Audit New Zealand
Mana Arotake Aotearoa

Model Financial Statements

Te Motu District Health Board

2017/18

Model financial statements for a district health board

prepared under the

Public Benefit Entity Accounting Standards

June 2018

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FOREWORD

I am pleased to introduce our updated model financial statements for district health boards (DHBs) prepared under the public benefit entity (PBE) accounting standards.

Focus

This 2018 update to the model financial statements focuses on improving the presentation and disclosure of financial statements. Recently, a number of private and public sector organisations have made significant changes to the presentation of their financial statements to improve communication to readers. In this model, we have applied some of this evolving good practice, such as merging accounting policies into the relevant notes and improving disclosures of judgements, estimates, and uncertainties. Further information about these improvements is provided on page 5. The main changes to the model are explained on page 6.

I encourage DHBs to consider how they can improve their financial statements, with a view to clear communication to the readers. Our auditors will be happy to discuss this with you, including the important judgements that entities need to make about materiality of note disclosures.

These model financial statements can be downloaded from our website **www.auditnz.govt.nz**.

Future updates

We will continue to update these model financial statements to reflect evolving good practice in presenting financial statements that meet the needs of users as well as any revised requirements from changes in accounting standards and legislation.

We welcome any feedback on the application of this model to DHBs or any other comments that might help with future updates of the model financial statements. If you have any feedback or comments, please pass these to your Audit New Zealand Manager or Director.

Acknowledgements

I would like to thank the Audit New Zealand staff who have contributed to these model financial statements.

Stephen Walker
Executive Director
June 2018

ABOUT THE MODEL FINANCIAL STATEMENTS

Objective

The objectives of this model are:

- to guide DHBs in preparing financial statements that comply with the PBE accounting standards; and
- to provide an insight into evolving good practice in preparing financial statements, by providing an alternative presentation of notes and accounting policies to that used in our previous models.

The model financial statements have been prepared using a fictitious DHB, Te Motu DHB. Te Motu DHB has one subsidiary and an associate.

Improving disclosures and presentation of financial statements

Standard-setting bodies, financial market regulators, and other accounting interest groups internationally and in New Zealand have recently undertaken projects and initiatives to consider how financial reporting can be improved and better meet the needs of users (for example, the International Accounting Standards Board's "Disclosure Initiative" project).

These model financial statements have been updated to reflect some of the examples in practice we have seen to improve financial reporting. This includes improving the readability of the financial statements by moving significant accounting policies to the notes to which they relate. Some accounting policy language has also been simplified. Estimates and judgement disclosures have also been enhanced to provide more useful information on those areas of the financial statements that require judgement by preparers. For example, more information has been provided in relation to the estimation of the fair value of property, plant, and equipment.

There are other ways a DHB might improve financial reporting. For example, there are different approaches to the ordering of the financial statement notes. The notes in these model financial statements generally follow the ordering of the primary statements. However, a DHB might order notes based on providing the most important notes first, or group notes together into themes, such as operations, resources, and financing.

We are also seeing increasing use of contents pages and sub-headings for notes as well as some use of graphics, keys, and colour to differentiate different parts of the note disclosures. In this model, we have:

- included a contents page at the start of the notes to the financial statements to help the user locate notes that they are interested in;
- used colour to highlight the accounting policies (a blue background) and critical accounting estimates and judgements (a red background) from the other information contained in the notes; and
- included subheadings within the notes to clearly indicate to the user what information is being disclosed within a note.

Application of materiality to note disclosures

The purpose of these model financial statements is to provide a comprehensive range of accounting policies and disclosures to help guide DHBs in preparing financial statements that comply with the PBE accounting standards. Because of this, the model contains many note disclosures. Many DHBs will not need to include all of these notes in their financial statements.

When preparing financial statements, professional judgement needs to be applied in determining what note disclosures are material to users of financial statements. The PBE Conceptual Framework provides the following guidance on materiality:

> *Information is material if its omission or misstatement could influence the discharge of accountability by the entity, or the decisions that users make on the basis of the entity's general purpose financial reports prepared for that reporting period. Materiality depends on both the nature and amount of the item judged in the particular circumstances of each entity.*

In some cases, assessing materiality of note disclosures is an on-balance judgement that requires discussion between the preparer and auditor. In making this judgement, key factors are the concepts of user needs and accountability, but it is also important that material information is not obscured by including too much information that is not important.

Main updates to the model

The table below explains the main updates to the model since it was previously published in 2015.

Page number	**Note number**	**Description of change**
General	–	Accounting policies that relate specifically to a note have been relocated from the statement of accounting policies to the note to which they relate. Accounting policies within the notes are shaded blue to differentiate the policy from other information within the note. Accounting policies that do not relate specifically to a note (for example, foreign currency transactions) remain in the statement of accounting policies (Note 1). Minor changes have been made to policies to improve their readability.
General	–	"Critical accounting estimates and assumptions" and "Critical judgements in applying accounting policies" have been relocated from the statement of accounting policies to the note to which they relate. These disclosures have been shaded red and are clearly labelled to differentiate the disclosures from the accounting policies and other information within the note. Some of these disclosures have also been enhanced to provide more useful information on those areas of the financial statements that require judgement by preparers.
General	–	The previous model included disclosures required by PBE FRS 46: *First-time Adoption of PBE Standards by Entities Previously Applying NZ IFRS*, including a separate note outlining adjustments arising on transition to the new PBE accounting standards. These disclosures have been removed as they are not required to be presented in subsequent financial statements.
15	–	Statement of cash flows – The reconciliation of surplus/(deficit) after tax to net cash flow from operating activities is now located directly after the statement of cash flows. It was previously disclosed as a separate note.
17	Note 1	Statement of accounting policies – "Standards issued and not yet effective and not early adopted" has been updated for relevant standards and amendments up to May 2018.
21	Note 3	Personnel costs – The disclosures required by section 152(1) of the Crown Entities Act 2004 relating to board member and employee remuneration have been relocated from separate notes to the personnel costs note.
23	Note 5	Other expenses – The future minimum lease payments for non-cancellable operating leases and the accounting policy for operating leases is now located in this note from the previously separate commitment's note.
29	Note 12	Property, plant, and equipment – The note has been amended as follows: • Estimating the fair value of land and buildings – We have enhanced this disclosure as it is a key source of estimation uncertainty. This includes quantifying the assumptions listed to provide more useful information to the reader. In addition, a table comparing the carrying value of buildings revalued using depreciated replacement cost and market-based evidence has been included. • Capital commitments – Capital commitments for the acquisition of property, plant, and equipment is now located in this note. It was previously included in a separate commitments note.
35	Note 13	Intangible assets – A footnote has been added to explain that the model has not taken into consideration the current status of actual DHB sector wide information technology projects. DHBs will need to carefully consider the possible impairment on such projects.
36	Note 16	Borrowings – This note has been updated to include conversion of Crown loans to Crown capital contributions in 2017.

Page number	Note number	Description of change
38	Note 17	Employee entitlements – Information has been added about the utilisation assumption used in measuring the continuing medical education leave liability.
41	Note 19	Equity – The capital management disclosure is now located in this note. It was previously in a separate note.

Content

Included in the model are:

- a statement of responsibility;
- a statement of comprehensive revenue and expense;
- a statement of financial position;
- a statement of changes in equity;
- a statement of cash flows; and
- notes to the financial statements, which include a statement of accounting policies and other explanatory information.

Not all of the accounting policies and notes will be applicable to each DHB. Although it is not practical for this model to cover all of the possible financial reporting issues that could arise in a DHB, we have included a wide range of accounting policies and notes, including all those that are commonly used in the sector.

The model illustrates a possible financial statement format for a DHB. For example, the statement of comprehensive revenue and expense has been prepared by classifying expenses based on the nature of the expenditure. Alternatively, expenses could be classified based on their function. This is just one example where there might be more than one way of disclosing the information required.

While the model provides guidance on disclosure matters, it does not deal with the underlying accounting treatment. DHBs will need to make choices about the accounting policies and presentation options appropriate for their circumstances.

The model does not address all the possible recognition, measurement, presentation, and disclosure requirements of the PBE accounting standards. DHBs should not use the model as a substitute for referring to individual standards applicable to their specific circumstances.

We have included references to specific standards and legislation in the left margin of the model.

Group and parent financial statements

DHBs with subsidiaries are required to prepare group financial statements under section 156A of the CEA. Parent financial statements are not required by the CEA. Parent financial statements are not included in the model.

Other reporting requirements

The model does not include all the information that is required to be included in a DHB's annual report. In particular, the model does not include non-financial performance information required under section 42(3) of the New Zealand Public Health and Disability Act 2000 and section 151(1) of the CEA.

Standards not covered by the model

The model does not consider the recognition, measurement, presentation, or disclosure requirements of the following standards:

- PBE IPSAS 8 *Interests in Joint Ventures*;
- PBE IPSAS 10 *Financial Reporting in Hyperinflationary Economies*;
- PBE IPSAS 11 *Construction Contracts*;
- PBE IPSAS 16 *Investment Property*;
- PBE IPSAS 22 *Disclosure of Information About the General Government Sector*;
- PBE IPSAS 26 *Impairment of Cash-Generating Assets*;
- PBE IPSAS 27 *Agriculture*;
- PBE IPSAS *32 Service Concession Arrangements: Grantor*;
- PBE IFRS 3 *Business Combinations*;
- PBE IAS 12 *Income Taxes*;
- PBE IAS 34 *Interim Financial Reporting*;
- PBE FRS 42 *Prospective Financial Statements;*
- PBE FRS 43 *Summary Financial Statements*; and
- PBE FRS 45 *Service Concession Arrangements: Operator*.

Standards and amendments issued after May 2018 are not included in the model financial statements.

Abbreviations used in the model

ACC	Accident Compensation Corporation	GST	Goods and Services Tax
CEA	Crown Entities Act 2004	MoH	Ministry of Health
DHB	District Health Board	PBE	Public Benefit Entity
GAAP	Generally accepted accounting practice		

CEA s151(1)(d),155

STATEMENT OF RESPONSIBILITY[1]

We are responsible for the preparation of the Te Motu District Health Board group's financial statements and statement of performance, and for the judgements made in them.

We are responsible for any end-of-year performance information provided by the District Health Board under section 19A of the Public Finance Act 1989.

We are responsible for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting.

In our opinion, these financial statements and statement of performance fairly reflect the financial position and operations of the Te Motu District Health Board group for the year ended 30 June 2018.

Signed on behalf of the Board:[2]

Board member	**Board member**
25 October 2018	25 October 2018

[1] In addition to the signed statement of responsibility, section 151(3) of the CEA requires the annual report to be dated and signed on behalf of the Board by two members.

[2] Section 155 of the CEA requires the statement of responsibility to be dated and signed on behalf of the Board by two members.

PBE IPSAS 1.21(b)

TE MOTU DISTRICT HEALTH BOARD
STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE FOR THE YEAR ENDED 30 JUNE 2018[3,4,5]

PBE IPSAS 1.128

Reference		Notes	Group Actual 2018 $000	Group Budget 2018[6] $000	Group Actual 2017[7] $000
	Revenue[8]				
	Patient care revenue	2(i)	499,836	495,665	468,486
PBE IPSAS 9.39(b)(iii)	Interest revenue		1,480	1,703	2,844
PBE IPSAS 1.98.3	Other revenue	2(ii)	8,615	6,654	7,067
PBE IPSAS 1.99.1(a)	*Total revenue*		509,931	504,022	478,397
PBE IPSAS 1.109	**Expenses**				
	Personnel costs	3	171,309	161,726	160,117
	Depreciation and amortisation expense	12,13	13,465	13,147	11,397
	Outsourced services		21,322	16,754	25,229
	Clinical supplies		41,523	42,490	39,919
	Infrastructure and non-clinical expenses		45,697	48,609	47,112
	Other district health boards		31,930	33,874	25,180
	Non-health-board provider expenses		178,137	177,814	167,485
	Capital charge	4	8,040	6,581	6,019
PBE IPSAS 1.99.1(b)	Interest expense		107	119	38
	Other expenses	5	7,846	6,447	5,850
PBE IPSAS 1.98.3	*Total expenses*		519,376	507,561	488,346
PBE IPSAS 1.99.1(c)	Share of associate surplus/(deficit)	11	51	0	0
PBE IPSAS 1.99.1(f)	**Surplus/(deficit)**		**(9,394)**	**(3,539)**	**(9,949)**
	Other comprehensive revenue and expense				
Good practice[9]	*Item that will not be reclassified to surplus/(deficit)*				
PBE IPSAS 1.103.1	Revaluation of land and buildings	19	0	0	18,974
PBE IPSAS 1.98.1(b)	*Total other comprehensive revenue and expense*		0	0	18,974
PBE IPSAS 1.98.1(c)	**Total comprehensive revenue and expense**		**(9,394)**	**(3,539)**	**9,025**

PBE IPSAS 1.148.1 Explanations of major variances against budget are provided in Note 25.[10]

The accompanying notes form part of these financial statements.

[3] Alternatively, a statement displaying components of the surplus/deficit (a statement of financial performance) directly followed by a second statement beginning with surplus/deficit and displaying components of other comprehensive revenue and expense (a statement of other comprehensive revenue and expense) can be presented.
[4] Where there are discontinued operations, PBE IFRS 5.33(a) requires separate disclosure of the total post-tax gain or loss from discontinued operations and the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation.
[5] The statement of comprehensive revenue and expense has been prepared using the nature of expense classification. Alternatively, entities may choose to present expenses based on the function of expense. Tier 1 entities that classify expenses by function are required to disclose additional information on the nature of expenses, including depreciation and amortisation expense and employee benefits expense (PBE IPSAS 1.115).
[6] Section 154(3)(c) of the CEA requires the financial statements to "include the forecast financial statements prepared at the start of the financial year, for comparison with the actual financial statements". When an entity makes its approved budget publicly available, PBE IPSAS 1.21(e) requires a comparison of budget and actual amounts either as a separate additional financial statement or as a budget column in the financial statements.
[7] PBE IPSAS 1.53 requires comparative information to be disclosed in respect of the previous year for all amounts reported in the financial statements. Comparative information shall also be included for narrative information when it is necessary to an understanding of the current year's financial statements.
[8] PBE IPSAS 23.106(a) requires, either in the statement of comprehensive revenue and expense or the notes, that entities disclose the amount of revenue from non-exchange transactions by major classes, showing separately: i) taxes, showing separately major classes of taxes; and ii) transfers, showing separately major classes of transfer revenue. As the separate labelling of revenue as exchange or non-exchange would in most cases not be considered material, we have decided to not label revenue as exchange or non-exchange in these model financial statements. We have, however, separately disclosed the major classes of all revenue streams in Note 2.
[9] For-profit entities are required to group items presented in other comprehensive revenue and expense on the basis of whether they are potentially reclassifiable to surplus or deficit in the future (classification adjustments). Although PBEs are not required to make this disclosure, we consider the disclosure to be good practice.
[10] PBE IPSAS 1.148.1 requires an entity that has published general purpose prospective financial information for the period of the financial statements to present a comparison of the prospective financial information with the actual financial results being reported. Explanations for major variances shall be given.

PBE IPSAS 1.21(a)

TE MOTU DISTRICT HEALTH BOARD
STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018[11]

Reference		Notes	Group Actual 2018 $000	Group Budget 2018 $000	Group Actual 2017 $000
PBE IPSAS 1.90,128					
	Assets				
PBE IPSAS 1.70,76	**Current assets**				
PBE IPSAS 1.88(i)	Cash and cash equivalents	6	10,464	22,477	13,624
PBE IPSAS1.88(g),(h)	Receivables	7	12,822	10,618	15,248
PBE IPSAS 1.89	Prepayments		951	0	725
PBE IPSAS 1.88(d)	Investments	8	11,000	0	8,500
PBE IPSAS 1.88(f)	Inventories	9	2,704	2,775	2,687
PBE IPSAS 1.88.1(a)	Non-current assets held for sale	10	800	0	0
PBE IPSAS 1.89	*Total current assets*		38,741	35,870	40,784
PBE IPSAS 1.70,76	**Non-current assets**				
PBE IPSAS 1.88(d)	Investments	8	2,000	1,500	1,750
PBE IPSAS 1.88(e)	Investment in associate	11	801	750	750
PBE IPSAS 1.88(a)	Property, plant, and equipment	12	151,764	135,884	156,615
PBE IPSAS 1.88(c)	Intangible assets	13	8,645	14,093	9,633
PBE IPSAS 1.89	*Total non-current assets*		163,210	152,227	168,748
PBE IPSAS 1.89	**Total assets**		**201,951**	**188,097**	**209,532**
	Liabilities				
PBE IPSAS 1.70,80	**Current liabilities**				
PBE IPSAS 1.88(k),(j)	Payables and deferred revenue	14	30,359	28,498	30,362
PBE IPSAS 1.88(m)	Forward foreign exchange contracts	15	240	200	140
PBE IPSAS 1.88(m)	Borrowings	16	362	198	503
PBE IPSAS 1.89	Employee entitlements	17	21,279	19,325	22,589
PBE IPSAS 1.88(l)	Provisions	18	1,479	100	236
PBE IPSAS 1.89	*Total current liabilities*		53,719	48,321	53,830
PBE IPSAS 1.70,80	**Non-current liabilities**				
PBE IPSAS 1.88(m)	Forward foreign exchange contracts	15	800	630	840
PBE IPSAS 1.88(m)	Borrowings	16	1,335	1,700	102
PBE IPSAS 1.89	Employee entitlements	17	1,281	1,300	1,246
PBE IPSAS 1.88(l)	Provisions	18	90	200	126
PBE IPSAS 1.89	*Total non-current liabilities*		3,506	3,830	2,314
PBE IPSAS 1.89	**Total liabilities**		**57,225**	**52,151**	**56,144**
PBE IPSAS 1.89	**Net assets**		**144,726**	**135,946**	**153,388**

[11] PBE IPSAS 1.88 requires in the statement of financial position that separate line items be presented for recoverables from non-exchange transactions, receivables from exchange transactions, taxes and transfers payable, and payables under exchange transactions. We consider that it will be rare that this analysis will provide material information. We have chosen to focus on providing a meaningful breakdown in the notes for payables. We also note that the illustrative financial statements in PBE IPSAS 1 do not separately disclose receivables and payables under exchange or non-exchange headings.

PBE IPSAS 1.21(a)

TE MOTU DISTRICT HEALTH BOARD
STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018 (CONTINUED)

PBE IPSAS 1.90,128		Note	Group		
			Actual 2018 $000	Budget 2018 $000	Actual 2017 $000
PBE IPSAS 1.95	**Equity**				
PBE IPSAS 1.95(a)	Crown equity[12]	19	119,293	118,364	118,561
PBE IPSAS 1.95(b)	Accumulated surpluses/(deficits)	19	(31,488)	(20,275)	(21,882)
PBE IPSAS 1.95(c)	Property revaluation reserves	19	54,645	35,941	54,645
PBE IPSAS 1.95(c)	Trust funds	19	2,276	1,916	2,064
PBE IPSAS 1.88(o)	**Total equity**		**144,726**	**135,946**	**153,388**

PBE IPSAS 1.148.1 Explanations of major variances against budget are provided in Note 25.

The accompanying notes form part of these financial statements.

[12] If a DHB does not have information on the separate amounts for contributed capital and accumulated surplus/deficit, it shall combine them and present a single amount as general funds (or other similar title).

PBE IPSAS 1.21(c)

TE MOTU DISTRICT HEALTH BOARD
STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2018

PBE IPSAS 1.128

		Note	Group		
			Actual 2018 $000	**Budget 2018 $000**	**Actual 2017 $000**
	Balance at 1 July		153,388	139,485	89,620
PBE IPSAS 1.118(a)	Total comprehensive revenue and expense		(9,394)	(3,539)	9,025
PBE IPSAS 1.119(a)	*Owner transactions*[13]				
	Capital contribution				
	- Conversion of Crown loan to equity	16	0	0	54,867
	- Other contributions		1,365	0	508
	Return of capital		(633)	0	(632)
	Balance at 30 June	19	**144,726**	**135,946**	**153,388**

PBE IPSAS 1.148.1 Explanations of major variances against budget are provided in Note 25.

The accompanying notes form part of these financial statements.

[13] Disclosure is required only if these transactions took place.

PBE IPSAS 1.21(d)

TE MOTU DISTRICT HEALTH BOARD
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2018

PBE IPSAS 1.128

		Note	Group		
			Actual 2018 $000	**Budget 2018 $000**	**Actual 2017 $000**
PBE IPSAS 2.18,22,27	**Cash flows from operating activities**				
	Receipts from patient care:				
	Ministry of Health		440,491	439,875	414,546
	Other		60,837	55,844	48,875
PBE IPSAS 2.40	Interest receipts		1,480	1,703	2,844
	Receipts from other revenue		8,600	6,600	6,908
	Payments to suppliers[14]		(324,808)	(328,421)	(307,441)
	Payments to employees		(172,447)	(161,726)	(159,871)
	Capital charge		(8,717)	(6,581)	(5,299)
PBE IPSAS 2.40	Interest paid		(107)	(119)	(38)
	GST (net)		498	0	451
	Net cash flow from operating activities		5,827	7,175	975
PBE IPSAS 2.18,25	**Cash flows from investing activities**				
	Receipts from sale of property, plant, and equipment[15]		9	0	0
	Purchase of property, plant, and equipment		(6,481)	(10,900)	(9,483)
	Purchase of intangible assets		(802)	(5,708)	(7,338)
	Acquisition/rollover of investments		(14,392)	(15,546)	(10,345)
	Receipts from sale or maturity of investments		11,430	15,546	16,743
	Net cash flow from investing activities		(10,236)	(16,608)	(10,423)
PBE IPSAS 2.18,26	**Cash flows from financing activities**				
	Capital contributions from the Crown		1,365	1,549	508
	Return of capital to the Crown		(633)	0	(632)
	Repayment of loans		0	0	0
	Proceeds from borrowings		0	0	0
	Repayment of finance leases		517	517	517
	Net cash flow from financing activities		1,249	2,066	393
	Net (decrease)/increase in cash and cash equivalents		(3,160)	(7,367)	(9,055)
	Cash and cash equivalents at the start of the year		13,624	29,844	22,679
	Cash and cash equivalents at the end of the year	6	**10,464**	**22,477**	**13,624**

PBE IPSAS 2.54 — Buildings and equipment totalling $1.21 million (2017: $nil) were acquired by means of finance leases during the year.

Crown loans totalling $nil (2017: $54.87 million) were converted to equity during the prior year. Refer to Note 16 for further information about the conversion.

PBE IPSAS 1.148.1 — Explanations of major variances against budget are provided in Note 25.

The accompanying notes form part of these financial statements.

[14] We consider it good practice to separately disclose cash outflows from payments to employees and cash outflows from payments to suppliers, although the amounts could be presented in aggregate.

[15] We consider it good practice to separately disclose cash flows arising from the acquisition and disposal of property, plant, and equipment and intangible assets. Presenting these cash flows separately provides readers of the financial statements with a clearer linkage between the property, plant, and equipment and intangible asset movement schedules and cash flows arising from acquisitions and disposals.

TE MOTU DISTRICT HEALTH BOARD
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)

PBE IPSAS 2.29

Reconciliation of net surplus/(deficit) to net cash flow from operating activities

	Group	
	Actual 2018 $000	**Actual 2017 $000**
Net surplus/(deficit)	(9,394)	(9,949)
Add/(less) non-cash items		
Share of associate surplus	(51)	0
Donated equipment	(2,059)	0
Increase in provisions	1,606	235
Depreciation and amortisation expense	13,465	11,397
Net (gains)/losses on derivative financial instruments	60	(244)
Total non-cash items	13,021	11,388
Add/(less) items classified as investing or financing activities		
Net (gains)/losses on disposal of property, plant, and equipment	88	110
Total items classified as investing or financing activities	88	110
Add/(less) movements in statement of financial position items		
(Increase)/Decrease in receivables[16]	2,426	(7,726)
(Increase)/Decrease in prepayments	(226)	20
(Increase)/Decrease in inventories	(17)	166
Increase/(Decrease) in payables[17]	(3)	7,236
Increase/(Decrease) in provisions	1,207	(273)
Increase/(Decrease) in employee entitlements	(1,275)	3
Net movements in working capital items	2,112	(574)
Net cash flow from operating activities	**5,827**	**975**

[16] Any receivables for the sale of property, plant, and equipment will need to be excluded when calculating this movement.
[17] Any payables for capital expenditure will need to be excluded when calculating this increase or decrease.

PBE IPSAS 1.21(f), 127, 128

TE MOTU DISTRICT HEALTH BOARD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

Notes index

1 Statement of accounting policies

REPORTING ENTITY

PBE IPSAS 1.150(a),(c),(d) — The Te Motu District Health Board (the DHB) is a Crown entity as defined by the Crown Entities Act 2004 and is domiciled and operates in New Zealand. The relevant legislation governing the DHB's operations is the Crown Entities Act 2004 and the New Zealand Public Health and Disability Act 2000. The DHB's ultimate parent is the New Zealand Crown.[18]

Good practice — The group has reported in Note 24 on the patient trust money that it administers.

PBE IPSAS 6.62(a) PBE IPSAS 20.25 — The group consists of the DHB and its subsidiary, Te Motu Laundry Services Limited (100% owned). Its 25% share of its associate Shared Services Limited is equity-accounted. The DHB's subsidiary and associate are incorporated and domiciled in New Zealand.

PBE IPSAS 1.150(b) — The group's primary objective is to deliver health, disability, and mental health services to the community within its district. The group does not operate to make a financial return.

PBE IPSAS 1.28.2(c) — The group is designated as a public benefit entity (PBE) for the purposes of complying with generally accepted accounting practice.

PBE IPSAS 1.63(a),(b),(c) — The financial statements for the group are for the year ended 30 June 2018, and were approved for issue by the Board on 25 October 2018.

PBE IPSAS 1.127(a)

BASIS OF PREPARATION

Good Practice PBE IPSAS 1 Appendix B — The financial statements have been prepared on a going concern basis, and the accounting policies have been applied consistently throughout the year. [19]

Statement of compliance

PBE IPSAS 1.28.2(a),(b) — The financial statements of the group have been prepared in accordance with the requirements of the Crown Entities Act 2004 and the New Zealand Public Health and Disability Act 2000, which include the requirement to comply with New Zealand generally accepted accounting practice (GAAP).

PBE IPSAS 1.28,28.2(b), 28.4(a) — The financial statements have been prepared in accordance with and comply with PBE Accounting Standards.

Presentation currency and rounding

PBE IPSAS 1.63(d),(e) — The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars ($000), other than remuneration disclosed in Note 3 and the related party transaction disclosures in Note 21. The related party transaction disclosures are rounded to the nearest dollar.

Changes in accounting policies

PBE IPSAS 3.33,34 — There have been no changes in the group's accounting policies since the date of the last audited financial statements.

PBE IPSAS 3.35, 36 — **Standards issued and not yet effective and not early adopted**

Standards and amendments, issued but not yet effective that have not been early adopted, and which are relevant to the DHB are:

Impairment of revalued assets

In April 2017, the XRB issued *Impairment of Revalued Assets*, which now clearly scopes revalued property, plant, and equipment into the impairment accounting standards. Previously, only property, plant, and equipment measured at cost were scoped into the impairment accounting standards.

Under the amendment, a revalued asset can be impaired without having to revalue the entire class-of-asset to which the asset belongs. This amendment is effective for the 30 June 2020 financial statements, with early adoption permitted. The timing of the DHB adopting this amendment will be guided by the Treasury's decision on when the Financial Statements of the Government will adopt the amendment.

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[18] PBE IPSAS 1.150 requires the following information to be included in the financial statements, if not disclosed elsewhere in information published with the financial statements: domicile and legal form of the entity and the jurisdiction in which it operates, description of operations and principal activities, reference to the relevant legislation governing the entity's operations, and name of the controlling entity and ultimate controlling entity These disclosures are not required by the reduced disclosure regime.

[19] The going concern concept is assumed when preparing financial statements. If those responsible for preparing the financial statements are aware of conditions or events that cast doubt over the ability to continue as a going concern, those facts shall be disclosed. If the financial statements are not prepared on a going concern basis, that fact shall also be disclosed, together with the basis on which the financial statements are prepared and the reason why the entity is not recognised as a going concern (PBE IPSAS 1.38).

1 Statement of accounting policies (continued)

Financial instruments

In January 2017, the XRB issued PBE IFRS 9 *Financial Instruments*. This replaces PBE IPSAS 29 *Financial Instruments: Recognition and Measurement*. PBE IFRS 9 is effective for financial years beginning on or after 1 January 2021, with earlier application permitted. The main changes under the standard relevant to the DHB are:

- New financial asset classification requirements for determining whether an asset is measured at fair value or amortised cost.
- A new impairment model for financial assets based on expected losses, which might result in the earlier recognition of impairment losses.

The Treasury has decided that the Financial Statements of the Government will early adopt PBE IFRS 9 for the 30 June 2019 financial year. The DHB will also early adopt PBE IFRS 9 for the 30 June 2019 financial year to be consistent with Crown's accounting policy for financial instruments. The DHB has not yet assessed in detail the impact of the new standard. Based on an initial assessment, the DHB anticipates that the standard will not have a material effect on the DHB's financial statements.

Interests in other entities

In January 2017, the XRB issued new standards for interests in other entities (PBE IPSAS 34 - 38). These new standards replace the existing standards for interests in other entities (PBE IPSAS 6 - 8). The new standards are effective for annual periods beginning on or after 1 January 2019, with early application permitted.

The DHB plans to apply the new standards in preparing the 30 June 2020 financial statements. The DHB has not yet assessed the effects of these new standards.

PBE IPSAS 1.132

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES[20]

Significant accounting policies are included in the notes to which they relate.

Significant accounting policies that do not relate to a specific note are outlined below.

PBE IPSAS 1.132(c)

Foreign currency transactions

PBE ISPAS 4.24,32

Foreign currency transactions (including those for which forward foreign exchange contracts are held) are translated into NZ dollars (the functional currency) using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the surplus or deficit.

PBE IPSAS 1.132(c)

Goods and services tax

All items in the financial statements are presented exclusive of goods and service tax (GST), except for receivables and payables, which are presented on a GST-inclusive basis. Where GST is not recoverable as input tax, it is recognised as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, the Inland Revenue Department (IRD) is included as part of receivables or payables in the statement of financial position.

The net GST paid to, or received from the IRD, including the GST relating to investing and financing activities, is classified as a net operating cash flow in the statement of cash flows.

Commitments and contingencies are disclosed exclusive of GST.

Good practice

Income tax

The DHB is a public authority and consequently is exempt from the payment of income tax. Accordingly, no provision has been made for income tax.

[20] Entities are required to disclose those accounting policies that are relevant to an understanding of the financial statements (PBE IPSAS 1.132(c)). The materiality of transactions should also be considered in deciding what accounting policies to disclose. In this model, we have chosen to disclose a comprehensive range of accounting policies. An entity might not need to disclose all the accounting policies included in this model if the transactions associated with the policy are immaterial.

1 Statement of accounting policies (continued)

Good practice

Budget figures

The budget figures are derived from the 2017/18 statement of performance expectations. [21] The budget figures have been prepared in accordance with GAAP, using accounting policies that are consistent with those adopted by the Board in preparing these financial statements.

Good practice

Cost allocation

The cost of outputs has been determined using the cost allocation system outlined below.

Direct costs are those costs directly attributed to an output. Indirect costs are those costs that cannot be identified in an economically feasible manner with a specific output.

Direct costs are charged directly to outputs. Indirect costs are charged to outputs based on cost drivers and related activity or usage information. Depreciation is charged on the basis of asset utilisation. Personnel costs are charged on the basis of actual time incurred. Property and other premises costs, such as maintenance, are charged on the basis of floor area occupied for the production of each output. Other indirect costs are assigned to outputs based on the proportion of direct staff costs for each output.

There have been no changes to the cost allocation methodology since the date of the last audited financial statements.

PBE IPSAS 1.140

Critical accounting estimates and assumptions[22]

In preparing these financial statements, the Board has made estimates and assumptions concerning the future. These estimates and assumptions might differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are in respect of:

- Estimating the fair value of land and buildings – refer to Note 12.
- Measuring long service leave and retirement gratuities – refer to Note 17.

PBE IPSAS 1.137

Critical judgements in applying accounting policies

Management has exercised the following critical judgements in applying accounting policies:

- Classification of leases – refer to Note 16.
- Identifying agency relationships – refer to discussion below.

Agency relationship

The DHB has entered into a contract for services with several providers for laboratory services. Services are provided across several DHBs' districts. The Te Motu DHB makes payments to the service providers on behalf of all the DHBs receiving services and these DHBs will then reimburse the Te Motu DHB for the costs of the services provided in their districts. There is a Memorandum of Understanding that sets out the relationships and obligations between each of the DHBs. Based on the nature of the relationship between the Te Motu DHB and the other DHBs, the Te Motu DHB has assessed that it has acted as an agent for the other DHBs. Therefore, the payments and receipts in relation to the other DHBs are not recognised in the group's financial statements.

2 Revenue

PBE IPSAS 23.107(a),(b)
PBE IPSAS 9.39(a)

Accounting policy

The specific accounting policies for significant revenue items are explained below.

MoH population-based revenue

The DHB receives annual funding from the Ministry of Health (MoH), which is based on population levels within the Te Motu DHB district.

MoH population-based revenue for the financial year is recognised based on the funding entitlement for that year.

[21] If a DHB wishes to report against later forecast information from its annual plan, then that should be included in addition to the forecasts included in the statement of performance expectations. The DHB must still, however, explain the major variances between the actual results and the budget figures from the statement of performance expectations.

[22] The examples provided are not intended to be exhaustive. DHBs will need to consider their own circumstances to ensure that the disclosure of PBE IPSAS 1 paragraphs 137 and 140 are relevant and complete.

2 Revenue (continued)

MoH contract revenue

The revenue recognition approach for MoH contract revenue depends on the contract terms. Those contracts where the amount of revenue is substantively linked to the provision of quantifiable units of service are treated as exchange contracts and revenue is recognised as the DHB provides the services. For example, where funding varies based on the quantity of services delivered, such as number of screening tests or heart checks.

Other contracts are treated as non-exchange and the total funding receivable under the contract is recognised as revenue immediately, unless there are substantive conditions in the contract. If there are substantive conditions, revenue is recognised when the conditions are satisfied. A condition could include the requirement to provide services to the satisfaction of the funder to receive or retain funding. Revenue for future years is not recognised where the contract contains substantive termination provisions for failure to comply with the service requirements of the contract. Conditions and termination provisions need to be substantive, which is assessed by considering factors such as the past practice of the funder. Judgement is often required in determining the timing of revenue recognition for contracts that span a balance date and multi-year funding arrangements.

Inter-district flows

Inter-district patient inflow revenue occurs when a patient treated within the DHB's district is domiciled outside of the district. Inter-district patient inflow revenue is recognised when eligible services are provided.

ACC contract revenue

ACC contract revenue is recognised as revenue when eligible services are provided and any contract conditions have been fulfilled.

Interest revenue

Interest revenue is recognised using the effective interest method.

Rental revenue

Rental revenue under an operating lease is recognised as revenue on a straight-line basis over the lease term.

Provision of other services

Revenue derived through the provision of other services to third parties is recognised in proportion to the stage of completion at the balance date, based on the actual service provided as a percentage of the total services to be provided.

Donations and bequests

Donated and bequeathed financial assets are recognised as revenue, unless there are substantive use or return conditions. A liability is recorded if there are substantive use or return conditions and the liability released to revenue as the conditions are met. For example, as the funds are spent for the nominated purpose.

Grants revenue

Grants are recognised as revenue when they become receivable unless there is an obligation in substance to return the funds if conditions of the grant are not met. If there is such an obligation, the grants are initially recorded as grants received in advance and recognised as revenue when conditions of the grant are satisfied.

Vested or donated physical assets

For assets received for no or nominal consideration, the asset is recognised at its fair value when the group obtains control of the asset. The fair value of the asset is recognised as revenue, unless there is a use or return condition attached to the asset.

PBE IPSAS 23.107(b) The fair value of vested or donated assets is usually determined by reference to the cost of purchasing the asset if the asset is new, or reference to market information for assets of a similar type, condition, or age for used assets.

2 Revenue (continued)

Donated services

Volunteer services received are not recognised as revenue or expenses by the group.[23]

Breakdown of patient care and other revenue

PBE IPSAS 1.108

i Patient care revenue

	Actual 2018 $000	Actual 2017 $000
MoH population-based funding	412,220	393,087
MoH other contracts	30,001	20,001
Inter-district flows	41,969	35,840
ACC contract revenue	14,715	18,855
Other patient care related revenue	931	703
Total patient care revenue	**499,836**	**468,486**

PBE IPSAS 1.108

ii Other revenue

		Actual 2018 $000	Actual 2017 $000
PBE IPSAS 1.107(c)	Gain on sale of property, plant, and equipment	0	0
PBE IPSAS 23.107(d)	Donated equipment[24]	2,059	0
PBE IPSAS 23.107(d)	Cash donations and bequests received	656	930
	Rental revenue	1,380	1,400
	Other revenue	4,520	4,737
	Total other revenue	**8,615**	**7,067**

PBE IPSAS 1.127(c)

3 Personnel costs

PBE IPSAS 1.132(c)

Accounting policy

Salaries and wages

Salaries and wages are recognised as an expense as employees provide services.

Superannuation schemes

PBE IPSAS 25.55

Defined contribution schemes

Employer contributions to KiwiSaver, the Government Superannuation Fund, and the State Sector Retirement Savings Scheme[25] are accounted for as defined contribution schemes and are recognised as an expense in the surplus or deficit as incurred.

PBE IPSAS 25. 33(b)(i)

Defined benefit schemes

The group makes employer contributions to the DBP Contributors Scheme (the scheme), which is managed by the Board of Trustees of the National Provident Fund. The scheme is a multi-employer defined benefit scheme.

PBE IPSAS 25.33(b)(ii)

Insufficient information is available to use defined benefit accounting, as it is not possible to determine from the terms of the scheme the extent to which the surplus/deficit will affect future contributions by individual employers, as there is no prescribed basis for allocation. The scheme is therefore accounted for as a defined contribution scheme. Further information on this scheme is disclosed in Note 20.

[23] PBE IPSAS 23 permits but does not require donated services to be recognised in the financial statements (PBE IPSAS 23.98). Entities are also encouraged to disclose the nature and type of major classes of services in-kind received, including those not recognised (PBE IPSAS 23.108).
[24] PBE IPSAS 23 requires disclosure of the nature and type of major classes of bequests, gifts, and donations, showing separately major classes of goods-in-kind received.
[25] The schemes listed are not exhaustive. DHBs may make contributions to other defined contribution plans, including defined benefit plans that are accounted for as defined contribution plans.

3 Personnel costs (continued)

Breakdown of personnel costs and further information

		Actual 2018 $000	Actual 2017 $000
	Salaries and wages	165,545	155,663
PBE IPSAS 25.57	Defined contribution plan employer contributions	2,871	2,253
	Increase in liability for employee entitlements	1,793	2,201
	Restructuring expense for employee exit costs	1,100	0
	Total personnel costs	**171,309**	**160,117**

CEA s152(1)(c) [26]

Employee remuneration[27]

The number of employees or former employees who received remuneration and other benefits of $100,000 or more within specified $10,000 bands were as follows:

	Actual 2018	Actual 2017
Total remuneration paid or payable:		
$100,000 – 109,999	33	32
$110,000 – 119,999	22	20
$120,000 – 129,999	14	16
$130,000 – 139,999	12	12
$140,000 – 149,999	13	12
$150,000 – 159,999	12	12
$160,000 – 169,999	8	10
$170,000 – 179,999	10	7
$180,000 – 189,999	11	10
$190,000 – 199,999	13	13
$200,000 – 209,999	11	11
$210,000 – 219,999	8	6
$220,000 – 229,999	6	6
$230,000 – 239,999	8	7
$280,000 – 289,000	1	1
Total employees	**182**	**175**

CEA s152(1)(d)

During the year ended 30 June 2018, two employees received compensation and other benefits in relation to cessation totalling $225,000 (2017: three employees received total of $174,000).[28]

[26] The disclosures required by section 152 of the CEA shall be made in the annual report. We consider it good practice to include these disclosures in the financial statements section of the annual report.
[27] For the purposes of total remuneration paid or payable, the remuneration includes the following elements: salary, cash allowances, bonuses, incentive payables, and other benefits included in the employee's total remuneration package. For example, superannuation contributions, medical insurance, and motor vehicles.
[28] Where no payments have been made, we consider it good practice to state this fact. Guidance on what payments should be included in this disclosure is included in the Office of the Auditor-General's (OAG's) publication *Severance payments: A guide for the public sector*, which is available at the OAG's website www.oag.govt.nz.

3 Personnel costs (continued)

CEA s152(1)(a)

Board member remuneration

The total value of remuneration paid or payable to each Board member during the year was:

	Actual 2018 $000	Actual 2017 $000
Board member 1 (Chairperson)[29]	44	45
Board member 2 (Deputy Chairperson)	37	41
Board member 3	34	34
Board member 4	34	34
Board member 5	34	34
Board member 6	34	34
Board member 7	34	34
Board member 8	34	34
Total board member remuneration	**285**	**290**

CEA s152(1)(b) There have been no payments made to committee members appointed by the Board who are not Board members during the financial year.

CEA s152(1)(e) The DHB has provided a deed of indemnity to Board members for certain activities undertaken in the performance of the DHB's functions.

CEA s152(1)(f) The DHB has effected Directors' and Officers' Liability and Professional Indemnity insurance cover during the financial year in respect of the liability or costs of Board members and employees.

CEA s152(1)(d) No Board members received compensation or other benefits in relation to cessation (2017: $nil).

4 Capital charge

PBE IPSAS 1.132(c)

Accounting policy

The capital charge is recognised as an expense in the financial year to which the charge relates.

Further information

Good practice

The group pays a capital charge every six months to the Crown. The charge is based on the previous six month actual closing equity balance at 31 December and 30 June. The capital charge rate for the year ended 30 June 2018 was 6% (2017: 7% for six months to 31 December 2016; 6% for six months to 30 June 2017).

PBE IPSAS 1.106

5 Other expenses[30]

Accounting policy

Operating leases

PBE IPSAS 13.8 An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset.

PBE IPSAS 13.42 Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

PBE IPSAS 13 A5 Lease incentives received are recognised in the surplus or deficit as a reduction of lease expense over the lease term.

[29] The actual names of board members will need to be included in this disclosure.
[30] PBE IPSAS 1.106 requires that, when items of expense or revenue are material, their nature and amount shall be disclosed separately.

5 Other expenses (continued)

Breakdown of other expenses and further information

		Actual 2018 $000	Actual 2017 $000
	Fees to auditor		
PBE IPSAS 1.116.1(a)	- fees to Audit New Zealand for audit of financial statements	194	187
PBE IPSAS 1.116.1(b)	- fees to Audit New Zealand for other services[31]	16	0
PBE IPSAS 13.44(c)	Operating lease expense	2,021	1,895
PBE IPSAS 30.24(e)	Impairment of receivables (refer to Note 7)	270	0
	Board member fees (refer to Note 3)	285	290
PBE IPSAS 1.107(c)	Loss on disposal of property, plant, and equipment (refer to Note 12)	1,323	110
PBE IPSAS 30.24(a)(ii)	Net change in fair value of forward foreign exchange contracts (refer to Note 23A)	60	(244)
	Other expenses	3,677	3,612
	Total other expenses	**7,846**	**5,850**

PBE IPSAS 1.116.2 The fees to Audit New Zealand for other services were for an assurance review over the tendering process of a contract for constructing an extension to the hospital.

Operating leases as lessee

PBE IPSAS 13.44(a) The future aggregate minimum lease payments to be paid under non-cancellable operating leases are as follows:

		Actual 2018 $000	Actual 2017 $000
PBE IPSAS 13.44(a)(i)	Not later than one year	2,128	1,867
PBE IPSAS 13.44(a)(ii)	Later than one year and not later than five years	5,582	4,512
PBE IPSAS 13.44(a)(iii)	Later than five years	1,136	27
	Total non-cancellable operating leases	**8,846**	**6,406**

PBE IPSAS 13.44 The group leases a number of buildings, vehicles, and office equipment (mainly photocopiers) under operating leases. The details of the main property leases are as follows:

- Te Motu Health Centre is leased with an expiry date of 31 January 2030, with a right of renewal for a further two periods of six years each, and an escalation clause allowing for rent increases in line with the Consumer Price Index.
- An administration building is leased with an expiry date of 31 March 2021, with a right of renewal for a further three periods of three years each, and a review to market rent every two years.

PBE IPSAS 2.56

6 Cash and cash equivalents

PBE IPSAS 2.57

Accounting policy

Cash and cash equivalents includes cash on hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are presented within borrowings in current liabilities in the statement of financial position.

[31] Fees to each auditor or reviewer for services performed during the reporting period shall be separately disclosed from fees related to the audit or review of the financial statements, and an entity shall describe the nature of the other services provided (PBE IPSAS 1.116.1-116.2).

6 Cash and cash equivalents (continued)

Breakdown of cash and cash equivalents and further information

	Actual 2018 $000	Actual 2017 $000
Cash at bank and on hand	1,088	766
New Zealand Health Partnerships Limited	5,100	7,794
Term deposits with maturities less than 3 months	4,276	5,064
Total cash and cash equivalents	**10,464**	**13,624**

Good practice

The DHB is party to a DHB Treasury Services Agreement between NZ Health Partnerships Limited (NZHPL) and participating DHBs. This Agreement enables NZHPL to "sweep" DHB bank accounts and invest surplus funds on their behalf. The DHB Treasury Services Agreement provides for individual DHBs to have a debit balance with NZHPL, which will incur interest at the credit interest rate received by NZHPL plus an administrative margin. The maximum borrowing facility available to any DHB is the value of one month's Provider Arm funding inclusive of GST. As at 30 June 2018, this limit was $32.50 million (2017: $29.50 million).

PBE IPSAS 23.106(d)[32]

Financial assets recognised subject to restrictions

Included in cash and cash equivalents and investments (refer to Note 8) are unspent funds with restrictions that relate to the delivery of health services by the DHB. Other than for trust funds, it is not practicable for the DHB to provide further detailed information about the restrictions. Further information about trust funds is provided in Note 19.

PBE IPSAS 1.94(b)

7 Receivables

PBE IPSAS 30.25
PBE IPSAS 29.45
PBE IPSAS 29.72
PBE IPSAS 30 AG5

Accounting policy

Short-term receivables are recorded at the amount due, less any provision for uncollectability.

A receivable is considered uncollectable when there is evidence that the group will not be able to collect the amount due. The amount that is uncollectable is the difference between the amount due of the receivable and the present value of the amounts expected to be collected.

Breakdown of receivables and further information

	Actual 2018 $000	Actual 2017 $000
Receivables from MoH	6,650	7,323
Other receivables	6,324	8,054
Other accrued revenue	118	111
Less: provision for uncollectability	(270)	(240)
Total receivables	**12,822**	**15,248**

[32] PBE IPSAS 23.106(d) requires disclosure of the amounts of assets subject to restrictions and the nature of those restrictions.

7 Receivables (continued)

PBE IPSAS 30.44(a) The ageing profile of receivables at year-end is detailed below:

	2018			2017		
	Gross	Provision for uncollectability	Net	Gross	Provision for uncollectability	Net
	$000	$000	$000	$000	$000	$000
Not past due	9,164	0	9,164	10,914	0	10,914
Past due 1-30 days	1,309	0	1,309	1,525	0	1,525
Past due 31-60 days	655	0	655	762	0	762
Past due 61-90 days	524	0	524	610	0	610
Past due over 90 days	1,440	(270)	1,170	1,677	(240)	1,437
Total	**13,092**	**(270)**	**12,822**	**15,488**	**(240)**	**15,248**

All receivables greater than 30 days in age are considered to be past due.

PBE IPSAS 30.44(b) Due to the large number of other receivables, the assessment of uncollectability is generally performed on a collective basis, based on an analysis of past collection history and write-offs.

PBE IPSAS 30.20 Movements in the provision for uncollectability of receivables are as follows:

	Actual 2018 $000	Actual 2017 $000
Balance at 1 July	240	240
Additional provisions made during the year (Note 5)	270	0
Receivables written off during the year	(240)	0
Balance at 30 June	**270**	**240**

PBE IPSAS 1.93

8 Investments

PBE IPSAS 30.25 **Accounting policy**

Bank term deposits

PBE IPSAS 29.45,48(a) Bank term deposits are initially measured at the amount invested. Interest is subsequently accrued and added to the investment balance.

Breakdown of investments and further information

	Actual 2018 $000	Actual 2017 $000
Current portion		
Term deposits	11,000	8,500
Total current portion	11,000	8,500
Non-current portion		
Term deposits	2,000	1,750
Total non-current portion	2,000	1,750
Total investments	**13,000**	**10,250**

PBE IPSAS 30.29 The carrying amounts of term deposits with maturities less than 12 months approximate their fair value.

8 Investments (continued)

PBE IPSAS 30.29,31 The fair value of term deposits with a remaining duration greater than 12 months is $2.10 million (2017: $1.70 million). The fair value has been calculated based on discounted cash flows, using market quoted interest rates for term deposits with terms to maturity similar to the relevant investments.

PBE IPSAS 30.24(e) There is no impairment provision for investments.

PBE IPSAS 12.47(b)

9 Inventories

PBE IPSAS 12.47(a) **Accounting policy**

PBE IPSAS 12.15,17 Inventories held for distribution or consumption in the provision of services that are not supplied on a commercial basis are measured at cost (using the FIFO method), adjusted, when applicable, for any loss of service potential.

PBE IPSAS 12.16 Inventories acquired through non-exchange transactions are measured at fair value at the date of acquisition.

PBE IPSAS 12.44 The amount of any write-down for the loss of service potential or from cost to net realisable value is recognised in the surplus or deficit in the year of the write-down.

Breakdown of inventories and further information

	Actual 2018 $000	Actual 2017 $000
Held for distribution inventories		
Pharmaceuticals	2,342	2,319
Surgical and medical supplies	262	263
Other supplies	100	105
Total inventories	**2,704**	**2,687**

PBE IPSAS 12.47(d) The amount of inventories recognised as an expense during the year was $23.30 million (2017: $21.20 million), which is included in the clinical supplies line item of the statement of comprehensive revenue and expense.

PBE IPSAS 12.47(e),(f) The write-down of inventories held for distribution amounted to $108,000 (2017: $96,000). There have been no reversals of write-downs.[33]

PBE IPSAS 12.47(h) No inventories are pledged as security for liabilities (2017: $nil). However, some inventories are subject to retention of title clauses.

10 Non-current assets held for sale

PBE IPSAS 1.132(c) **Accounting policy**

PBE IFRS 5.6,15 A non-current asset is classified as held for sale if its carrying amount will be recovered principally through sale rather than through continuing use. Non-current assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

PBE IFRS 5.20 Any impairment losses for write-downs of non-current assets held for sale, while classified as held for sale, are recognised in the surplus or deficit.

PBE IFRS 5.21 Any increases in fair value (less costs to sell) are recognised up to the level of any impairment losses that have been previously recognised.

PBE IFRS 5.25 Non-current assets held for sale (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale.

[33] If there has been a reversal of a previous write-down, disclose the circumstances or events that led to the reversal of the write-down (PBE IPSAS 12.47(g)).

10 Non-current assets held for sale (continued)

Breakdown of non-current assets held for sale and further information

		Actual 2018 $000	Actual 2017 $000
PBE IFRS 5.38	**Non-current assets held for sale include:**		
	Land	560	0
	Buildings	240	0
	Total non-current assets held for sale	**800**	**0**

PBE IFRS 5.41 The group owns land and buildings adjacent to the hospital, which have been classified as held for sale following the Board's approval to sell the properties, as they will provide no future use to the group. The sale is expected to be completed by December 2018.

PBE IFRS 5.38 The accumulated property revaluation reserve recognised in equity for these properties is $93,000.

11 Investment in associate

Accounting policy

PBE IPSAS 7.7,17 The group's associate investment is accounted for using the equity method. An associate is an entity over which the group has significant influence and that is neither a subsidiary nor an interest in a joint venture. The investment in an associate is initially recognised at cost and the carrying amount in the financial statements is increased or decreased to recognise the group's share of the surplus or deficit of the associate after the date of acquisition. Distributions received from an associate reduce the carrying amount of the investment in the group financial statements.

PBE IPSAS 7.35,36 If the share of deficits of an associate equals or exceeds the group's interest in the associate, further deficits are not recognised. After the group's interest is reduced to zero, additional deficits are provided for, and a liability is recognised, only to the extent that the group has incurred legal or constructive obligations or made payments on behalf of the associate. If the associate subsequently reports surpluses, the group will resume recognising its share of those surpluses only after its share of the surpluses equals the share of deficits not recognised.

PBE IPSAS 7.28 Where the group transacts with an associate, surplus or deficits are eliminated to the extent of the interest in the associate.

Breakdown of investment in associate and further information

		Actual 2018 $000	Actual 2017 $000
PBE IPSAS 7.43(b)	*Summarised financial information of associate presented on a gross basis*[34]		
	Assets	5,109	5,240
	Liabilities	1,905	2,211
	Revenue	6,418	6,270
	Surplus	204	0
	Te Motu DHB's ownership interest	25%	25%
PBE IPSAS 7.46(a)	Share of associate's contingent liabilities incurred jointly with other investors	5	0
PBE IPSAS 7.46(b)	Contingent liabilities that arise because of several liability	0	0

[34] These are the gross amounts from the associate's financial statements. An alternative presentation would be to show only the group's share. PBE IPSAS 7 does not specify which method of presentation is required.

11 Investment in associate (continued)

PBE IPSAS 7.43(a) — Shared Services Limited is an unlisted company. Accordingly, there are no published price quotations for this investment.[35]

12 Property, plant, and equipment

PBE IPSAS 1.132(c) — **Accounting policy**

Property, plant, and equipment consists of the following asset classes: land, buildings, clinical equipment, fixtures and fittings, and other equipment and motor vehicles.

PBE IPSAS 17.88(a) — Land is measured at fair value, and buildings are measured at fair value less accumulated depreciation. All other asset classes are measured at cost, less accumulated depreciation and impairment losses.

Revaluations

PBE IPSAS 17.44 — Land and buildings are revalued with sufficient regularity to ensure that the carrying amount does not differ materially from fair value and at least every three years.[36]

PBE IPSAS 17.44,49 — The carrying values of land and buildings are assessed annually by independent valuers to ensure that they do not differ materially from fair value. If there is evidence supporting a material difference, then the asset class will be revalued.

PBE IPSAS 17.56 — Land and building revaluation movements are accounted for on a class-of-asset basis.

PBE IPSAS 17.54, 55 — The net revaluation results are credited or debited to other comprehensive revenue and expense and are accumulated to an asset revaluation reserve in equity for that class of asset. Where this would result in a debit balance in the asset revaluation reserve, this balance is not recognised in other comprehensive revenue and expense but is recognised in the surplus or deficit. Any subsequent increase on revaluation that reverses a previous decrease in value recognised in the surplus or deficit will be recognised first in the surplus or deficit up to the amount previously expensed, and then recognised in other comprehensive revenue and expense.

Additions

PBE IPSAS 17.14 — The cost of an item of property, plant, and equipment is recognised as an asset only when it is probable that future economic benefits or service potential associated with the item will flow to the group and the cost of the item can be measured reliably.

Work in progress is recognised at cost less impairment and is not depreciated.

PBE IPSAS 17.27 — In most instances, an item of property, plant, and equipment is initially recognised at its cost. Where an asset is acquired through a non-exchange transaction, it is recognised at its fair value as at the date of acquisition.

Subsequent costs

PBE IPSAS 17.14 — Costs incurred subsequent to initial acquisition are capitalised only when it is probable that future economic benefits or service potential associated with the item will flow to the group and the cost of the item can be measured reliably.

PBE IPSAS 17.23,24 — The costs of day-to-day servicing of property, plant, and equipment are recognised in the surplus or deficit as they are incurred.

Disposals

PBE IPSAS 17.57,83,86 — Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Net gains and losses on disposals are reported in the surplus or deficit. When revalued assets are sold, the amounts included in revaluation reserves in respect of those assets are transferred to accumulated surpluses/(deficits) in equity.

[35] PBE IPSAS 7.43(a) requires disclosure of the fair value of investments in associates where there are published price quotations.
[36] The maximum revaluation cycle allowable under the Crown accounting policies at the time of publication is five years. It might be appropriate to adopt a shorter revaluation cycle policy.

12 Property, plant, and equipment (continued)

PBE IPSAS 17.88(b),(c)	*Depreciation*[37]
	Depreciation is provided on a straight-line basis on all property, plant, and equipment, other than land, at rates that will write off the cost (or valuation) of the assets to their estimated residual values over their useful lives. The useful lives and associated depreciation rates of major classes of property, plant, and equipment have been estimated as follows:

Buildings (including components)	25 to 60 years (1.6% to 4%)
Clinical equipment	4 to 20 years (5% to 25%)
Fixtures and fittings	3 to 40 years (2.5% to 33%)
Other equipment and motor vehicles	3 to 40 years (2.5% to 33%)

PBE IPSAS 17.67	The residual value and useful life of an asset is reviewed, and adjusted if applicable, at each financial year-end.
PBE IPSAS 1.132(c)	**Impairment of property, plant, and equipment**
	The group does not hold any cash-generating assets. Assets are considered cash-generating where their primary objective is to generate a commercial return.
	Non-cash-generating assets
PBE IPSAS 21.25,2 PBE IPSAS 21.35	Property, plant, and equipment held at cost are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount might not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable service amount. The recoverable service amount is the higher of an asset's fair value less costs to sell and value in use.
PBE IPSAS 21.44-50	Value in use is determined using an approach based on either a depreciated replacement cost approach, a restoration cost approach, or a service units approach. The most appropriate approach used to measure value in use depends on the nature of the impairment and availability of information.
PBE IPSAS 21.52,54	If an asset's carrying amount exceeds its recoverable service amount, the asset is regarded as impaired and the carrying amount is written down to its recoverable amount. The total impairment loss is recognised in the surplus or deficit.
PBE IPSAS 21.69	The reversal of an impairment loss is recognised in the surplus or deficit.
PBE IPSAS 1.140	**Critical accounting estimates and assumptions**
PBE IPSAS 17.92[38]	*Estimating the fair value of land and buildings*
	The most recent valuation of land and buildings was performed by an independent registered valuer, R Holt ANZIV of O'Connell Valuers Limited. The valuation is effective as at 30 June 2017.
	Land
PBE IPSAS 17.92(c)	Land is valued at fair value using market-based evidence based on its highest and best use with reference to comparable land values. Adjustments have been made to the "unencumbered" land value for land where there is a designation against the land or the use of the land is restricted. These adjustments are intended to reflect the negative effect on the value of the land where an owner is unable to use the land more intensely. The adjustments ranged from 10% to 20%.[39]
	Restrictions on the group's ability to sell land would normally not impair the value of the land because it has operational use of the land for the foreseeable future and will receive substantially the full benefits of outright ownership.
	Buildings
PBE IPSAS 17.92(c)	Specialised hospital buildings are valued at fair value using depreciated replacement cost because no reliable market data is available for such buildings.

[37] The useful lives and depreciation rates that have been listed are only illustrative. Each entity will need to set these based on its specific circumstances.
[38] While it is not a requirement, we consider it good practice to disclose the name and qualifications of property valuers.
[39] These adjustments are only illustrative. The actual adjustments, if any, would need to be determined by the property valuer.

12 Property, plant, and equipment (continued)

Depreciated replacement cost is determined using a number of significant assumptions. Significant assumptions used in the 30 June 2017 valuation include:

- The replacement asset is based on the replacement with modern equivalent assets, with adjustments where appropriate for optimisation due to over-design or surplus capacity. There has been no optimisation adjustments for the most recent valuation.
- The replacement cost is derived from recent construction contracts of similar assets and Property Institute of New Zealand cost information. Construction costs range from $868 to $2,800 per square metre, depending on the nature of the specific asset valued.
- Independent structural engineers have estimated present-value costs of between $8 million and $10 million to strengthen DHB's earthquake-prone buildings. The mid-point of $9 million has been deducted from the depreciated replacement cost.
- The remaining useful life of assets is estimated after considering factors such as the condition of the asset, DHB's future maintenance and replacement plans, and experience with similar buildings.
- Straight-line depreciation has been applied in determining the depreciated replacement cost value of the asset.

Non-specialised buildings (for example, residential buildings) are valued at fair value using market-based evidence. The following market rents and capitalisation rates were used in the 30 June 2017 valuation:

- Market rents range from $415 to $532 per spare metre.
- Capitalisation rates are market-based rates of return and range from 7.25% to 8%.

PBE IPSAS 17.92(d)

A comparison of the carrying value of buildings valued using depreciated replacement cost and buildings valued using market-based evidence is as follows:

	Actual 2018 $000	Actual 2017 $000
Depreciated replacement cost	99,995	105,379
Market-based evidence	11,111	11,709
Total carrying value of buildings	**111,106**	**117,088**

Breakdown of property, plant and equipment and further information

PBE IPSAS 17.88(d),(e)[40]

Movements for each class of property, plant, and equipment are as follows:

	Land $000	Buildings $000	Clinical equipment $000	Other equipment and motor vehicles $000	Fixtures and fittings $000	Total $000
Cost or valuation						
Balance at 1 July 2016	9,825	120,999	36,575	19,694	4,835	191,928
Additions	0	1,538	5,131	2,763	117	9,549
Revaluation increase/ (decrease)	7,000	(5,343)	0	0	0	1,657
Disposals/transfers	(280)	(106)	(1,444)	(778)	(153)	(2,761)
Balance at 30 June 2017/1 July 2017	16,545	117,088	40,262	21,679	4,799	200,373

[40] This is just one way of presenting the reconciliation required by PBE IPSAS 17 *Property, Plant and Equipment*.

12 Property, plant, and equipment (continued)

	Land $000	Buildings $000	Clinical equipment $000	Other equipment and motor vehicles $000	Fixtures and fittings $000	Total $000
Balance at 30 June 2017/1 July 2017	16,545	117,088	40,262	21,679	4,799	200,373
Additions	0	1,024	5,133	2,764	45	8,966
Revaluation increase/ (decrease)	0	0	0	0	0	0
Disposals/transfers	(560)	(263)	(3,537)	(1,905)	(36)	(6,301)
Balance at 30 June 2018	15,985	117,849	41,858	22,538	4,808	203,038
Accumulated depreciation and impairment losses						
Balance at 1 July 2016	0	11,613	24,548	13,218	3,713	53,092
Depreciation	0	5,721	2,735	1,472	300	10,228
Elimination on disposal/transfer	0	(18)	(1,364)	(735)	(129)	(2,246)
Elimination on revaluation	0	(17,316)	0	0	0	(17,316)
Balance at 30 June 2017/1 July 2017	0	0	25,919	13,955	3,884	43,758
Depreciation	0	6,743	3,283	1,768	270	12,064
Elimination on disposal/transfer	0	0	(2,933)	(1,579)	(36)	(4,548)
Elimination on revaluation	0	0	0	0	0	0
Balance at 30 June 2018	0	6,743	26,269	14,144	4,118	51,274
Carrying amounts						
At 1 July 2016	9,825	109,386	12,027	6,476	1,112	138,836
At 30 June and 1 July 2017	16,545	117,088	14,343	7,724	915	156,615
At 30 June 2018	15,985	111,106	15,589	8,394	690	151,764

PBE IPSAS 17.89(a) *Restrictions on title*

PBE IPSAS 23.106(d) The group does not have full legal title to the Crown land it occupies, but transfer is arranged if and when land is sold. Some of the group's land is subject to Waitangi Tribunal claims. The disposal of certain properties might be subject to the provisions of section 40 of the Public Works Act 1981.

Titles to land transferred from the Crown to the DHB are subject to a memorial in terms of the Treaty of Waitangi Act 1975. The effect on the value of assets resulting from potential Waitangi Tribunal claims cannot be quantified and is therefore not reflected in the value of the land.

Work in progress

PBE IPSAS 17.89(b) Buildings in the course of construction total $0.82 million (2017: $1.21 million).[41]

[41] The amount of expenditure recognised in the carrying amount of property, plant, and equipment in the course of construction is required to be disclosed by class of asset (PBE IPSAS 17.89).

12 Property, plant, and equipment (continued)

Finance leases

PBE IPSAS 13.40(a) The net carrying amount of assets held under finance leases is $1.00 million (2017: $nil) for buildings and $305,000 (2017: $515,000) for other equipment and motor vehicles.

Capital commitments

		Actual 2018 $000	Actual 2017 $000
PBE IPSAS 17.89(c)	Buildings[42]	1,503	9,444
	Total capital commitments	**1,503**	**9,444**

Capital commitments represent capital expenditure contracted for at balance date but not yet incurred.

PBE IPSAS 31.117(c),(e)

13 Intangible assets

PBE IPSAS 1.132(c) **Accounting policy**

Software acquisition and development

PBE IPSAS 31.34,35 Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

PBE IPSAS 31.64,65 Costs that are directly associated with the development of software for internal use are recognised as an intangible asset. Direct costs include the costs of materials and services, employee costs, and any directly attributable overheads.

PBE IPSAS 31.36,65,67 Staff training costs are recognised as an expense when incurred.

Costs associated with maintaining computer software are recognised as an expense when incurred.

Costs of software updates or upgrades are capitalised only when they increase the usefulness or value of the asset.

PBE IPSAS 31 AG8 Costs associated with developing and maintaining the DHB's website are recognised as an expense when incurred.

Information technology shared services rights

PBE IPSAS 21.26A The DHB has provided funding for the development of information technology (IT) shared services across the DHB sector and the rights to the shared services is recognised as an intangible asset at the cost of the group's capital investment.

Amortisation

PBE IPSAS 31.96,117(b) The carrying value of an intangible asset with a finite life is amortised on a straight-line basis over its useful life. Amortisation begins when the asset is available for use and ceases at the date that the asset is derecognised. The amortisation charge for each financial year is recognised in the surplus or deficit.

PBE IAS 38.117(a) The useful lives and associated amortisation rates of major classes of intangible assets have been estimated as follows:

Acquired computer software	3 years (33%)
Internally developed software	5 years (20%)

[42] The amount of contractual commitments for the acquisition of property, plant, and equipment is required to be disclosed for each class of asset (PBE IPSAS 17.89(c)).

13 Intangible assets (continued)

Impairment of intangible assets

PBE IPSAS 31.117(c),(e) Refer to the policy for impairment of property, plant, and equipment in Note 12. The same approach applies to the impairment of intangible assets, except for intangible assets that are still under development.

PBE IPSAS 21.26A Intangible assets that are under development and not yet ready for use are tested for impairment annually, irrespective of whether there is any indication of impairment.

Breakdown of intangible assets and further information

Movements for each class of intangible assets are as follows:[43]

	IT shared rights $000	Acquired software $000	Internally developed software $000	Total $000
Cost				
Balance at 1 July 2016	2,000	4,217	3,450	9,667
Additions	2,000	1,874	1,534	5,408
Disposals	0	(30)	(25)	(55)
Balance at 30 June 2017/1 July 2017	4,000	6,061	4,959	15,020
Additions	0	461	378	839
Disposals	0	(352)	(288)	(640)
Balance at 30 June 2018	4,000	6,170	5,049	15,219
Accumulated depreciation and impairment losses				
Balance at 30 June 2016	0	2,350	1,923	4,273
Amortisation	0	643	526	1,169
Impairment losses	0	0	0	0
Disposals	0	(30)	(25)	(55)
Balance at 30 June 2017/1 July 2017	0	2,963	2,424	5,387
Amortisation	0	771	630	1,401
Impairment losses	0	0	0	0
Disposals	0	(118)	(96)	(214)
Balance at 30 June 2018	0	3,616	2,958	6,574
Carrying amounts				
At 1 July 2017	2,000	1,867	1,527	5,394
At 30 June and 1 July 2017	4,000	3,098	2,535	9,633
At 30 June 2018	4,000	2,554	2,091	8,645

[43] PBE IPSAS 31.117 requires entities to distinguish between internally generated intangible assets and other intangible assets. For example, internally developed software shall be distinguished from acquired software.

13 Intangible assets (continued)

PBE IPSAS 31.121(d) There are no restrictions over the title of the group's intangible assets. No intangible assets are pledged as security for liabilities.

PBE IPSAS 31.121(e) The DHB has contractual capital commitments of $256,000 (2017:$nil) in relation to intangible assets under development.

Good practice *IT shared services rights*[44]

The IT shared services project was undertaken for the purpose of reducing costs for the public health sector. The project is funded by the DHBs across the country. As at 30 June 2018, the group has paid $4 million as its share of the project funding, which represents its rights to use the systems when developed.

These rights have been tested for impairment by comparing the carrying amount of the intangible asset to its depreciated replacement cost (DRC), which is considered to equate to the group's share of the DRC of the underlying IT assets. There was no impairment.

PBE IPSAS 1.93

14 Payables and deferred revenue

PBE IPSAS 30.25 **Accounting policy**

PBE IPSAS 29.45 Short-term payables are recorded at the amount payable.

Breakdown of payables and deferred revenue

		Actual 2018 $000	Actual 2017 $000
	Payables and deferred revenue under exchange transactions		
	Creditors	14,678	14,437
	Accrued expenses	7,886	6,754
	Other	2,010	1,980
PBE IPSAS 1.88(k)	Total payables and deferred revenue under exchange transactions	24,574	23,171
	Payables and deferred revenue under non-exchange transactions		
	Taxes payable (e.g. GST and rates)	2,805	2,434
	Capital charge payable	672	1,534
PBE IPSAS 23.106(c)	Trusts and bequests with substantive conditions (deferred revenue)	307	311
	Other	2,201	2,912
PBE IPSAS 1.88(j)	Total payables and deferred revenue under non-exchange transactions	5,985	7,191
	Total payables and deferred revenue	**30,359**	**30,362**

15 Derivative financial instruments

PBE IPSAS 30.25 **Accounting policy**

Derivative financial instruments are used to manage exposure to foreign exchange risk arising from the group's operational activities. The group does not hold or issue derivative financial instruments for trading purposes. The group has not adopted hedge accounting.

PBE IPSAS 29.45,48,49
PBE IPSAS 29.64(a) Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value at each balance date with the resulting gain or loss recognised in the surplus or deficit.

PBE IPSAS 1.76,80 Forward foreign exchange derivatives are classified as current if the contract is due for settlement within 12 months of balance date. Otherwise, the fair value of foreign exchange derivatives is classified as non-current.

[44] The status of actual DHB sector wide IT projects has not been considered in preparing these model financial statements. DHBs will need to carefully consider impairment on such projects based on the actual information available on the project.

15 Derivative financial instruments (continued)

Further information

PBE IPSAS 30.29 The notional principal amounts of outstanding forward foreign exchange contracts in NZ dollars were $7.71 million (2017: $13.32 million). The foreign currency principal amounts were US$nil (2017: US$10 million) and AUS$6 million (2017: AUS$nil).

PBE IPSAS 30.31,33 The fair values of forward foreign exchange contracts have been determined using a discounted cash flows valuation technique based on quoted market prices. The inputs into the valuation model are from independently sourced market parameters such as currency rates. Most market parameters are implied from forward foreign exchange contract prices.

PBE IPSAS 1.93

16 Borrowings

PBE IPSAS 30.25 **Accounting policy**

Overdraft facility

Amounts drawn under the NZHPL banking facility are recorded at the amount payable plus accrued interest.

PBE IPSAS 1.132(c) *Finance leases*

PBE IPSAS 13.8 A finance lease is a lease that transfers to the lessee substantially all the risks and rewards incidental to ownership of an asset, whether or not title is eventually transferred.

PBE IPSAS 13.28 At the commencement of the lease term, finance leases are recognised as assets and liabilities in the statement of financial position at the lower of the fair value of the leased item or the present value of the minimum lease payments.

PBE IPSAS 13.34 The finance charge is charged to the surplus or deficit over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability.

PBE IPSAS 13.36 The amount recognised as an asset is depreciated over its useful life. If there is no certainty as to whether the group will obtain ownership at the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life.

Critical judgements in applying accounting policies

Leases classification

Determining whether a lease agreement is a finance lease or an operating lease requires judgement as to whether the agreement transfers substantially all the risks and rewards of ownership to the group.

Judgement is required on various aspects that include, but are not limited to, the fair value of the leased asset, the economic life of the leased asset, whether or not to include renewal options in the lease term, and determining an appropriate discount rate to calculate the present value of the minimum lease payments. Classification as a finance lease means the asset is recognised in the statement of financial position as property, plant, and equipment, whereas for an operating lease no such asset is recognised.

Management has exercised its judgement on the appropriate classification of leases, and has determined that a number of lease arrangements are finance leases.

Breakdown of borrowings and further information

		Actual 2018 $000	Actual 2017 $000
PBE IPSAS 1.80	**Current portion**		
	Finance leases	362	503
	Total current portion	362	503
PBE IPSAS 1.80	**Non-current portion**		
	Finance leases	1,335	102
	Total non-current portion	1,335	102
	Total borrowings	**1,697**	**605**

16 Borrowings (continued)

The DHB has a maximum borrowing limit of $32.50 million (2017: $29.50 million) with NZHPL as at 30 June 2018. Refer to Note 6 for further information.

PBE IPSAS 30.38

Conversion of Crown loans to equity

In September 2016, the Cabinet agreed that the DHB sector should no longer access Crown debt and for existing DHB Crown debt to be converted to Crown equity. On 15 February 2017, the DHB Crown loans of $54.87 million were converted into Crown equity. From that day onward, all Crown capital contributions to DHBs would be made via Crown equity injections. The termination of the Crown loan agreement and conversion of Crown loans to equity was completed by a non-cash transaction, other than for interest due at the conversion date.

PBE IPSAS 30.29,31

Fair value

The fair value of finance leases is $1.63 million (2017: $602,000). Fair value has been determined using contractual cash flows discounted using a rate based on market borrowing rates at balance date ranging from 5.6% to 6.3% (2017: 6.4% to 7.3%).

Analysis of finance leases

		Actual 2018 $000	Actual 2017 $000
PBE IPSAS 13.40(c)	**Minimum lease payments payable:**		
	No later than one year	404	525
	Later than one year and not later than five years	1,493	107
	Later than five years	0	0
PBE IPSAS 13.40(b)	*Total minimum lease payments*	1,897	632
PBE IPSAS 13.40(b)	Future finance charges	(200)	(27)
PBE IPSAS 13.40(b)	*Present value of minimum lease payments*	1,697	605
PBE IPSAS 13.40(c)	**Present value of minimum lease payments payable:**		
	No later than one year	362	503
	Later than one year and not later than five years	1,335	102
	Later than five years	0	0
	Total present value of minimum lease payments	1,697	605

Description of finance leasing arrangements

PBE IPSAS 13.40(a) The group has entered into finance leases for a building and telecommunications equipment. The net carrying amount of the leased items within each class of property, plant, and equipment is shown in Note 12.

PBE IPSAS 13.40(f)(ii) The building lease is for an initial period of twenty years ending 25 March 2028, with rights of renewal for a further three periods of five years each, and a rental payment escalation clause in line with the Consumer Price Index. No contingent rents are payable.

PBE IPSAS 13.40(f)(iii) There are no restrictions placed on the group by any of the finance leasing arrangements.

PBE IPSAS 17.89(a) Finance lease liabilities are effectively secured, as the rights to the leased asset revert to the lessor in the event of default in payment.

PBE IPSAS 1.93

17 Employee entitlements

PBE IPSAS 1.132(c)

Accounting policy

Short-term employee entitlements

PBE IPSAS 25.13

Employee entitlements that are due to be settled within 12 months after the end of the year in which the employee renders the related service are measured based on accrued entitlements at current rates of pay.

These include salaries and wages accrued up to balance date, annual leave earned but not yet taken at balance date, continuing medical education leave, and sick leave.

PBE IPSAS 25.20

A liability and an expense are recognised for bonuses where there is a contractual obligation or where there is a past practice that has created a constructive obligation and a reliable estimate of the obligation can be made.

Long-term employee entitlements

PBE IPSAS 25.147 152

Employee entitlements that are due to be settled beyond 12 months after the end of the year in which the employee renders the related service, such as sabbatical leave, long service leave, and retirement gratuities, have been calculated on an actuarial basis. The calculations are based on:

- likely future entitlements accruing to staff, based on years of service, years to entitlement, the likelihood that staff will reach the point of entitlement, and contractual entitlement information; and
- the present value of the estimated future cash flows.

Good practice

Presentation of employee entitlements

PBE IPSAS 1.80

Sick leave, continuing medical education leave, annual leave, long service leave that is available for use, and sabbatical leave that is available for use are classified as a current liability. Long service leave sabbatical leave, and retirement gratuities expected to be settled within 12 months of balance date are also classified as a current liability. All other employee entitlements are classified as a non-current liability.

PBE IPSAS 1.140,144

Critical accounting estimates and assumptions

Sabbatical leave, long service leave, and retirement gratuities

The present value of sabbatical leave, long service leave, and retirement gratuities obligations depend on a number of factors that are determined on an actuarial basis. Two key assumptions used in calculating these liabilities are the discount rate and the salary inflation factor. Any changes in these assumptions will affect the carrying amount of the liability.

Expected future payments are discounted using discount rates derived from the yield curve of New Zealand government bonds. The discount rates used have maturities that match, as closely as possible, the estimated future cash outflows. The salary inflation factor has been determined after considering historical salary inflation patterns and after obtaining advice from an independent actuary. A weighted average discount rate of 3.8% (2017: 4.4%) and an inflation factor of 2.5% (2017: 2.5%) were used. The discount rates used are those advised by the Treasury. The salary inflation factor is the group's best estimate forecast of salary increments.

If the discount rate were to differ by 1% from that used, with all other factors held constant, the carrying amount of the sabbatical, long service leave, and retirement gratuities obligations would be an estimated $1.40 million higher/lower.

If the salary inflation factor were to differ by 1% from that used, with all other factors held constant, the carrying amount of the sabbatical, long service leave, and retirement gratuities obligations would be an estimated $1.10 million higher/lower.

Continuing medical education leave

The continuing medical education leave liability assumes that the utilisation of the annual entitlement, which can be accumulated up to 3 years, will on average be 85% (2017: 83%) of the full entitlement. This utilisation assumption is based on recent experience.

17 Employee entitlements (continued)

Breakdown of employee entitlements

		Actual 2018 $000	Actual 2017 $000
PBE IPSAS 1.80	**Current portion**		
	Accrued salaries and wages	3,009	5,927
	Annual leave	15,855	13,933
	Sick leave	410	436
	Sabbatical leave	254	222
	Continuing medical education leave and expenses	502	488
	Long service leave	610	791
	Retirement gratuities	639	792
	Total current portion	21,279	22,589
PBE IPSAS 1.80	**Non-current portion**		
	Sabbatical leave	302	296
	Long service leave	488	476
	Retirement gratuities	491	474
	Total non-current portion	1,281	1,246
	Total employee entitlements	**22,560**	**23,835**

PBE IPSAS 1.93

18 Provisions

PBE IPSAS 1.132(c)

Accounting policy

PBE IPSAS 19.22

A provision is recognised for future expenditure of uncertain amount or timing when:

- there is a present obligation (either legal or constructive) as a result of a past event;
- it is probable that an outflow of future economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

PBE IPSAS 19.53,56,70

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as an interest expense and is included in “finance costs”.

PBE IPSAS 19.82,83

Restructuring

A provision for restructuring is recognised when an approved detailed formal plan for the restructuring has either been announced publicly to those affected, or has already started being implemented.

PBE IPSAS 19.76,79

Onerous contracts

A provision for onerous contracts is recognised when the expected benefits or service potential to be derived from a contract are lower than the unavoidable cost of meeting the obligations under the contract.

The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

PBE IFRS 4.37(a)

ACC Accredited Employers Programme

The group belongs to the ACC Accredited Employers Programme (the “Full Self Cover Plan”) whereby the group accepts the management and financial responsibility for employee work-related illnesses and accidents.

18 Provisions (continued)

Under the programme, the group is liable for all claims costs for a period of two years after the end of the cover period in which the injury occurred. At the end of the two-year period, the group pays a premium to ACC for the value of residual claims, and from that point the liability for ongoing claims passes to ACC.

The liability for the ACC Accredited Employers Programme is measured using actuarial techniques at the present value of expected future payments to be made in respect of the employee injuries and claims up to balance date. Consideration is given to anticipated future wage and salary levels, and experience of employee claims and injuries. Expected future payments are discounted using market yields at balance date on government bonds with terms to maturity that match, as closely to possible, the estimated future cash outflows.

Breakdown of provisions and further information

		Actual 2018 $000	Actual 2017 $000
PBE IPSAS 1.80	**Current portion**		
	Restructuring	900	0
	Onerous contracts	201	0
	ACC Accredited Employers Programme	378	236
	Total current portion	1,479	236
PBE IPSAS 1.80	**Non-current portion**		
	Restructuring	0	0
	ACC Accredited Employers Programme	90	126
	Total non-current portion	90	126
	Total provisions	**1,569**	**362**

Movements for each class of provision are as follows:[45]

		Restructuring $000	Onerous contacts $000	ACC Accredited Employers Programme $000	Total $000
Good practice	Balance at 1 July 2016	0	0	400	400
Good practice	Additional provisions made	0	0	235	235
Good practice	Amounts used	0	0	(273)	(273)
Good practice	Unused amounts reversed	0	0	0	0
Good practice	Discount unwind	0	0	0	0
PBE IPSAS 19.97(a)	**Balance at 30 June 2017**	**0**	**0**	**362**	**362**
PBE IPSAS 19.97(b)	Additional provisions made	900	301	405	1,606
PBE IPSAS 19.97(c)	Amounts used	0	(100)	(298)	(398)
PBE IPSAS 19.97(d)	Unused amounts reversed	0	0	0	0
PBE IPSAS 19.97(e)	Discount unwind	0	0	0	0
	Balance at 30 June 2018	**900**	**201**	**469**	**1,569**

[45] The disclosure of comparative figures for provisions is not required by PBE IPSAS 19.97. We consider it good practice for Tier 1 entities to disclose the comparative figures for provisions.

18 Provisions (continued)

Restructuring provision

PBE IPSAS 19.98 The Board approved a detailed and formal restructuring plan, which was announced in May 2018, following a series of reviews of the DHB's management and administration functions. The restructuring for corporate support functions, including Finance and Human Resources, is expected to be completed in late 2018. The provision represents the obligation to pay employee exit costs.

ACC Accredited Employers Programme[46]

PBE IFRS 4 D17.7.1(a) Exposures arising from the programme are managed by promoting a safe and healthy working environment by:

- implementing and monitoring health and safety policies;
- induction training on health and safety;
- actively managing workplace injuries to ensure that employees return to work as soon as practical;
- recording and monitoring workplace injuries and near misses to identify risk areas and implementing mitigating actions; and
- identifying workplace hazards and implementation of appropriate safety procedures.

PBE IFRS 4 D17.7.1(c) The group has chosen a stop loss limit of 250% of the industry premium. The stop loss limit means that the group will carry the total cost of claims up to only $625,000 for each year of cover, which runs from 1 April to 31 March. If the claims for a year exceed the stop loss limit, the group will continue to meet the costs of claims and will be reimbursed by ACC for the costs that exceed the stop loss limit.

PBE IFRS 4 D17.7.1(b)(ii) The DHB is not exposed to any significant concentrations of insurance risk, as work-related injuries are generally the result of an isolated event involving an individual employee.

PBE IFRS 4 D17.8A An independent actuarial valuer, DW Smith BSc FIAA, has calculated the DHB's liability, and the valuation is effective as at 30 June 2018. The valuer has attested that he is satisfied as to the nature, sufficiency, and accuracy of the data used to determine the outstanding claims liability. There are no qualifications contained in the valuer's report.

PBE IFRS 4.17.8B(b),(c) Average inflation has been assumed as 2.5% for the years' ending 30 June 2019 and 30 June 2020. A discount rate of 3.8 % has been used for the year ending 30 June 2019 and 3.9% for the year ending 30 June 2020.

PBE IFRS 4 D17.6.1(d) Any changes in liability valuation assumptions will not have a material effect on the financial statements.

PBE IPSAS 19.98 **Onerous contracts**

The group has a non-cancellable lease for office space that is no longer used by the DHB due to restructuring. The lease does not expire until 30 June 2019. The building has been sublet for the remaining portion of the lease. However, a change in the market conditions has resulted in the rental expense being greater than the rental revenue received from subleasing. A provision has been recognised for the obligation of the future discounted rental payments net of estimated rental revenue.

19 Equity

PBE IPSAS 1.132(c) **Accounting policy**

Equity is measured as the difference between total assets and total liabilities. Equity is disaggregated and classified into the following components.

- Crown equity;
- accumulated surpluses/(deficits);
- property revaluation reserves; and
- trust funds.

PBE IPSAS 1.95(c) *Property revaluation reserves*

These reserves relate to the revaluation of property, plant, and equipment to fair value.

[46] Where the ACC Accredited Employers Programme liability is material to a DHB, the disclosure requirements of PBE IFRS 4 *Insurance Contracts* will need to be considered.

19 Equity (continued)

PBE IPSAS 1.95(c)

Trust funds

PBE IPSAS 23.106(d)[47]

This reserve records the unspent amount of restricted donations and bequests provided to the group. The restrictions generally specify how the donations and bequests are required to be spent in providing specified deliverables of the bequest.

The receipt of, and investment revenue earned on, trust funds is recognised as revenue and then transferred to the trust funds' reserve from accumulated surpluses/(deficits). Application of trust funds on the specified purpose is recognised as an expense, with an equivalent amount transferred to accumulated surpluses/(deficits) from the trust funds' reserve.

Breakdown of equity and further information

Reference		Actual 2018 $000	Actual 2017 $000
PBE IPSAS 1.119(c)	**Crown equity**		
	Balance at 1 July	118,561	63,818
	Capital contributions from the Crown		
	- Conversion of Crown loan to equity	0	54,867
	- Other contributions	1,365	508
	Return of capital to the Crown	(633)	(632)
	Balance at 30 June	119,293	118,561
PBE IPSAS 1.119(c)	**Accumulated surpluses/(deficits)**		
	Balance at 1 July	(21,882)	(12,055)
	Surplus/(deficit) for the year	(9,394)	(9,949)
PBE IPSAS 17.57	Revaluation reserves transfer on disposal	0	270
	Transfer from/(to) trust funds	(212)	(148)
	Balance at 30 June	(31,488)	(21,882)
PBE IPSAS 1.119(c)	**Property revaluation reserves**		
	Balance at 1 July	54,645	35,941
	Revaluations	0	18,974
	Transfer to accumulated surpluses/(deficits) on disposal	0	(270)
	Balance at 30 June	54,645	54,645
Good practice	Property revaluation reserves consist of:		
	Land	46,784	46,784
	Buildings	7,861	7,861
	Total revaluation reserves	54,645	54,645
PBE IPSAS 1.119(c)	**Trust funds**		
	Balance at 1 July	2,064	1,916
	Transfer from/(to) accumulated surpluses/(deficits)	212	148
	Balance at 30 June	2,276	2,064
	Total equity	**144,726**	**153,388**

[47] PBE IPSAS 106(d) requires disclosure of the amounts of assets subject to restrictions and the nature of those restrictions.

19 Equity (continued)

PBE IPSAS 1.148A

Capital management

The group's capital is its equity, which consists of Crown equity, accumulated surpluses/(deficits), property revaluation reserves, and trust funds. Equity is represented by net assets.

The group is subject to the financial management and accountability provisions of the Crown Entities Act 2004, which impose restrictions in relation to borrowings, acquisition of securities, issuing guarantees and indemnities, and the use of derivatives.

The group manages its equity as a by-product of prudently managing revenues, expenses, assets, liabilities, investments, and general financial dealings to ensure that it effectively achieves its objectives and purposes while remaining a going concern.

20 Contingencies

Contingent liabilities

Lawsuits against the group

PBE IPSAS 19.100

The group has been notified of three legal claims against it but, based on external legal advice received, it assesses that it is not likely to be found liable under these claims. Two claims are patient-related and one claim is employee-related. The group is vigorously contesting the claims and there is uncertainty as to what any legal outcome may be. The group believes that any court award will be met by its insurers.

Superannuation schemes

PBE IPSAS 25.33(c)[48]

The group is a participating employer in the DBP Contributors Scheme (the scheme), which is a multi-employer defined benefit scheme. If the other participating employers ceased to participate in the scheme, the group could be responsible for any deficit of the scheme. Similarly, if a number of employers ceased to participate in the scheme, the group could be responsible for an increased share of any deficit.

As at 31 March 2018[49], the scheme had a past service surplus of $16.20 million (exclusive of Employer Superannuation Contribution Tax) (2017: $11.71 million). This surplus was calculated using a discount rate equal to the expected return on net assets, but otherwise the assumptions and methodology were consistent with the requirements of PBE IPSAS 25.

The actuary of the Scheme has recommended that the employer contributions be suspended with effect from 1 April 2017. Employer contributions were stopped from 1 April 2017.

Contingent assets

PBE IPSAS 19.105

The group has no contingent assets (2017: $nil).[50]

21 Related party transactions

PBE IPSAS 20.25

The DHB is controlled by the Crown.

Good practice

Related party disclosures have not been made for transactions with related parties, including associates, that are:

- within a normal supplier or client/recipient relationship; and
- on terms and conditions no more or less favourable than those that it is reasonable to expect that the group would have adopted in dealing with the party at arm's length in the same circumstances.

Further, transactions with other government agencies (for example, government departments and Crown entities) are not disclosed as related party transactions when they are consistent with the normal operating arrangements between government agencies.

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[48] PBE IPSAS 25.44(c) requires that, where there is a surplus or deficit in a scheme that might affect the amount of future contributions, an entity must disclose any available information about the surplus or deficit, the basis used to determine the surplus or deficit, and the implication, is any, for the entity.

[49] The actual information as at 31 March 2018 should be disclosed, if available from the website of the National Provident Fund (NPF). The quantitative information in this disclosure is based on the actual 31 March 2017 information provided by the NPF.

[50] Where no contingent assets exist, we consider it good practice to state that fact.

21 Related party transactions (continued)

PBE IPSAS 20.27,30,32

Related party transactions required to be disclosed

The group purchased internal audit services totalling $96,564 (2017: $nil) from Accountants Limited, an accounting firm of which [*Board member 1*] is a Partner. The services were procured without going through a tender process and the contracted hourly rates of the internal audit staff are at a significant discount compared to other recent internal audit service contracts the group has entered into. There is an amount of $12,183 outstanding at 30 June 2018 (2017: $ nil).

PBE IPSAS 20.34(a)

Key management personnel compensation[51,52]

	Actual 2018	Actual 2017
Board Members		
Remuneration	$285,234	$290,329
Full time equivalent members	2.25	2.25
Leadership Team		
Remuneration	$1,998,432	$1,982,552
Full-time equivalent members	7.5	7.5
Total key management personnel remuneration	**$2,283,666**	**$2,272,881**
Total full-time equivalent personnel	**9.75**	**9.75**

Good practice

The full-time equivalent for Board members has been determined based on the frequency and length of Board meetings and the estimated time for Board members to prepare for meetings.

An analysis of Board member remuneration is provided in Note 3

22 Events after the balance date

PBE IPSAS 14.28,30

There were no significant events after the balance date.

23 Financial instruments

PBE IPSAS 30.11

23A Financial instrument categories

The carrying amounts of financial assets and liabilities in each of the financial instrument categories are as follows:

		Actual 2018 $000	Actual 2017 $000
	Fair value through surplus or deficit – Held for trading[53]		
PBE IPSAS 30.11(e)(ii)	Forward foreign exchange contracts in a liability position	1,040	980

[51] PBE IPSAS 20.4 defines key management personnel as all directors or members of the governing body of the entity, and other persons having the authority and responsibility for planning, directing, and controlling the activities of the reporting entity. Where they meet this requirement, key management personnel include: i) where there is a member of the governing body of a whole-of-government entity who has the authority and responsibility for planning, directing, and controlling the activities of the reporting entity, that member; ii) key advisors of that member; and iii) the senior management group of the reporting entity. For a DHB, we would expect the compensation of the Board, Chief Executive, and members of the senior management team, or equivalent body, to be included in the key management personnel disclosures. There might also be other individuals who meet the key management personnel definition of PBE IPSAS 20. DHBs will need to consider their specific facts and circumstances in determining the individuals that shall be included in the key management personnel compensation disclosures.

[52] Entities are required to disclose the aggregate remuneration of key management personnel and the number of individuals, determined on a full-time equivalent basis, receiving remuneration within this category, showing separately major classes of key management personnel and including a description of each class (PBE IPSAS 20.34(a)).

[53] A separate total must also be presented for financial assets and financial liabilities that have been designated at initial recognition at fair value through surplus or deficit.

23A Financial instrument categories (continued)

	Loans and receivables		
	Cash and cash equivalents	10,464	13,624
	Receivables	12,822	15,248
	Investments	13,000	10,250
PBE IPSAS 30.11(c)	*Total loans and receivables*	36,286	39,122
	Financial liabilities measured at amortised cost		
PBE IPSAS 30.11(f)	Payables (excluding deferred revenue and taxes)[54]	27,122	28,412

PBE IPSAS 30.33(a)

23B Fair value hierarchy

The only financial instruments the group measures at fair value in the statement of financial position are forward foreign exchange contracts. The fair value of forward foreign exchange contracts, as represented by their carrying amount in the statement of financial position, is determined using a valuation technique that uses observable market inputs (level 2).

23C Financial instrument risks

PBE IPSAS 30.38

The group's activities expose it to a variety of financial instrument risks, including market risk, credit risk, and liquidity risk. The group has a series of policies to manage the risks associated with financial instruments and seeks to minimise exposure from financial instruments. These policies do not allow any transactions that are speculative in nature to be entered into.

PBE IPSAS 30.40

Market risk

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices. The group has no financial instruments that give rise to price risk.

Fair value interest rate risk

Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market interest rates. The group's exposure to fair value interest rate risk arises from bank deposits that are at fixed rates of interest. The exposure to fair value interest rate risk is not actively managed by the group, as investments are generally held to maturity.

Cash flow interest rate risk

Cash flow interest rate risk is the risk that the cash flows from a financial instrument will fluctuate because of changes in market interest rates. The group's exposure to cash flow interest rate risk is limited to on-call deposits. This exposure is not considered significant and is not actively managed.

Sensitivity analysis

As at 30 June 2018, if floating interest rates had been 100 basis points higher/lower, with all other variables held constant, the deficit for the year would have been $88,000 lower/higher (2017: $93,500).

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates.

The group purchases clinical equipment from overseas, which requires it to enter into transactions denominated in foreign currencies. As a result of these activities, exposure to currency risk arises.

The group's policy is to manage foreign currency risks arising from contractual commitments and liabilities by entering into forward foreign exchange contracts for purchases over NZ$100,000 to manage the foreign currency risk exposure.

[54] Deferred revenue items (such as income in advance) and taxes are not included in the financial instrument notes because they are not a financial instrument as defined in PBE IPSAS 28.

23C Financial instrument risks (continued)

PBE IPSAS 30.47

Sensitivity analysis[55]

As at 30 June 2018, if the New Zealand dollar had weakened/strengthened by 5% against the AUS and US dollars with all other variables held constant, the surplus for the year would have been:

- $140,000 (2017: $200,000) lower if the NZ dollar had weakened; or
- $150,000 (2017: $220,500) higher if the NZ dollar had strengthened.

This movement is attributable to the expected change in the fair value of forward foreign exchange contracts held at balance date.

The group has no outstanding foreign-denominated payables at balance date (2017: $nil).

Credit risk

Credit risk is the risk that a third party will default on its obligation to the group, causing it to incur a loss.

Due to the timing of the DHB's cash inflows and outflows, surplus cash is invested with registered banks or NZHPL.

PBE IPSAS 30.43(a)

In the normal course of business, exposure to credit risk arises from cash and term deposits with banks and NZHPL, receivables, and forward foreign exchange contracts in an asset position. For each of these, the maximum credit risk exposure is best represented by the carrying amount in the statement of financial position.

PBE IPSAS 30.43(c)

The amount of credit exposure to any one financial institution for term deposits is limited to no more than 25% of total investments held. Investments and forward foreign exchange contracts are entered into only with registered banks that have a Standard and Poor's credit rating of at least A2 for short-term investments and A- for long-term investments. The group has experienced no defaults of interest or principal payments for term deposits and forward foreign exchange contracts.

Concentrations of credit risk for receivables are limited due to the large number and variety of customers. The MoH is the largest debtor (approximately 37%). It is assessed as a low-risk and high-quality entity due to being a government-funded purchaser of health and disability services.

No collateral or other credit enhancements are held for financial instruments that give rise to credit risk.

PBE IPSAS 30.43(c)

Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to Standard and Poor's credit ratings (if available) or to historical information about counterparty default rates.

	Actual 2018 $000	Actual 2017 $000
COUNTERPARTIES WITH CREDIT RATINGS		
Cash at bank and on hand, and investments		
AA	5,760	1,655
AA–	12,604	14,425
Total cash at bank and on hand, and investments	18,364	16,080
COUNTERPARTIES WITHOUT CREDIT RATINGS		
Cash and cash equivalents:		
NZ Health Partnerships Limited – no defaults in the past	5,100	7,794
Receivables:		
Existing counterparty with no defaults in the past	12,770	15,248
Existing counterparty with defaults in the past	52	0
Total loans and receivables	36,286	39,122

[55] A sensitivity analysis for derivative financial instruments is required when the aggregated fair value of derivatives is material.

23C Financial instrument risks (continued)

Liquidity risk

PBE IPSAS 30.46(c) *Management of liquidity risk*

Liquidity risk is the risk that the group will encounter difficulty raising liquid funds to meet commitments as they fall due. Prudent liquidity risk management implies maintaining sufficient cash, availability of funding through an adequate amount of committed credit facilities, and the ability to close out market positions.

The group mostly manages liquidity risk by continuously monitoring forecast and actual cash flow requirements and maintaining an overdraft facility.

Contractual maturity analysis of financial liabilities, excluding derivatives

PBE IPSAS 30.46(a) The table below analyses financial liabilities (excluding derivatives) into relevant maturity groupings based on the remaining period at balance date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows and include interest cash outflows.[56]

	Carrying amount $000	Contractual cash flows $000	Less than 1 year $000	1-2 years $000	More than 2 years $000
2018					
Payables	27,122	27,122	27,122	0	0
Finance leases	1,697	1,897	404	1,493	0
Total	**28,819**	**29,019**	**27,526**	**1,493**	**0**
2017					
Payables	28,412	28,412	28,412	0	0
Finance leases	605	632	525	107	0
Total	**29,017**	**29,044**	**28,937**	**107**	**0**

Contractual maturity analysis of forward foreign exchange contracts[57]

PBE IPSAS 30.46(b) The table below analyses forward foreign exchange contracts that are settled on a gross basis. The amounts disclosed are the contractual undiscounted cash flows.

	Liability carrying amount $000	Asset carrying amount $000	Contractual cash flows $000	Less than 6 months $000	6-12 months $000	1-2 years $000
2018						
Forward foreign exchange contracts	1,040	0				
- outflow			6,690	1,190	5,500	0
- inflow			5,967	1,009	4,958	0
2017						
Forward foreign exchange contracts	980	0				
- outflow			6,830	1,879	4,951	0
- inflow			5,987	1,987	4,958	0

[56] PBE IPSAS 30 does not prescribe the time bands to use. Entities will need to exercise judgement in determining the appropriate time bands to use when presenting the contractual maturity analysis.
[57] Entities shall include all gross settled derivative financial instruments regardless of whether their fair value is an asset or a liability.

PBE IPSAS1.127(c)

24 Patient trust money

Breakdown of patient trust money and further information

	Actual 2018 $000	Actual 2017 $000
Balance at 1 July	163	159
Money received	825	270
Interest received	4	6
Payments made	(851)	(272)
Balance at 30 June	**141**	**163**

The DHB administers funds on behalf of certain patients, which are held in bank accounts that are separate from the DHB's normal banking facilities. Interest earned on the funds is allocated to individual patients. Patient fund transactions and balances are not recognised in the group's financial statements.

25 Explanation of major variances against budget

PBE IPSAS 1.148.1

Explanations for major variances from the DHB's budgeted figures in the statement of performance expectations are as follows:

Statement of comprehensive revenue and expense

Patient care revenue was $4.17 million higher than budgeted, mainly due to:

- increased MoH revenue of $2.81 million for various programmes, including the Human Papilloma Virus Immunisation Programme;
- additional funding from the Clinical Training Agency of $1.10 million, mainly for nursing; and
- additional revenue from other DHBs of $500,090.

Other revenue was $1.96 million higher than budgeted due to donated property, plant, and equipment of $2.06 million.

Personnel costs were $9.58 million higher than budgeted, mainly due to planned savings of $8.18 million not being achieved and unbudgeted restructuring costs of $1.12 million.

Outsourced services were $4.57 million higher than budgeted, mainly due to higher than anticipated use of locum medical staff and higher than anticipated outsourcing of clinical services.

Capital charge was $1.46 million higher than budgeted, mainly due to the impact of the property revaluation increase of 30 June 2017 not being budgeted for.

Statement of financial position

Cash and cash equivalents were under budget by $12.01 million mainly due to investment of surplus cash in short-term investments resulting in an increase in current investments of $11 million.

Property, plant, and equipment was over budget by $15.88 million, mainly due to the revaluation of land and buildings in the previous year not being budgeted for.

Intangible assets were below budget by $5.45 million, mainly due to the delay in developing a new patient administration system.

Statement of changes in equity

The opening balance was $13.90 million greater than budgeted due to $18.97 million revaluation gains in 2017 brought forward and offset by 2018 total deficit.

The deficit was $5.96 million greater than budgeted due to the statement of comprehensive revenue and expense explanations provided above.

Statement of cash flows

Other patient care revenue was $4.99 million below budget mainly due to lower ACC contracted revenue of $2.43 million.

25 Explanation of major variances against budget (continued)

Payments to employees were $10.72 million greater than budget, mainly due to planned employee cost savings of $8.23 million not being achieved.

Good practice

26 Summary cost of services

	Actual 2018 $000	Budget 2018 $000	Actual 2017 $000
Revenue			
Prevention services	9,431	8,235	9,34444
Early detection and management services	83,119	82,156	77,914
Intensive assessment and treatment services	382,959	378,521	358,978
Rehabilitation and support services	34,422	35,110	32,161
Total revenue	509,931	504,022	478,397
Expenditure			
Prevention services	9,755	9,382	9,399
Early detection and management services	84,659	82,732	79,600
Intensive assessment and treatment services	390,051	381,178	366,747
Rehabilitation and support services	34,911	34,269	32,600
Total expenditure	519,376	507,561	488,346
Share of associate surplus/(deficit)	51	0	0
Surplus/deficit	**(9,394)**	**(3,539)**	**(9,949)**

SUBJECT INDEX