	Private Practice Funds	<u>44,645</u>
<u>103,582</u>		<u>128,103</u>
	<b>25. Payables</b>	
	<b>Current</b>	
-	Accrued Salaries, Wages and On-Costs	12,080
-	Taxation and Payroll Deductions	8,971
21,051	Accrued Liability - Purchase of Personnel Services	
23,398	Creditors	23,398
9,184	VMO	9,184
29	Interest	29
11,708	Other Creditors	
9,635	- Intra Health Liability	13,633
<u>8,637</u>	- Refund to ATO	9,635
	- Other	<u>7,312</u>
<u>83,642</u>		<u>84,242</u>

*Details regarding credit risk, liquidity risk and market risk, including a maturity analysis of the above payables are disclosed in Note 37.*

	<b>26. Borrowings</b>	
	<b>Non-Current</b>	
<u>1,568</u>	Other Loans and Deposits	<u>3,503</u>
<u>1,568</u>		<u>3,503</u>

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

Other loans still to be extinguished represent monies to be repaid to the Health Services Support. Final Repayment is scheduled for 30 June 2018.

*Details regarding credit risk, liquidity risk and market risk, including a maturity analysis of the above payables are disclosed in Note 37.*

Sydney Local Health Network  
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PARENT		CONSOLIDATION
2011 \$'000		2011 \$'000
	<b>27. Provisions</b>	
	<b>Current Employee Benefits and Related On-Costs</b>	
-	Annual Leave - Short Term Benefit	70,306
-	Annual Leave - Long Term Benefit	58,101
-	Long Service Leave - Long Term Benefit	9,269
<u>137,237</u>	Provision for Personnel Services Liability	<u>-</u>
<u>137,237</u>	<b>Total Current Provisions</b>	<u>137,676</u>
	<b>Non-Current Employee Benefits and Related On-Costs</b>	
-	Long Service Leave - Conditional	859
<u>855</u>	Provision for Personnel Services Liability	<u>-</u>
<u>855</u>	<b>Total Non-Current Provisions</b>	<u>859</u>
	<b>Aggregate Employee Benefits and Related On-Costs</b>	
137,237	Provisions - Current	137,676
855	Provisions - Non-Current	859
-	Accrued Salaries, Wages and On-Costs (Note 25)	12,080
<u>21,051</u>	Accrued Liability - Purchase of Personnel Services (Note 25)	<u>-</u>
<u>159,143</u>		<u>150,615</u>

**28. Commitments for Expenditure**

**(a) Capital Commitments**

Aggregate capital expenditure for the acquisition of land and buildings, plant and equipment, infrastructure and intangible assets, contracted for at balance date and not provided for:

1,444	Not later than one year	1,444
-	Later than one year and not later than five years	-
<u>1,444</u>	<b>Total Capital Expenditure Commitments (Including GST)</b>	<u>1,444</u>

Of the commitments reported at 30 June 2011 it is expected that \$ 0.428 million will be met from locally generated moneys.

**(b) Operating Lease Commitments**

Commitments in relation to non-cancellable operating leases are payable as follows:

5,688	Not later than one year	5,688
13,179	Later than one year and not later than five years	13,179
<u>2,945</u>	Later than five years	<u>2,945</u>
<u>21,812</u>	<b>Total Operating Lease Commitments (Including GST)</b>	<u>21,812</u>

**(c) Contingent Asset Related to Commitments for Expenditure**

The total of "Commitments for Expenditure" above, i.e. \$23.256 million as at 30 June 2011 includes input tax credits of \$2.114 million that are expected to be recoverable from the Australian Taxation Office.

**PARENT AND CONSOLIDATION**

**29. Trust Funds**

The Network holds trust fund moneys of \$27.516 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:

	Patient Trust	Refundable Deposits	Private Practice Trust Funds	Total
	2011 \$'000	2011 \$'000	2011 \$'000	2011 \$'000
Cash Balance at the beginning of the financial reporting period	105	6,283	27,185	33,573
Receipts	141	377	23,558	24,076
Expenditure	(107)	(622)	(29,404)	(30,133)
Cash Balance at the end of the financial reporting period	<u>139</u>	<u>6,038</u>	<u>21,339</u>	<u>27,516</u>

**PARENT AND CONSOLIDATED**

**30. Contingent Liabilities and Assets**

**a) Claims on Managed Fund**

The Networks are members of the NSW Treasury Managed Fund. The predecessor organisations were also members since 1 July 1989. The Fund will pay to or on behalf of the Network 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 until 2010/11. As a result, the 2005/06 final and 2007/08 interim hindsight calculations pertaining to the former Sydney South West Area Health Service will be paid in 2011/12.

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

**c) Affiliated Health Organisations**

Based on the definition of control in Australian Accounting Standard AASB127, Consolidated and Separate Financial Statements, Affiliated Health Organisations listed in Schedule 3 of the Health Services Act, 1997 are only recognised in the Network'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, the Network and the Department.

**d) Contingent Liability / Debtor**

A claim was made against Sydney Local Health Network (Part of the former SSWAHS) by the lessee of certain property controlled by the Network on the Royal Prince Alfred Hospital campus, on which the lessee had agreed to construct a carpark and private hospital to be operated by the lessee. The lessee sought damages principally because it claimed its failure to commence construction of the hospital and to complete the carpark was caused by the Network. The lessee also sought to be restored to possession and an account of net revenue from the incomplete carpark since termination.

The Supreme Court judgement in favour of the Network on virtually all issues was handed down in 2008/09. Costs were awarded against the lessee in favour of the Network.

The lessee appealed to the Court of Appeal. There was no alteration to the finding that the Network did not cause the lessee's failure to commence construction of the hospital and complete the carpark. It was for other reasons that the lessee was not ready, willing and able to comply. Accordingly, the lessee's claim for substantial damages failed.

However the Court of Appeal ordered that the lessee be restored to possession, entitling the lessee to an account of net revenue from the carpark since termination or damages for being out of possession, less rental of more than \$4m which the lessee has not paid. Taking into account the many issues in the proceedings and overlap between them, The Network was ordered to pay 25% of the lessee's costs of the trial in the Supreme Court. The issues on appeal were much narrower. The Network was ordered to pay 50% of the lessee's costs of the appeal. Any payment to the lessee for the period of being out of possession will take into account that the lessee was not in a position to construct a hospital at the date of termination. It is expected that a period of up to 12 months will expire before the proceeding to determine quantum is heard.

The lessee has not yet sought to be restored to possession. Although the lessee remains obliged to construct a hospital, the timetable for doing so has expired. The lessee has indicated a willingness to construct a hospital, however the lessee would need an extended timetable to do so. The Network is considering termination. Discussions between the parties are proposed.

Sydney Local Health Network  
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PARENT		CONSOLIDATION
2011 \$'000		2011 \$'000
	<b>31. Reconciliation of Net Cash Flows from Operating Activities to Net Cost of Services</b>	
(19,792)	Net Cash Flows from Operating Activities	(19,517)
(17,116)	Depreciation	(17,463)
(1,394)	Allowance for Impairment	(1,394)
(6,248)	Acceptance by the Crown Entity of Employee Superannuation and LSL Benefits	(14,781)
75,394	Decrease/(Increase) in Provisions	(6,300)
(60,690)	Increase / (Decrease) In Prepayments and Other Assets	76,820
733	(Increase)/ Decrease in Creditors	(60,709)
(498,507)	Net Gain/ (Loss) on Sale of Property, Plant and Equipment	733
(1,939)	NSW Health Department Recurrent Allocations	(498,507)
4,545	NSW Health Department Capital Allocations	(1,939)
1,200	Asset Sale Proceeds Transferred to the NSW Department of Health	4,545
	Cash Reimbursements from the Government	(6,015)
	Property Not Brought into Account Previously	1,200
<u>(523,814)</u>	<b>Net Cost of Services</b>	<u>(543,327)</u>
	<b>32. Statement of Cash Flows - Non-Cash Financing and Investing Activities</b>	
2,233	Other - Health Infrastructure Capital Projects	2,233
<u>2,233</u>		<u>2,233</u>
	<b>33. 2011 Voluntary Services</b>	
	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      -Patient &amp; Family Support</li> <li>· Pink Ladies/Hospital Auxiliaries      -Patient Services, Fund Raising</li> <li>· Patient Support Groups                  -Practical Support to Patients and Relative</li> <li>· Community Organisations              -Counselling, Health Education, Transport, Home Help &amp; Patient Activities</li> </ul>	

**PARENT AND CONSOLIDATED**

**34. Unclaimed Moneys**

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

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

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

Sydney Local Health Network  
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**PARENT AND CONSOLIDATED**

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

**Net Cost of Services**

The actual Net Cost of Services was lower than the budget by \$13.1 million (0.2%). Expenditure was \$6.7 million higher than budget (mainly Salaries & Wages). Revenue was \$19.8 million higher than budget target (mainly in Grants & Contributions and Other Revenue).

**Result for the Period**

The result for the Period was \$14.3 million lower than the budget target.

**Assets and Liabilities**

Total Assets were \$14.5 million lower than budget (Current Assets were \$18.9 million lower than budget target and offset by Non Current Assets being \$4.5 million higher than budget target). Total Liabilities were \$46.5 million higher than budget target (mainly in the Current Liabilities category).

**Cash Flows**

The Net Cash Flow from Operating Activities was \$12.8 million higher than the budget. Payment was \$19.1 million unfavourable and Receipts was \$6.3 million favourable.

Movements in the budget level of the NSW Department of Health Recurrent Allocation that have occurred since the time of the initial allocation on 30 December 2010 are as follows:

	<b>2010</b>	<b>\$'000</b>
Initial Allocation	363,374	
Allocations from HRTO - SSW	61,236	
Annual Leave Provisions	5,877	
Long Service Leave Provisions	6,015	
Depreciations	18,075	
Provision for Doubtful Debts	770	
Crown Acceptance of Superannuation Liability	8,450	
COAG Planned Surgery Activity	3,200	
Liquidity Assistance	9,432	
Nurse Strategy Funding	378	
Organ and Tissue Donation Funding	522	
Caring Together	594	
Visiting Medical Officers Award	958	
Nurses Award	11,508	
Clinical Education Centre at Concord Repatriation General Hospital	1,200	
Superannuation Guarantee	3,929	
Others	7,200	
Overhead Allocation from HRTO	<u>53,768</u>	
Balance as per Statement of Comprehensive Income	<u>556,486</u>	

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

Net assets of \$807.658 million were transferred from the former Sydney South West 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 \$145.970 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:

	<b>PARENT</b>	<b>CONSOLIDATION</b>
	<b>2010</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Assets</b>		
Cash and Cash Equivalents	127,244	141,352
Receivables	3,918	4,094
Inventories	6,711	6,711
Financial Asset at Fair Value	-	2,629
Property, Plant and Equipment		
- Land and Buildings	774,029	782,171
- Plant and Equipment	62,458	63,545
	<u>974,360</u>	<u>1,000,502</u>
<b>Liabilities</b>		
Payables	56,525	57,108
Provisions	131,845	132,235
Borrowings	1,568	3,503
	<u>189,938</u>	<u>192,844</u>
Increase/(Decrease) in Net Assets From Equity Transfers	<u>784,422</u>	<u>807,658</u>

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**37. 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**

Financial Assets Class:	Category	Carrying Amount
		2011 \$'000
Cash and Cash Equivalents (note 18)	N/A	103,081
Receivables (note 19) <sup>1</sup>	Loans and receivables (at amortised cost)	36,328
<b>Total Financial Assets</b>		<u>139,409</u>
<b>Financial Liabilities</b>		
Borrowings (note 26)	Financial liabilities	1,568
Payables (note 25) <sup>2</sup>	measured at amortised cost	83,642
<b>Total Financial Liabilities</b>		<u>85,210</u>

**Notes**

1. Excludes statutory receivables and prepayments (is not within scope of AASB 7)
2. Excludes statutory payables and unearned revenue (is not within scope of AASB 7)

**CONSOLIDATION**

Financial Assets Class:	Category	Carrying Amount
		2011 \$'000
Cash and Cash Equivalents (note 18)	N/A	117,325
Receivables (note 19) <sup>1</sup>	Loans and receivables (at amortised cost)	37,986
Financial Assets at Fair Value (note 21)	At fair value through profit or loss (designated as such upon initial recognition)	2,698
<b>Total Financial Assets</b>		<u>158,009</u>
<b>Financial Liabilities</b>		
Borrowings (note 26)	Financial liabilities	3,503
Payables (note 25) <sup>2</sup>	measured at amortised cost	84,242
<b>Total Financial Liabilities</b>		<u>87,745</u>

**Notes**

1. Excludes statutory receivables and prepayments (is not within scope of AASB 7)
2. Excludes statutory payables and unearned revenue (is not within scope of AASB 7)

**(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 allowances 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. Authority deposits held with NSW TCorp are guaranteed by the State.



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**(b) Credit Risk continued**

**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 from 3.45% to 4.62% in 2011. The TCorp Hour-Glass cash facility is discussed in para (d) below.

**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. The evidence includes past experience and current and expected changes in economic conditions and debtor credit ratings. No interest is earned on trade debtors.

The Network is not materially exposed to concentrations of credit risk to a single trade debtor or group of debtors. Of the total trade debtors balance at year end, \$22.562 million related to debtors that were not past due and not considered impaired and debtors of \$15.423 million were past due but not considered impaired. Together these represent 79% of total trade debtors.

The Receivables include Patient Fees Compensables which are frequently not settled within 6 months of the date of the service provision due to the length of time it takes to settle legal claims. Most of the Network's debtors are Health Insurance Companies or Compensation Insurers settling claims in respect of inpatient treatments. There are no debtors which are currently not past due or impaired whose terms have been renegotiated.

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

	\$'000		
2011	Total <sup>1,2</sup>	Past due but not impaired <sup>1,2</sup>	Considered impaired <sup>1,2</sup>
<3 months overdue	11,559	11,559	
3 months - 6 months overdue	5,143	3,238	1,905
> 6 months overdue	626	626	

**Notes**

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

**Authority Deposits**

The Network has placed funds on deposit with TCorp, which has been rated "AAA" by Standard and Poor's. These deposits are similar to money market or bank deposits and can be placed "at call" or for a fixed term. For fixed term deposits, the interest rate payable by TCorp is negotiated initially and is fixed for the term of the deposit, while the interest rate payable on at call deposits can vary. The deposits at balance date were earning an average interest rate of 5.37%, while over the Period the weighted average interest rate was 5.24% on a weighted average balance during the Period of \$93.192 million. None of these assets are past due or impaired.

**(c) Liquidity Risk**

Liquidity risk is the risk that the Network will be unable to meet its payment obligations when they fall due. The 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 and prior years, 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 risks are minimised as the NSW Department of Health has indicated its ongoing financial support for the Network (refer Note 2).

The liabilities are recognised for amounts due to be paid in the future for goods or services received, whether or not invoiced. Amounts owing to suppliers (which are unsecured) are 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 Network's financial liabilities together with the interest rate exposure.

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*Maturity Analysis and interest rate exposure of financial liabilities*

	\$'000					Maturity Dates		
	Interest Rate Exposure					< 1 Yr	1-5 Yr	> 5Yr
	Weighted Average Effective Int. Rate	Nominal Amount 1	Fixed Interest Rate	Variable Interest Rate	Non - Interest Bearing			
%	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
<b>2011</b>								
<b>Payables:</b>								
Accrued Salaries								
Wages, On-Costs and Payroll Deductions		21,051	-	-	21,051	21,051	-	-
Creditors		44,343	-	-	44,343	44,343	-	-
VMO		9,184	-	-	9,184	9,184	-	-
Interest		29	-	-	29	29	-	-
<b>Borrowings:</b>								
Bank Overdraft		-	-	-	-	-	-	-
Non Interest Loans		-	-	-	-	-	-	-
Other Loans and Deposits		3,503	-	-	-	-	3,503	-
Finance Leases		-	-	-	-	-	-	-
		<b>78,110</b>	<b>-</b>	<b>-</b>	<b>74,607</b>	<b>74,607</b>	<b>3,503</b>	<b>-</b>

**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.

2. Of the \$3,503 M disclosed in the 2011 'other loans and deposits' time band 1-5 yrs, the Network has no intention to effect payments in advance of maturity dates on or prior to 30 September 2011.

**(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	117,325	(1,173)	(1,173)	1,173	1,173
Receivables	37,986	(380)	(380)	380	380
Financial Assets at Fair Value	2,698	(27)	(27)	27	27
<b>Financial Liabilities</b>					
Payables	84,242	(842)	(842)	842	842
Borrowings	3,503	(35)	(35)	35	35

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*Other price risk - TCorp Hour-Glass facilities*

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

Facility	Investment Sectors	Investment Horizon	2011 \$'000
Cash facility	Cash, money market instruments	Up to 2 years	92,587
Strategic cash facility	Cash, money market and other interest rate instruments	2 years to 4 years	
Medium term growth facility	Cash, money market instruments, Australian and International bonds, listed property, Australian and International shares	4 years to 7 years	2,263
Long-term growth facility	Cash, money market instruments, Australian and international bonds listed property, Australian and International shares	7 years and over	435

Note: Only disclose those facilities in which the Network has an investment (current or prior year)

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

NSW TCorp as trustee for each of the above facilities is required to act in the best interest of the unit-holders and to administer the trusts in accordance with the trust deeds. As trustee, TCorp has appointed external managers to manage the performance and risk of each facility in accordance with a mandate agreed by the parties. However, TCorp acts as manager for part of the Cash and Strategic Cash Facilities and also manages the Australian Bond portfolio. A significant portion of the administration of the facilities is outsourced to an external custodian.

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

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

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

	Change in unit price	Impact on profit/loss
		2011 \$'000
Hour-Glass Investment - Cash facility	+/- 1%	926
Hour-Glass Investment - Strategic cash facility	+/- 1%	
Hour-Glass Investment - Medium-term growth facility	+/- 6%	136
Hour-Glass Investment - Long-term growth facility	+/- 15%	65

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(e) Fair Value compared to Carrying Amount

Financial instruments are generally recognised at cost, with the exception of the TCorp Hour-Glass facilities, which are measured at fair value. As discussed, the value of the Hour-Glass Investments is based on the Network's share of the value of the underlying assets of the facility, based on the market value. All of the Hour-Glass facilities are valued using 'redemption' pricing.

Except where specified below, the amortised cost of financial instruments recognised in the Statement of Financial Position approximates the fair value, because of the short term nature of many of the financial instruments. The following table details the financial instruments where the fair value differs from the carrying amount:

	2011 \$'000	2011 \$'000
	Carrying amount	Fair value
<b>Financial assets</b>		
TCorp Hour-Glass Investment Facility	95,285	95,285

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

The Network uses the following hierarchy for disclosing the fair value of financial instruments by valuation technique:

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

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

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

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	2011 Total \$'000
TCorp Hour-Glass Inv.Facility	-	95,285	-	95,285

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

There were no transfers between level 1 and 2 during the period ended 30 June 2011.

**38. 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 oversight the establishment of Local Health Districts and provide specialty services. Under the revised framework the majority of staff and services will be assigned to Local Health Districts.

END OF AUDITED FINANCIAL STATEMENTS