

Model Financial Statements  
**Te Motu District Health Board**  
2010-11

Prepared under New Zealand equivalents  
to International Financial Reporting Standards

June 2011 version 1.0

Audit New Zealand  
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Wellington

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## **FOREWORD**

I am pleased to introduce our first New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) model financial statements for district health boards (DHBs).

Audit New Zealand's model financial statements highlight our profession's latest thinking in terms of meeting financial reporting and legislative requirements, and providing essential financial statement information.

### **Focus**

The model financial statements have been prepared especially to help guide DHBs to prepare financial statements that comply with NZ IFRS. The model may also assist in reducing the costs of preparing NZ IFRS-compliant financial statements and contribute to an efficient financial statement audit.

The financial statements included in this model, including certain disclosure requirements of the New Zealand Public Health and Disability Act 2000 and the Crown Entities Act 2004, are only part of what DHBs are required to include in their annual report.

These model financial statements can be downloaded from our website [www.auditnz.govt.nz](http://www.auditnz.govt.nz).

### **Future updates**

We will continue to update these model financial statements to reflect changes in NZ IFRS and evolving good practice in applying NZ IFRS to DHBs.

We welcome any feedback on the application of this model to DHBs or any other comments that may 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 staff who have contributed to these model financial statements, particularly Brett Story, Stephen Lewis, and Robert Cox of the Accounting Technical Team.



Stephen Walker  
Executive Director  
June 2011

## ABOUT THE MODEL FINANCIAL STATEMENTS

### Objective

The main objective of this model is to guide DHBs in preparing financial statements that comply with NZ IFRS.

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

### Content

Included in the model are:

- a statement of responsibility;
- a statement of comprehensive income;
- a statement of financial position;
- a statement of changes in equity;
- a statement of cash flows;
- a statement of accounting policies; and
- notes to the financial statements.

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 Crown Entities Act 2004.

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 occur commonly in the sector.

The model illustrates a possible financial statement format for a DHB. For example, the statement of comprehensive income 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 may be more than one way of disclosing the information required under NZ IFRS.

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 NZ IFRS. DHBs should not use the model as a substitute for referring to individual NZ IFRS standards and interpretations applicable to their specific circumstances.

References to specific standards are provided in the left margin of the model and a subject index on page 43 for easy searching. References to NZ IFRS are sourced from the January 2011 NZ IFRS volumes.

### Standards not covered by the model

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

- NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards*;
- NZ IFRS 2 *Shared-based Payment*;
- NZ IFRS 3 *Business Combinations*;
- NZ IFRS 6 *Exploration for and Evaluation of Mineral Resources*;
- NZ IFRS 8 *Operating Segments*;
- NZ IAS 11 *Construction Contracts*;
- NZ IAS 12 *Income Taxes*;
- NZ IAS 21 *The Effects of Changes in Foreign Exchange Rates*;

- NZ IAS 26 *Accounting and Reporting by Retirement Benefit Plans*;
- NZ IAS 29 *Financial Reporting in Hyperinflationary Economies*;
- NZ IAS 31 *Interests in Joint Ventures*;
- NZ IAS 33 *Earnings per Share*;
- NZ IAS 34 *Interim Financial Reporting*;
- NZ IAS 40 *Investment Property*; and
- NZ IAS 41 *Agriculture*.

In addition, any standards, interpretations, and amendments issued after June 2011 are not included in the model financial statements.

**Terms used in the model**

ACC	Accident Compensation Corporation
CEA	Crown Entities Act 2004
DHB	District Health Board
GAAP	Generally accepted accounting practice
GST	Goods and Services Tax
IRD	Inland Revenue Department
MoH	Ministry of Health
NZPHDA	New Zealand Public Health and Disability Act 2000
NZ IFRS	New Zealand equivalents to International Financial Reporting Standards

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CEA s151(1)(d),155 **STATEMENT OF RESPONSIBILITY<sup>1</sup>**

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

The Board of the Te Motu District Health Board have the responsibility for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting.

In the Board's opinion, these financial statements and statement of service performance fairly reflect the financial position and operations of the Te Motu District Health Board for the year ended 30 June 2011.

Signed on behalf of the Board:

**Chairperson**

26 September 2011

**Board member**

26 September 2011

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<sup>1</sup> 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.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2011<sup>2,3,4,5</sup>

NZ IAS 1.10(b),113	Notes	Parent and group		
		Actual 2011 \$000	Budget 2011 <sup>6,7</sup> \$000	Actual 2010 <sup>8</sup> \$000
		<b>Income</b>		
NZ IAS 1.82(a)	2	499,836	495,665	468,486
NZ IFRS 7.20(b)		1,480	1,703	2,844
NZ IAS 1.82(a)	3	8,615	6,654	7,067
NZ IAS 1.85	33	509,931	504,022	478,397
		<b>Expenditure</b>		
NZ IAS 1.102	4	171,309	161,726	160,117
	13,14	13,465	13,147	11,397
		21,322	16,754	25,229
		41,523	42,490	39,919
		45,697	48,609	47,112
		31,930	33,874	25,180
		178,137	177,814	167,485
	5	8,040	6,581	6,019
NZ IAS 1.82(b)		3,588	3,554	3,476
	6	4,365	3,012	2,412
NZ IAS 1.85	33	519,376	507,561	488,346
NZ IAS 1.82(c)	12	51	0	0
		<b>(9,394)</b>	<b>(3,539)</b>	<b>(9,949)</b>
		<b>Other comprehensive income</b>		
NZ IAS 1.82(g)	20	0	0	18,974
NZ IAS 1.85		0	0	18,974
NZ IAS 1.82(f)		<b>(9,394)</b>	<b>(3,539)</b>	<b>9,025</b>

NZ IAS 1 NZ 46.1 Explanations of major variances against budget are provided in note 32.

*The accompanying notes form part of these financial statements.*

<sup>2</sup> 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 income (a statement of comprehensive income) can be presented.

<sup>3</sup> NZ IAS 1.87 prohibits any items of income or expense being presented as extraordinary items either in the statement of comprehensive income or in the notes.

<sup>4</sup> Where there are discontinued operations, NZ IAS 1.82(e) requires disclosure of the total of the post-tax surplus or deficit of 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.

<sup>5</sup> The statement of comprehensive income has been prepared using the nature of expense classification. Alternatively, entities may choose to present expenses based on the function of expense. Refer to NZ IAS 1.103, NZ 103.1.

<sup>6</sup> NZ IAS 1 NZ 46.1 requires an entity that has published prospective financial information (for example, forecast financial information published in a statement of intent), other than that expressed solely in general terms, to present a comparison of the prospective financial information with the actual financial results. Explanations for major variances shall be given.

<sup>7</sup> 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".

<sup>8</sup> NZ IAS 1.38 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 relevant to an understanding of the current year's financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2011

NZ IAS 1.10(c),113	Note	Parent and group		
		Actual 2011 \$000	Budget 2011 \$000	Actual 2010 \$000
		98,521	86,485	89,620
		<i>Comprehensive income/(expense)</i>		
NZ IAS 1.106(d)		(9,394)	(3,539)	(9,949)
NZ IAS 1.106(d)		0	0	18,974
NZ IAS 1.106(a)		(9,394)	(3,539)	(9,025)
NZ IAS 1.106(d)		<i>Owner transactions<sup>9</sup></i>		
		931	0	508
		(633)	0	(632)
	<a href="#">20</a>	<b>89,425</b>	<b>82,946</b>	<b>98,521</b>

NZ IAS 1 NZ 46.1 Explanations of major variances against budget are provided in note 32.

*The accompanying notes form part of these financial statements.*

<sup>9</sup> Disclosure is required only if these transactions took place.

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2011

NZ IAS 1.10(a),57 NZ IAS 1.113	Notes	Parent and group		
		Actual 2011 \$000	Budget 2011 \$000	Actual 2010 \$000
		<b>Assets</b>		
		<b>Current assets</b>		
NZ IAS 1.60,66				
NZ IAS 1.54(i)	<a href="#">7</a>	14,464	26,477	17,624
NZ IAS 1.54(h)	<a href="#">8</a>	12,822	10,618	15,248
NZ IAS 1.54(d)	<a href="#">9</a>	11,000	0	8,500
NZ IAS 1.54(g)	<a href="#">10</a>	2,704	2,775	2,687
NZ IAS 1.55		951	0	725
NZ IAS 1.54(j)	<a href="#">11</a>	800	0	0
NZ IAS 1.55		<i>Total current assets</i>	42,741	39,870
				44,784
		<b>Non-current assets</b>		
NZ IAS 1.54(d)	<a href="#">9</a>	2,000	1,500	1,750
NZ IAS 1.54(e)	<a href="#">12</a>	801	750	750
NZ IAS 1.54(a)	<a href="#">13</a>	151,764	135,884	156,615
NZ IAS 1.54(c)	<a href="#">14</a>	4,645	10,093	5,633
NZ IAS 1.55		<i>Total non-current assets</i>	159,210	148,227
NZ IAS 1.55		<b>Total assets</b>	<b>201,951</b>	<b>188,097</b>
				<b>209,532</b>
		<b>Liabilities</b>		
		<b>Current liabilities</b>		
NZ IAS 1.60,69				
NZ IAS 1.54(k)	<a href="#">15</a>	30,359	28,498	30,362
NZ IAS 1.54(d)	<a href="#">16</a>	240	200	140
NZ IAS 1.54(m)	<a href="#">17</a>	530	198	4,603
NZ IAS 1.55	<a href="#">18</a>	21,279	19,325	22,589
NZ IAS 1.54(l)	<a href="#">19</a>	1,479	100	236
NZ IAS 1.55		<i>Total current liabilities</i>	53,887	48,321
				57,930
		<b>Non-current liabilities</b>		
NZ IAS 1.60,69				
NZ IAS 1.54(d)	<a href="#">16</a>	800	630	840
NZ IAS 1.54(m)	<a href="#">17</a>	56,468	54,700	50,869
NZ IAS 1.55	<a href="#">18</a>	1,281	1,300	1,246
NZ IAS 1.54(l)	<a href="#">19</a>	90	200	126
NZ IAS 1.55		<i>Total non-current liabilities</i>	58,639	56,830
NZ IAS 1.55		<b>Total liabilities</b>	<b>112,526</b>	<b>105,151</b>
NZ IAS 1.55		<b>Net assets</b>	<b>89,425</b>	<b>98,521</b>
				<b>98,521</b>
		<b>Equity</b>		
NZ IAS 1.54(r)				
NZ IAS 1.78(e)	<a href="#">20</a>	63,922	65,364	63,694
NZ IAS 1.78(e)	<a href="#">20</a>	(31,488)	(20,275)	(21,882)
NZ IAS 1.78(e)	<a href="#">20</a>	54,645	35,941	54,645
NZ IAS 1.78(e)	<a href="#">20</a>	2,276	1,916	2,064
NZ IAS 1.55		<b>Total equity</b>	<b>89,425</b>	<b>98,521</b>

NZ IAS 1 NZ 46.1 Explanations of major variances against budget are provided in note 32.

*The accompanying notes form part of these financial statements.*

NZ IAS 1.10(d),113 STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2011

	Notes	Parent and group		
		Actual 2011 \$000	Budget 2011 \$000	Actual 2010 \$000
NZ IAS 7.10,14,18	<b>Cash flows from operating activities</b>			
NZ IAS 7.14	Receipts from patient care:			
	MoH	440,491	439,875	414,546
	Other	60,837	55,844	48,875
NZ IAS 7.31	Interest received	1,480	1,703	2,844
NZ IAS 7.14(b)	Other receipts	8,600	6,600	6,908
NZ IAS 7.14(c)	Payments to suppliers <sup>10</sup>	(321,329)	(325,115)	(304,005)
NZ IAS 7.14(d)	Payments to employees	(172,447)	(161,726)	(159,871)
	Capital charge	(8,717)	(6,581)	(5,299)
NZ IAS 7.31	Interest payments	(3,586)	(3,425)	(3,474)
	Goods and services tax (net)	498	0	451
	<i>Net cash flow from operating activities</i>	<u>21</u>	7,175	975
NZ IAS 7.10,16	<b>Cash flows from investing activities</b>			
NZ IAS 7.16(b)	Receipts from sale of property, plant, and equipment <sup>11</sup>	9	0	0
NZ IAS 7.16(a)	Purchase of property, plant, and equipment	(6,481)	(10,900)	(9,483)
NZ IAS 7.16(a)	Purchase of intangible assets	(802)	(5,708)	(3,338)
NZ IAS 7.16(e)	Acquisition/roll over of investments	(14,392)	(15,546)	(10,345)
NZ IAS 7.16(f)	Receipts from sale or maturity of investments	11,430	15,546	16,743
	<i>Net cash flow from investing activities</i>	(10,236)	(16,608)	(6,423)
NZ IAS 7.10,17	<b>Cash flows from financing activities</b>			
NZ IAS 7.17(a)	Capital contributions from the Crown	931	1,549	508
NZ IAS 7.17(b)	Repayment of capital to the Crown	(633)	0	(632)
NZ IAS 7.17(d)	Repayment of loans	0	0	0
NZ IAS 7.17(c)	Proceeds from borrowings	434	0	0
NZ IAS 7.17(d)	Repayment of finance leases	517	517	517
	<i>Net cash flow from financing activities</i>	1,249	2,066	393
	<b>Net (decrease)/increase in cash and cash equivalents</b>	(3,160)	(7,367)	(5,055)
	Cash and cash equivalents at the start of the year	17,624	31,778	22,679
	<b>Cash and cash equivalents at the end of the year</b>	<u>7</u>	24,411	17,624

NZ IAS 7 NZ 24.1 The GST (net) component of cash flows from operating activities reflects the net GST paid to and received from the IRD. The GST (net) component has been presented on a net basis, as the gross amounts do not provide meaningful information for financial statement purposes and to be consistent with the presentation basis of the other primary financial statements.

NZ IAS 7.43 Buildings and equipment totalling \$1.21m (2010 \$0) were acquired by means of finance leases during the year.

NZ IAS 1 NZ 46.1 Explanations of major variances against budget are provided in note 32.

*The accompanying notes form part of these financial statements.*

<sup>10</sup> It is 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.

<sup>11</sup> It is 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.

NZ IAS 1.10(e)

## NOTES TO THE FINANCIAL STATEMENTS

### 1 Statement of accounting policies for the year ended 30 June 2011<sup>12,13</sup>

#### REPORTING ENTITY

NZ IAS 1.138(a),(c)

The Te Motu District Health Board (the DHB) is a Crown entity as defined by the Crown Entities Act 2004 and is domiciled in New Zealand. The DHB's ultimate parent is the New Zealand Crown.

Good practice

The DHB has reported in note 31 on the patient trust monies which it administers.

NZ IAS 1.51(a)

The group consists of 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.

NZ IAS 1.138(c)

NZ IAS 27.42(b)

NZ IAS 1.138(b)

NZ IAS 1 NZ 15.1(b)

The DHB's primary objective is to deliver health, disability, and mental health services to the community within its district. Accordingly, the DHB has designated itself and the group as a public benefit entity for the purposes of New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS).

NZ IAS 1.51(a),(b),(c)

NZ IAS 10.17

The financial statements for the DHB are for the year ended 30 June 2011, and were approved by the Board on 26 September 2011.

NZ IAS 1.112

#### BASIS OF PREPARATION

NZ IAS 1.105(a)

##### Statement of compliance

NZ IAS 1 NZ 15.1(a)

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

NZ IAS 1 NZ 15.1(d)

The financial statements comply with NZ IFRS, and other applicable Financial Reporting Standards, as appropriate for public benefit entities.

NZ IAS 1.117(a)

##### Measurement base

The financial statements have been prepared on a historical cost basis, except where modified by the revaluation of land, buildings, and forward foreign exchange contracts at fair value.

NZ IAS 1.51(d),(e)

##### Functional and presentation currency

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars (\$000). The functional currency of the DHB, its subsidiary, and its associate is New Zealand dollars (NZ\$).

NZ IAS 8 NZ 31.1

##### Changes in accounting policies

There have been no changes in accounting policies during the financial year.

#### Early adopted amendments to standards

The following amendments to standards have been early adopted:

NZ IFRS 7.44L

- NZ IFRS 7 *Financial Instruments: Disclosures* – The effect of early adopting these amendments is the following information is no longer disclosed:
  - the carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated; and
  - the maximum exposure to credit risk by class of financial instrument if the maximum credit risk exposure is best represented by their carrying amount in the statement of financial position.

NZ IAS 24.28

- NZ IAS 24 *Related Party Disclosures (Revised 2009)* – The effect of early adopting the revised NZ IAS 24 is:
  - more information is required to be disclosed about transactions between the DHB and entities controlled, jointly controlled, or significantly influenced by the Crown;
  - commitments with related parties require disclosure; and
 information is required to be disclosed about any related party transactions with Ministers of the Crown.

<sup>12</sup> The going concern concept is assumed when preparing financial statements. If management is 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 regarded as a going concern.

<sup>13</sup> NZ IAS 1.138 requires the following information to be included in the annual report; it does not necessarily have to be in the financial statements: domicile and legal form of the entity, country of incorporation of the entity, address of the entity's registered office, description of operations, principal activities, and name of parent and ultimate parent of the group.

NZ IAS 8.30,31	<p><b>Standards, amendments, and interpretations issued that are not yet effective and have not been early adopted</b><sup>14,15</sup></p> <p>NZ IFRS standards, amendments, and interpretations issued but not yet effective that have not been early adopted, and which are relevant to the DHB, are:</p> <ul style="list-style-type: none"> <li>• NZ IFRS 9 <i>Financial Instruments</i> will eventually replace NZ IAS 39 <i>Financial Instruments: Recognition and Measurement</i>. NZ IAS 39 is being replaced through the following three main phases: Phase 1 Classification and Measurement, Phase 2 Impairment Methodology, and Phase 3 Hedge Accounting. Phase 1 has been completed and has been published in the new financial instrument standard NZ IFRS 9. NZ IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in NZ IAS 39. The approach in NZ IFRS 9 is based on how an entity manages its financial assets (its business model) and the contractual cash flow characteristics of the financial assets. The financial liability requirements are the same as those of NZ IAS 39, except for when an entity elects to designate a financial liability at fair value through the surplus or deficit. The new standard is required to be adopted for the year ended 30 June 2014. The DHB has not yet assessed the effect of the new standard and expects it will not be early adopted.</li> <li>• FRS-44 <i>New Zealand Additional Disclosures and Amendments to NZ IFRS to harmonise with IFRS and Australian Accounting Standards (Harmonisation Amendments)</i> – These were issued in May 2011 with the purpose of harmonising Australia and New Zealand’s accounting standards with source IFRS and to eliminate many of the differences between the accounting standards in each jurisdiction. The amendments must first be adopted for the year ended 30 June 2012. The DHB has not yet assessed the effects of FRS-44 and the Harmonisation Amendments.</li> </ul>
NZ IAS 1.117(b)	<p><b>SIGNIFICANT ACCOUNTING POLICIES</b><sup>16</sup></p> <p><b>Subsidiaries</b></p> <p>The DHB is required under the Crown Entities Act 2004 to prepare consolidated financial statements in relation to the group for each financial year. Consolidated financial statements for the group have not been prepared using the acquisition method due to the small size of its subsidiary, Te Motu Laundry Services Limited, which means that the parent and group amounts are not materially different. Information relating to Te Motu Laundry Services Limited is disclosed in note 30.</p> <p><b>Associate</b></p> <p>NZ IAS 28.11,13 The DHB’s associate investment is accounted for using the equity method. An associate is an entity over which the DHB 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 DHB’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.</p> <p>NZ IAS 28.29,30 If the share of deficits of an associate equals or exceeds its interest in the associate, further deficits are not recognised. After the DHB’s interest is reduced to zero, additional deficits are provided for, and a liability is recognised, only to the extent that the DHB has incurred legal or constructive obligations or made payments on behalf of the associate. If the associate subsequently reports surpluses, the DHB will resume recognising its share of those surpluses only after its share of the surpluses equals the share of deficits not recognised.</p> <p>NZ IAS 28.22 Where the DHB transacts with an associate, surplus or deficits are eliminated to the extent of the interest in the associate.</p> <p>Dilution gains or losses arising are recognised in the surplus or deficit.</p> <p><b>Revenue</b></p> <p>NZ IAS 18.9 Revenue is measured at the fair value of consideration received or receivable.</p> <p><i>MOH revenue</i></p> <p>NZ IAS 20.39(b) The DHB is primarily funded through revenue received from the MoH, which is restricted in its use for the purpose of the DHB meeting its objectives.</p> <p>NZ IAS 20.39(a) Revenue from the MoH is recognised as revenue when earned.</p>

<sup>14</sup> NZ IAS 8.31 requires entities that elect not to apply standards or interpretations issued but not yet effective to disclose this fact, including: the title of the Standard or Interpretation, the nature of the impending change or changes in accounting policy, the date by which application of the Standard or Interpretation is required, and the date at which the entity plans to apply the Standard or Interpretation; and either a discussion of the known impact of the new Standard or Interpretation on the entity in the initial year of application, or, where the impact is not known or reasonably estimatable, a statement to that effect.

<sup>15</sup> Entities will also need to disclose information about those relevant standards, amendments, and interpretations that are issued after 31 May 2011.

<sup>16</sup> Entities are required to disclose all accounting policies that are relevant to an understanding of the financial statements (NZ IAS 1.117(b)).

NZ IAS 18.35(a)	<i>ACC contracted revenue</i> ACC contract revenue is recognised as revenue when eligible services are provided and any contract conditions have been fulfilled.
NZ IAS 18.35(a)	<i>Revenue from other DHBs</i> Inter district patient inflow revenue occurs when a patient treated within the Te Motu DHB region is domiciled outside of Te Motu. The MoH credits Te Motu DHB with a monthly amount based on estimated patient treatment for non-Te Motu residents within Te Motu. An annual wash up occurs at year end to reflect the actual non-Te Motu patients treated at Te Motu DHB.
	<i>Interest income</i>
NZ IAS 18.30(a)	Interest income is recognised using the effective interest method.
	<i>Rental income</i>
NZ IAS 17.50	Lease income under an operating lease is recognised as revenue on a straight-line basis over the lease term.
	<i>Provision of services</i>
NZ IAS 18.20	Revenue derived through the provision of services to third parties is recognised in proportion to the stage of completion at the balance date.
	<i>Donations and bequests</i>
Good practice	Donations and bequests to the DHB are recognised as revenue when control over the asset is obtained. Those donations and bequests for specific purposes are transferred from accumulated surpluses/(deficits) to the trust funds component of equity. When expenditure is subsequently incurred in respect of these funds, it is recognised in the surplus or deficit and an equivalent amount is transferred from the trust component of equity to accumulated surpluses/(deficits).
NZ IAS 1.117(b)	<b>Capital charge</b> The capital charge is recognised as an expense in the financial year to which the charge relates.
NZ IAS 1.117(b)	<b>Interest expense</b>
NZ IAS 23 NZ 29.1	The DHB has elected to defer the adoption of the revised NZ IAS 23 <i>Borrowing Costs (Revised 2007)</i> in accordance with the transitional provisions of NZ IAS 23 that are applicable to public benefit entities. Therefore, all borrowing costs are recognised as an expense in the financial year in which they are incurred.
NZ IAS 1.117(b)	<b>Leases</b>
	<i>Finance leases</i>
NZ IAS 17.4	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.
NZ IAS 17.20	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.
NZ IAS 17.25	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.
NZ IAS 17.27	The amount recognised as an asset is depreciated over its useful life. If there is no certainty as to whether the DHB 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.
	<i>Operating leases</i>
NZ IAS 17.33	An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.
NZ SIC 15.5	Lease incentives received are recognised in the surplus or deficit over the lease term as an integral part of the total lease expense.
NZ IAS 1.117(b)	<b>Foreign currency transactions</b>
NZ IAS 21.21,28	Foreign currency transactions (including those for which forward foreign exchange contracts are held) are translated into NZ\$ (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.
NZ IAS 7.46	<b>Cash and cash equivalents</b> Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

NZ IFRS 7.21	<b>Debtors and other receivables</b>
NZ IAS 39.43,46(a)	Debtors and other receivables are recorded at their face value, less any provision for impairment.
NZ IAS 39.63	A receivable is impaired when there is objective evidence that the DHB will not be able to collect amounts due. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy, receivership, or liquidation, and default in payments are considered indicators that the debtor is impaired. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the surplus or deficit. When the receivable is uncollectible, it is written off against the allowance account for receivables. Overdue receivables that have been renegotiated are reclassified as current (that is, not past due).
NZ IFRS 7 Appdx B5	
NZ IFRS 7.21	<b>Investments</b>
	<i>Bank deposits</i>
NZ IAS 39.43	Investments in bank deposits are initially measured at fair value plus transaction costs.
NZ IAS 39.46(a)	After initial recognition, investments in bank deposits are measured at amortised cost using the effective interest method, less any provision for impairment.
NZ IAS 39.63	A bank deposit is impaired when there is objective evidence that the DHB will not be able to collect amounts due. Significant financial difficulties of the bank, probability that the bank will enter into receivership or liquidation, and default in payments are considered indicators that the deposit is impaired.
	<b>Forward foreign exchange contracts</b>
	Forward foreign exchange contracts are used to manage exposure to foreign exchange risk arising from the purchase of equipment denominated in a foreign currency. The DHB does not hold these contracts for trading purposes. The DHB has not adopted hedge accounting.
NZ IAS 39.43,46	Forward foreign exchange contracts are initially recognised at fair value on the date a 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.
NZ IAS 39.55(a)	
NZ IFRS 7.21	The full fair value of a forward foreign exchange is classified as current if the contract is due for settlement within 12 months of balance date; otherwise, forward foreign exchange contracts are classified as non-current.
NZ IAS 1.66,69	
NZ IAS 2.36(a)	<b>Inventories</b>
NZ IAS 2 NZ 9.1,10.1	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. The loss of service potential of inventories held for distribution is determined on the basis of obsolescence. Where inventories are acquired at no cost or for nominal consideration, the cost is the current replacement cost at the date of acquisition.
NZ IAS 2 NZ 36.1(e)	
NZ IAS 2.34, NZ 34.1	The amount of any write-down for the loss of service potential is recognised in surplus or deficit in the period of the write-down.
NZ IAS 1.117(b)	<b>Non-current assets held for sale</b>
NZ IFRS 5.6	Non-current assets held for sale are classified as held for sale if their carrying amount will be recovered principally through a sale transaction 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.
NZ IFRS 5.15	
NZ IFRS 5.20	Any impairment losses for write-downs of non-current assets held for sale are recognised in the surplus or deficit.
NZ 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.
NZ 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.
NZ IAS 1.117(b)	<b>Property, plant, and equipment</b>
NZ IAS 16 NZ 5.1	Property, plant, and equipment consists of the following asset classes:
	<ul style="list-style-type: none"> <li>• land;</li> <li>• buildings;</li> <li>• clinical equipment;</li> <li>• fixtures and fittings; and</li> <li>• other equipment and motor vehicles.</li> </ul>

NZ IAS 16.73(a)	Land is measured at fair value, and buildings are measured at fair value less accumulated depreciation and impairment losses. All other asset classes are measured at cost, less accumulated depreciation and impairment losses. <i>Revaluations</i>
NZ IAS 16.31(a)	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 <sup>17</sup> .
Good practice	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.
NZ IAS 16 NZ 39.1	Revaluation movements are accounted for on a class-of-asset basis.
NZ IAS 16 NZ 39.2	The net revaluation results are credited or debited to other comprehensive income 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 income 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 income.
NZ IAS 16 NZ 40.2	<i>Additions</i>
NZ IAS 16.7	The cost of an item of property, plant, and equipment is recognised as an asset only when it is probable that service potential associated with the item will flow to the DHB and the cost of the item can be measured reliably. Work in progress is recognised at cost, less impairment, and is not depreciated.
NZ IAS 16 NZ 15.1	In most instances, an item of property, plant, and equipment is initially recognised at its cost. Where an asset is acquired at no cost, or for a nominal cost, it is recognised at fair value as at the date of acquisition. <i>Disposals</i>
NZ IAS 16.4,68,71	Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are reported net 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. <i>Subsequent costs</i>
NZ IAS 16.7	Costs incurred subsequent to initial acquisition are capitalised only when it is probable that service potential associated with the item will flow to the DHB and the cost of the item can be measured reliably.
NZ IAS 16.12,13	The costs of day-to-day servicing of property, plant, and equipment are recognised in the surplus or deficit as they are incurred.
NZ IAS 16.73(b),(c)	<i>Depreciation</i> <sup>18</sup> 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 assets have been estimated as follows:
	Buildings (including components) 25 to 60 years (1.6%-4%)
	Clinical equipment 4 to 20 years (5%-25%)
	Other equipment and motor vehicles 3 to 40 years (2.5%-33%)
	Fixtures and fittings 3 to 40 years (2.5%-33%)
NZ IAS 16.51	The residual value and useful life of an asset are reviewed, and adjusted if applicable, at each financial year end.
	<b>Intangible assets</b>
	<i>Software acquisition and development</i>
NZ IAS 38.27,28	Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.
NZ IAS 38.66,67	Costs that are directly associated with the development of software for internal use are recognised as an intangible asset. Direct costs include the software development employee costs and an appropriate portion of relevant overheads.
NZ IAS 38.15,29,67	Staff training costs are recognised as an expense when incurred. Costs associated with maintaining computer software are recognised as an expense when incurred.
NZ SIC 32.8	Costs associated with the development and maintenance of the DHB's website are recognised as an expense

<sup>17</sup> The maximum revaluation cycle allowable under the Crown accounting policies is five years. It may be appropriate to adopt a shorter revaluation cycle policy.

<sup>18</sup> The useful lives and depreciation rates that have been listed above are only illustrative. Each entity will need to set these based on their specific circumstances.

NZ IAS 38.66,67	when incurred.				
	<i>Amortisation</i>				
NZ IAS 38.97,118(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.				
NZ IAS 38.118(a)	The useful lives and associated amortisation rates of major classes of intangible assets have been estimated as follows:				
	<table border="0"> <tr> <td>Acquired computer software</td> <td>3 years (33%)</td> </tr> <tr> <td>Internally developed software</td> <td>4 years (25%)</td> </tr> </table>	Acquired computer software	3 years (33%)	Internally developed software	4 years (25%)
Acquired computer software	3 years (33%)				
Internally developed software	4 years (25%)				
NZ IAS 1.117(b)	<b>Impairment of property, plant, and equipment and intangible assets</b>				
NZ IAS 36.9	Property, plant, and equipment and intangible assets are reviewed for indicators of impairment as at each balance date. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.				
NZ IAS 36.18					
NZ IAS 36 NZ 6.1	Value in use is depreciated replacement cost for an asset where the service potential of the asset is not primarily dependent on the asset's ability to generate net cash inflows and where the DHB would, if deprived of the asset, replace its remaining service potential.				
NZ IAS 36.22					
NZ IAS 36 NZ 61.1	If an asset's carrying amount exceeds its recoverable amount, the asset is impaired and the carrying amount is written-down to the recoverable amount. For revalued assets, the impairment loss is recognised in other comprehensive income to the extent the impairment loss does not exceed the amount in the revaluation reserve in equity for that same class of asset. Where that results in a debit balance in the revaluation reserve, the balance is recognised in the surplus or deficit.				
NZ IAS 36.60	For assets not carried at a revalued amount, the total impairment loss is recognised in the surplus or deficit.				
NZ IAS 36 NZ 120.1	The reversal of an impairment loss on a revalued asset is credited to other comprehensive income and increases the asset revaluation reserve for that class of asset. However, to the extent that an impairment loss for that class of asset was previously recognised in the surplus or deficit, a reversal of the impairment loss is also recognised in the surplus or deficit.				
NZ IAS 36.119	For assets not carried at a revalued amount, the reversal of an impairment loss is recognised in the surplus or deficit.				
NZ IFRS 7.21	<b>Creditors and other payables</b>				
NZ IAS 39.43,47	Creditors and other payables are generally settled within 30 days so are recorded at their face value.				
NZ IFRS 7.21	<b>Borrowings</b>				
NZ IAS 39.43,46(a)	Borrowings are initially recognised at their fair value plus transaction costs. After initial recognition, all borrowings are measured at amortised cost using the effective interest method.				
NZ IAS 1.69	Borrowings are classified as current liabilities unless the DHB has an unconditional right to defer settlement of the liability for at least 12 months after the balance date. Borrowings where the DHB has an unconditional right to defer settlement of the liability for at least 12 months after balance date are classified as current liabilities if the DHB expects to settle the liability within 12 months of the balance date.				
NZ IAS 1.117(b)	<b>Employee entitlements</b>				
NZ IAS 19.10	<i>Short-term employee entitlements</i>				
	Employee benefits that are due to be settled within 12 months after the end of the period in which the employee renders the related service are measured at nominal values based on accrued entitlements at current rates of pay.				
	These include salaries and wages accrued up to balance date, annual leave earned to but not yet taken at balance date, continuing medical education leave, and sick leave.				
NZ IAS 19.14	A liability for sick leave is recognised to the extent that absences in the coming year are expected to be greater than the sick leave entitlements earned in the coming year. The amount is calculated based on the unused sick leave entitlement that can be carried forward at balance date, to the extent that it will be used by staff to cover those future absences.				

	<i>Long-term entitlements</i>
NZ IAS 19.126-131	<p>Employee benefits that are due to be settled beyond 12 months after the end of the period 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:</p> <ul style="list-style-type: none"> <li>• 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</li> <li>• the present value of the estimated future cash flows.</li> </ul> <p>Expected future payments are discounted using market yields on government bonds at balance date with terms to maturity that match, as closely as possible, the estimated future cash outflows for entitlements. The inflation factor is based on the expected long-term increase in remuneration for employees.</p>
Good practice	<i>Presentation of employee entitlements</i>
NZ IAS 1.69	Sick leave, continuing medical education leave, annual leave, and vested long service leave and sabbatical leave are classified as a current liability. Non-vested long service leave, sabbatical leave, and retirement gratuities expected to be settled within 12 months of balance date are classified as a current liability. All other employee entitlements are classified as a non-current liability.
NZ IAS 1.117(b)	<b>Superannuation schemes</b>
NZ IAS 19.44	<i>Defined contribution schemes</i>
	Employer contributions to KiwiSaver, the Government Superannuation Fund, and the State Sector Retirement Savings Scheme are accounted for as defined contribution schemes and are recognised as an expense in the surplus or deficit as incurred.
NZ IAS 19.30(b)(i)	<i>Defined benefit schemes</i>
	The DHB makes employer contributions to the Defined Benefit Plan 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.
NZ IAS 19.30(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 23.
	<b>Provisions</b>
NZ IAS 37.14	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 expenditure will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses.
NZ IAS 37.71	<i>Restructuring</i>
	A provision for restructuring is recognised when the DHB has approved a detailed formal plan for the restructuring which has either been announced publicly to those affected, or for which implementation has already commenced.
NZ IFRS 4.37(a)	<i>ACC Partnership Programme</i>
	The DHB belongs to the ACC Partnership Programme whereby it accepts the management and financial responsibility for employee work-related illnesses and accidents. Under the program, it is liable for all its claims costs for a period of two years up to a specified maximum amount. At the end of the two-year period, the DHB 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 Partnership Programme is measured using actuarial techniques at the present value of expected future payments to be made in respect of 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 on government bonds at balance date with terms to maturity that match, as closely as possible, the estimated future cash outflows.
Good practice	<b>Equity</b>
	Equity is measured as the difference between total assets and total liabilities. Equity is disaggregated and classified into the following components.
	<ul style="list-style-type: none"> <li>• Crown equity;</li> <li>• accumulated surpluses;</li> <li>• revaluation reserves; and</li> <li>• trust funds.</li> </ul>

*Revaluation reserves*

These reserves are related to the revaluation of land and buildings to fair value.

*Trust funds*

This reserve records the unspent amount of donations and bequests provided to the DHB.

NZ IAS 1.117(b)

**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, then it is recognised as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, the 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 charge for income tax has been provided for.

Good practice

**Budget figures**

The budget figures are derived from the statement of intent as approved by the Board at the beginning of the financial year. The budget figures have been prepared in accordance with NZ GAAP, using accounting policies that are consistent with those adopted by the Board in preparing these financial statements.

Good practice

**Cost allocation**

The DHB has determined the cost of outputs 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/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.

NZ IAS 1.125

**Critical accounting estimates and assumptions<sup>19</sup>**

In preparing these financial statements, the Board has made estimates and assumptions concerning the future. These estimates and assumptions may 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 discussed below:

*Land and buildings revaluations*

Note 13 provides information about the estimates and assumptions applied in the measurement of revalued land and buildings.

<sup>19</sup> The examples provided are not intended to be exhaustive. Entities will need to consider their own circumstances to ensure that the disclosures required by NZ IAS 1 paragraphs 122 and 125 are relevant and complete.

*Estimating useful lives and residual values of property, plant, and equipment*

The useful lives and residual values of property, plant, and equipment are reviewed at each balance date. Assessing the appropriateness of useful life and residual value estimates requires the DHB to consider a number of factors such as the physical condition of the asset, advances in medical technology, expected period of use of the asset by the DHB, and expected disposal proceeds (if any) from the future sale of the asset.

An incorrect estimate of the useful life or residual value will affect the depreciable amount of an asset, therefore affecting the depreciation expense recognised in the surplus or deficit and the asset's carrying amount. The DHB minimises the risk of this estimation uncertainty by:

- physical inspection of assets;
- asset replacement programs;
- review of second-hand market prices for similar assets; and
- analysis of prior asset sales.

The DHB has not made significant changes to past assumptions concerning useful lives and residual values.

NZ IAS 1.122

**Critical judgements in applying accounting policies**

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

*Leases classification*

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

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.

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

NZ IAS 1.112(c)

**2 Patient care revenue**

	Actual 2011 \$000	Actual 2010 \$000
Health and disability services (MoH contracted revenue)	442,221	413,088
ACC contract revenue	14,715	18,855
Revenue from other district health boards	41,969	35,840
Other patient care related revenue	931	703
<b>Total patient care revenue</b>	<b>499,836</b>	<b>468,486</b>

NZ IAS 1.112(c)

**3 Other income**

	Actual 2011 \$000	Actual 2010 \$000
Gain on sale of property, plant, and equipment	0	0
Donated property, plant, and equipment	2,059	0
Donations and bequests received	656	930
Rental income	1,380	1,400
Other income	4,520	4,737
<b>Total other income</b>	<b>8,615</b>	<b>7,067</b>

NZ IAS 1.112(c)

#### 4 Personnel costs

	Actual 2011 \$000	Actual 2010 \$000
	165,545	155,663
NZ IAS 19.46	2,871	2,253
	1,793	2,201
	1,100	0
<b>Total personnel costs</b>	<b>171,309</b>	<b>160,117</b>

Good practice

Employer contributions to defined contribution schemes include contributions to KiwiSaver, State Sector Retirement Savings Scheme, the Government Superannuation Fund, and the DBP Contributors Scheme.<sup>20</sup>

#### 5 Capital charge

Good practice

The DHB pays a monthly capital charge to the Crown. The charge is based on the greater of its actual or budgeted closing equity balance for the month. The capital charge rate for the year ended 30 June 2011 was 8% (2010: 8%).

NZ IAS 1.112(c)

#### 6 Other expenses<sup>21</sup>

	Actual 2011 \$000	Actual 2010 \$000
NZ IAS 1 NZ 105.1(a)(i)	194	187
NZ IAS 1 NZ 105.1(a)(ii)	16	0
NZ IAS 17.35(c)	2,021	1,895
NZ IFRS 7.20(e)	270	0
	319	324
	1,323	110
	60	(244)
	162	140
<b>Total other expenses</b>	<b>4,365</b>	<b>2,412</b>

NZ IAS 1 NZ 105.1(a)(ii) Audit-related fees for assurance services were for an assurance review over the tendering process of a contract for constructing an extension to the hospital.

NZ IAS 7.45

#### 7 Cash and cash equivalents

	Actual 2011 \$000	Actual 2010 \$000
	1,088	766
	9,100	11,794
NZ IAS 7.7	4,276	5,064
<b>Total cash and cash equivalents</b>	<b>14,464</b>	<b>17,624</b>
NZ IAS 7.8	0	0
<b>Cash and cash equivalents for the purposes of the statement of cash flows</b>	<b>14,464</b>	<b>17,624</b>

NZ IFRS 7.25,29(a) The carrying value of cash at bank and term deposits with maturities less than three months approximates their fair value.

<sup>20</sup> The schemes listed are not exhaustive. DHBs may make contributions to other defined contribution schemes, including defined benefit schemes that are accounted for as defined contribution schemes.

<sup>21</sup> NZ IAS 1.97 requires that, when items of expense and income are material, their nature and amount shall be disclosed separately.

<sup>22</sup> NZ IAS 1 NZ 105.1 requires the nature of the services to be disclosed for assurance and related services, tax services, and all other non-audit services provided by the auditor.

NZ IAS 7.45 **7 Cash and cash equivalents (continued)**

NZ IAS 7 NZ 49.1 Cash and cash equivalents include funds of \$2.42m (2010 \$2.23m) donated or bequeathed for a specific purpose. The use of the funds must comply with the specific terms of the sources from which the funds were derived. The revenue and expenditure in respect of these funds are recognised in the surplus or deficit, and is transferred from/to general funds to/from trust funds in equity.

NZ IAS 1.78(b) **8 Debtors and other receivables**

	Actual 2011 \$000	Actual 2010 \$000
Ministry of Health receivables	6,650	7,323
Other receivables	6,324	8,054
Other accrued revenue	118	111
Less: provision for impairment	(270)	(240)
<b>Total debtors and other receivables</b>	<b>12,822</b>	<b>15,248</b>

*Fair value*

NZ IFRS 7.25,29(a) The carrying value of debtors and other receivables approximates their fair value.

*Impairment*

NZ IFRS 7.37(a) The ageing profile of receivables at year end is detailed below:

	2011			2010		
	Gross \$000	Impairment \$000	Net \$000	Gross \$000	Impairment \$000	Net \$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 > 90 days	1,440	(270)	1,170	1,677	(240)	1,437
<b>Total</b>	<b>13,092</b>	<b>(270)</b>	<b>12,822</b>	<b>15,488</b>	<b>(240)</b>	<b>15,248</b>

NZ IFRS 7.21 All receivables greater than 30 days in age are considered to be past due.

NZ IFRS 7.37(b) The provision for impairment has been calculated based on a review of significant debtor balances and a collective assessment of all debtors (other than those determined to be individually impaired) for impairment. The collective impairment assessment is based on an analysis of past collection history and write-offs. Individually impaired receivables are assessed as impaired due to the significant financial difficulties being experienced by the debtor and management concluding that the likelihood of the overdue amounts being recovered is remote.

NZ IFRS 7.16 Movements in the provision for impairment of receivables are as follows:

	Actual 2011 \$000	Actual 2010 \$000
Balance at 1 July	240	240
Additional provisions made	270	0
Receivables written off	(240)	0
<b>Balance at 30 June</b>	<b>270</b>	<b>240</b>

NZ IFRS 7.20(e)

NZ IAS 1.112(c)

**9 Investments**

	Actual 2011 \$000	Actual 2010 \$000
<b>Current portion</b>		
Term deposits with maturities greater than 3 months and remaining duration less than 12 months	11,000	8,500
<i>Total current portion</i>	11,000	8,500
<b>Non-current portion</b>		
Term deposits with maturities greater than 3 months and remaining duration greater than 12 months	2,000	1,750
<i>Total non-current portion</i>	2,000	1,750
<b>Total investments</b>	<b>13,000</b>	<b>10,250</b>

NZ IFRS 7.25,29(a)

The carrying value of the current portion of investments approximates their fair value.

NZ IFRS 7.25,27

The fair value of term deposits with a remaining duration greater than 12 months is \$2.12m (2010 \$1.73m). 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.

NZ IFRS 7.20(e)

There is no impairment provision for investments.

NZ IAS 2.36(b)

**10 Inventories**

	Actual 2011 \$000	Actual 2010 \$000
Pharmaceuticals	2,342	2,319
Surgical and medical supplies	262	263
Other supplies	100	105
<b>Total inventories</b>	<b>2,704</b>	<b>2,687</b>

NZ IAS 2.36(d)

The amount of inventories recognised as an expense during the year was \$23.34m (2010 \$21.17m), which is included in the clinical supplies line item of the statement of comprehensive income.

NZ IAS 2 NZ 36.1(b)

The write-down of inventories held for distribution amounted to \$108,000 (2010 \$96,000). There have been no reversals of write-downs.

NZ IAS 2 NZ 36.1(c)

NZ IAS 2.36(h)

No inventories are pledged as security for liabilities (2010 \$nil). However, some inventories are subject to retention of title clauses.

## 11 Non-current assets held for sale

NZ IFRS 5.41 The DHB owns land and buildings adjacent to the hospital which have been classified as held for sale following the Boards approval to sell the properties, as they will provide no future use to the DHB. The sale is expected to be completed by October 2011.

	Actual 2011 \$000	Actual 2010 \$000
NZ IFRS 5.38 <b>Non-current assets held for sale include:</b>		
Land	560	0
Buildings	240	0
<b>Total non-current assets held for sale</b>	<b>800</b>	<b>0</b>

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

## 12 Investment in associate

	Actual 2011 \$000	Actual 2010 \$000
NZ IAS 28 NZ 37.1(a) <i>Movements in the carrying amount of the investment in associate<sup>23</sup></i>		
Balance at 1 June	750	750
New investments during the year	0	0
Disposal of investments during the year	0	0
Dilution gain/(loss)	0	0
Share of total comprehensive income	51	0
Dividend	0	0
<b>Balance at 30 June</b>	<b>801</b>	<b>750</b>
NZ IAS 28.37(b) <i>Summarised financial information of associate presented on a gross basis<sup>24</sup></i>		
Assets	5,109	5,240
Liabilities	1,905	2,211
Revenue	6,418	6,270
Surplus/(deficit)	204	0
Te Motu DHB's ownership interest	25%	25%
NZ IAS 28.40(a) Share of associate's contingent liabilities incurred jointly with other investors	5	0
NZ IAS 28.40(b) Contingent liabilities that arise because of several liability	0	0

NZ IAS 28.37(a) Shared Services Limited is an unlisted company. Accordingly, there are no published price quotations for this investment.<sup>25</sup>

<sup>23</sup> Where goodwill is included in the carrying amount of investments in associates, NZ IAS 28 NZ 37.1(b) requires disclosure of the amount of goodwill included in the carrying amount at the beginning and the end of the period.

<sup>24</sup> These are the gross amounts from the associate's financial statements. An alternative presentation would be to show only the group's share. NZ IAS 28.37(b) does not specify which method of presentation is required.

<sup>25</sup> NZ IAS 28.37(a) requires disclosure of the fair value of investments in associates where there are published price quotations.

### 13 Property, plant, and equipment

NZ IAS 16.73

Movements for each class of property, plant, and equipment are as follows:<sup>26</sup>

	Land	Buildings	Clinical equipment	Other equipment and motor vehicles	Fixtures and fittings	Total
	\$000	\$000	\$000	\$000	\$000	\$000
<b>Cost or valuation</b>						
Balance at 1 July 2009	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 2010	16,545	117,088	40,262	21,679	4,799	200,373
Balance at 1 July 2010	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 2011	15,985	117,849	41,858	22,538	4,808	203,038
<b>Accumulated depreciation and impairment losses</b>						
Balance at 1 July 2009	0	11,613	24,548	13,218	3,713	53,092
Depreciation expense	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 2010	0	0	25,918	13,956	3,884	43,758
Balance at 1 July 2010	0	0	25,919	13,955	3,884	43,758
Depreciation expense	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
Impairment losses	0	0	0	0	0	0
Reversal of impairment losses	0	0	0	0	0	0
Balance at 30 June 2011	0	6,743	26,269	14,144	4,118	51,274
<b>Carrying amounts</b>						
At 1 July 2009	9,825	109,386	12,027	6,476	1,122	138,836
At 30 June and 1 July 2010	16,545	117,088	14,343	7,724	915	156,615
At 30 June 2011	15,985	111,106	15,589	8,394	690	151,764

NZ IAS 16.74(b)

The total amount of property, plant, and equipment in the course of construction is \$1.23m (2010 \$1.32m).

NZ IAS 17.31(a)

The net carrying amount of assets held under finance leases is \$1.02m (2010 \$0) for buildings and \$305,000 (2010 \$515,000) for other equipment and motor vehicles.

NZ IAS 16.77, NZ 77.2

#### Valuation

The total fair value of land and buildings valued by R Holt of O'Connell Valuers Limited as at 30 June 2010 amounted to \$134.63m.

#### Land

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.

<sup>26</sup> This is just one way of presenting the reconciliation required by NZ IAS 16 *Property, Plant and Equipment*.

### 13 Property, plant, and equipment (continued)

Restrictions on the DHB'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.

The most recent valuation of land was performed by a registered independent valuer, R Holt of O'Connell Valuers Limited, and the valuation is effective as at 30 June 2010.

#### Buildings

Specialised hospital buildings are valued at fair value using depreciated replacement cost because no reliable market data is available for such buildings.

Depreciated replacement cost is determined using a number of significant assumptions. Significant assumptions include:

- The replacement asset is based on the reproduction cost of the specific assets with adjustments where appropriate for optimisation due to over-design or surplus capacity.
- The replacement cost is derived from recent construction contracts of similar assets and Property Institute of New Zealand cost information.
- The remaining useful life of assets is estimated.
- 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. Market rents and capitalisation rates were applied to reflect market value.

The most recent valuation of buildings was performed by a registered independent valuer, R Holt of O'Connell Valuers Limited, and the valuation is effective as at 30 June 2010.

NZ IAS 16.74(a)

#### Restrictions on title

The DHB does not have full title to the Crown land it occupies but transfer is arranged if and when land is sold. Some of the DHB's land is subject to Waitangi Tribunal claims. The disposal of certain properties may 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 (as amended by the Treaty of Waitangi (State Enterprises) Act 1988). 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.

NZ IAS 38.118(e)

### 14 Intangible assets

Movements for each class of intangible assets are as follows: <sup>27</sup>

	Acquired software \$000	Internally developed software \$000	Total \$000
<b>Cost</b>			
Balance at 1 July 2009	4,217	3,450	7,667
Additions	1,874	1,534	3,408
Disposals	(30)	(25)	(55)
Balance at 30 June 2010/1 July 2010	6,061	4,959	11,020
Additions	461	378	839
Disposals	(352)	(288)	(640)
Balance at 30 June 2011	6,170	5,049	11,219
<b>Accumulated amortisation and impairment losses</b>			
Balance at 1 July 2009	2,350	1,923	4,273
Amortisation expense	643	526	1,169
Impairment losses	0	0	0
Disposals	(30)	(25)	(55)
Balance at 30 June 2010/1 July 2010	2,963	2,424	5,387
Amortisation expense	771	630	1,401
Impairment losses	0	0	0
Disposals	(118)	(96)	(214)
Balance at 30 June 2011	3,616	2,958	6,574

<sup>27</sup> NZ IAS 38.118 requires entities to distinguish between internally generated intangible assets and other intangible assets. For example, internally developed software shall be distinguished from acquired software.

NZ IAS 38.118(e) **14 Intangible assets (continued)**

	Acquired software \$000	Internally developed software \$000	Total \$000
<b>Carrying amounts</b>			
At 1 July 2009	1,867	1,527	3,394
At 30 June and 1 July 2010	3,098	2,535	5,633
At 30 June 2011	2,554	2,091	4,645

NZ IAS 38.122(d) There are no restrictions over the title of the DHB's intangible assets; nor are any intangible assets pledged as security for liabilities.

NZ IAS 1.77 **15 Creditors and other payables**

	Actual 2011 \$000	Actual 2010 \$000
Creditors and accrued expenses	26,757	27,389
GST payable	2,011	1,513
Capital charge payable	672	1,334
Income in advance	919	126
<b>Total creditors and other payables</b>	<b>30,359</b>	<b>30,362</b>

NZ IFRS 7.25,29(a) Creditors and other payables are non-interest bearing and are normally settled on 30-day terms. Therefore, the carrying value of creditors and other payables approximates their fair value.

**16 Forward foreign exchange contracts**

	Actual 2011 \$000	Actual 2010 \$000
Current liability	240	140
Non-current liability	800	840
<b>Total forward foreign exchange contract liability</b>	<b>1,040</b>	<b>980</b>

NZ IFRS 7.34(a) The notional principal amounts of outstanding forward foreign exchange contracts in NZ\$ were \$6.69m (2010 \$6.83m). The foreign currency principal amounts were US\$4.75m (2010 US\$5m).

NZ IFRS 7.25,27 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.

NZ IAS 1.77

17 Borrowings

	Actual 2011 \$000	Actual 2010 \$000
<b>Current portion</b>		
Finance leases	362	503
Crown Health Financing Agency loans – fixed interest	168	4,100
<i>Total current portion</i>	530	4,603
<b>Non-current portion</b>		
Finance leases	1,335	102
Crown Health Financing Agency loans – fixed interest	55,133	50,767
<i>Total non-current portion</i>	56,468	50,869
<b>Total borrowings</b>	<b>56,998</b>	<b>55,472</b>
<b>Borrowing facility limits</b>		
Crown Health Financing Agency loan facility limit	56,700	56,700
Overdraft facility	10,000	10,000
<i>Total borrowing facility limits</i>	66,700	66,700

NZ IFRS 7.31

**Crown Health Financing Agency loans**

The Crown Health Financing Agency (CHFA) loans are secured by a negative pledge.

Without the CHFA's prior written consent, the DHB cannot perform the following actions:

- create any security over its assets except in certain defined circumstances;
- lend money to another person or entity (except in the ordinary course of business and then only on commercial terms) or give a guarantee;
- make a substantial change in the nature or scope of its business as presently conducted;
- dispose of any of its assets except disposals in the ordinary course of business or disposal for full fair value; or
- provide or accept services other than for proper value and on reasonable commercial terms.

The DHB must also meet the following covenants:

- interest-bearing debt divided by interest-bearing debt plus equity is less than 65 percent.
- a cash flow covenant, under which the accumulated annual cash flow must be greater than zero.

The covenants have been complied with at all times during the year.

NZ IFRS 7.25, 27(a)

The fair value of CHFA borrowings is \$55.66m (2010 \$57.56m). Fair value has been determined using contractual cash flows discounted using a rate based on market borrowing rates at balance date ranging from 6.9% to 7.8% (2010 6.3% to 7.2%)

**Overdraft facility**

The DHB has an overdraft facility with the ASB Bank. The facility is secured by a negative pledge. Without the ASB's prior written approval, the DHB cannot perform the following actions:

- create any security over its assets except in certain defined circumstances;
- lend money to another person or entity (except in the ordinary course of business and then only on commercial terms) or give a guarantee;
- make a substantial change in the nature or scope of its business as presently conducted; or
- dispose of any of its assets except disposals in the ordinary course of business or disposal for full fair value.

**Finance leases**

NZ IAS 16.74(a)

Finance lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default. The net carrying amount of assets held under finance lease is disclosed in note 13.

NZ IFRS 7.25, 27(a)

The fair value of finance leases is \$1.63m (2010 \$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 6.2% (2010 6.4% to 7.3%).

## 17 Borrowings (continued)

### Analysis of finance leases

	Actual 2011 \$000	Actual 2010 \$000
NZ IAS 17.31(b)	<b>Minimum lease payments payable:</b>	
	490	534
	1,551	107
	0	0
	2,041	641
	(200)	(27)
	1,841	614
NZ IAS 17.31(b)	<b>Present value of minimum lease payments payable:</b>	
	477	517
	1,364	97
	0	0
	1,841	614

NZ IAS 17.31

### Description of finance leasing arrangements

The DHB has entered into finance leases for a building and telecommunications equipment. The building lease is for an initial period of twenty years ending March 2022, 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.

There are no restrictions placed on the DHB by any of the finance leasing arrangements.

## 18 Employee entitlements

	Actual 2011 \$000	Actual 2010 \$000
<b>Current portion</b>		
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	502	488
Long service leave	610	791
Retirement gratuities	639	792
<i>Total current portion</i>	21,279	22,589
<b>Non-current portion</b>		
Sabbatical leave	302	296
Long service leave	488	476
Retirement gratuities	491	474
<i>Total non-current portion</i>	1,281	1,246
<b>Total employee entitlements</b>	<b>22,560</b>	<b>23,835</b>

NZ IAS 1.125

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 this liability include 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 forward 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 5.8% (2010 5.4%) and an inflation factor of 2.5% (2010 2.5%) were used.

19 Provisions

	Actual 2011 \$000	Actual 2010 \$000
<b>Current portion</b>		
Restructuring	1,100	0
ACC Partnership Programme	379	236
<i>Total current portion</i>	1,479	236
<b>Non-current portion</b>		
Restructuring	0	0
ACC Partnership Programme	90	126
<i>Total non-current portion</i>	90	126
<b>Total provisions</b>	<b>1,569</b>	<b>362</b>

NZ IAS 37.84

Movements for each class of provision are as follows:<sup>28</sup>

	Restructuring \$000	ACC Partnership Programme \$000	Total \$000
Balance at 1 July 2009	0	400	400
Additional provisions made	0	235	235
Amounts used	0	(273)	(273)
Unused amounts reversed	0	0	0
Balance at 30 June 2010	0	362	362
Balance 1 July 2010	0	362	362
Additional provisions made	1,100	405	1,505
Amounts used	0	(298)	(298)
Unused amounts reversed	0	0	0
<b>Balance at 30 June 2011</b>	<b>1,100</b>	<b>469</b>	<b>1,569</b>

**Restructuring**

During the first half of 2011, the DHB carried out a series of reviews of the DHB's management and administration functions, resulting in a number of restructuring decisions. The restructuring for corporate support functions, including Finance and Human Resources, are expected to be completed in late 2011. The provision represents the obligation to pay employee exit costs.

**ACC Partnership Programme**

*Liability valuation*

NZ IFRS 4 D17.8A

An external independent actuarial valuer, DWV Smith, has calculated the liability as at 30 June 2011. The actuary has attested 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 actuary's report.

*Risk margin*

NZ IFRS 4 D17.2(c)

A risk margin of 25% (2010 25%) has been assessed to allow for the inherent uncertainty in the central estimate of the claims liability.

NZ IFRS 4 D17.2(e)

The risk margin has been determined after consideration of past claims history, costs, and trends.

NZ IFRS 4 D17.2(d)

The risk margin is intended to achieve a 75% probability of the liability being adequate to cover the cost of injuries and illnesses that have occurred up to balance date.

*Key assumptions*

NZ IFRS 4 D17.6.1(c)

The key assumptions used in determining the outstanding claims liability are:

NZ IFRS 4 D17.2(g)

NZ IFRS 4 D17.8A(d)

- an average assumed rate of inflation of 2.5% for 30 June 2012 and 2013;
- a weighted average discount factor of 5.8% for 30 June 2012 and 6.4% for 30 June 2013 that has been applied to future payment streams; and
- claim inception rates based on analysis of historical claim experience of the DHB. It has been assumed that 5% of claims will result in no payment, 80% will result in medical claims, and 15% will result in an element of time off work.

<sup>28</sup> Disclosure of comparative figures for provisions is good practice although not required (NZ IAS 37.84).

## 19 Provisions (continued)

### *Insurance risk*

NZ IFRS 4 D17.7.1(b) The DHB operates the Full Self Cover Plan. Under this plan, it assumes full financial and injury management responsibility for work-related injuries and illnesses for a selected management period and continuing financial liability for the life of the claim to a pre-selected limit.

The DHB is responsible for managing claims for a period of up to 24 months following the lodgement date. At the end of 24 months, if an injured employee is still receiving entitlements, the financial and management responsibility of the claim will be transferred to ACC for a price calculated on an actuarial valuation basis.

A stop loss limit of 250% of the industry premium is used. The stop loss limit means the DHB will carry the total cost of all claims only up to a total of \$625,000 per annum.

## 20 Equity

		Actual 2011 \$000	Actual 2010 \$000
NZ IAS 1.106(d)	<b>Crown equity</b>		
	Balance at 1 July	63,694	63,818
	Capital contributions from the Crown	931	508
	Repayment of capital to the Crown	(633)	(632)
	Balance at 30 June	63,992	63,694
NZ IAS 1.106(d)	<b>Accumulated surpluses/(deficits)</b>		
	Balance at 1 July	(21,882)	(12,055)
	Surplus/(deficit) for the year	(9,394)	(9,949)
NZ IAS 16.41	Revaluation reserves transfer on disposal	0	270
	Transfer from/(to) trust funds	(212)	(148)
	Balance at 30 June	(31,488)	(21,882)
NZ IAS 1.106(d)	<b>Revaluation reserves</b>		
	Balance at 1 July	54,645	35,941
NZ IAS 36 NZ 61.1	Impairment charges	0	0
NZ IAS 36 NZ 120.1	Reversal of impairment	0	0
NZ IAS 16.77(f)	Revaluations	0	18,974
NZ IAS 16.41	Transfer to accumulated surpluses/(deficits) on disposal	0	(270)
	Balance at 30 June	54,645	54,645
Good practice	Revaluation reserves consist of:		
	Land	46,784	46,784
	Buildings	7,861	7,861
	<i>Total revaluation reserves</i>	54,645	54,645
NZ IAS 1.106(d)	<b>Trust funds</b>		
	Balance at 1 July	2,064	1,916
	Transfer from/(to) accumulated surpluses/(deficits)	212	148
	Balance at 30 June	2,276	2,064
	<b>Total equity</b>	<b>89,425</b>	<b>98,521</b>
Good practice	Included in accumulated surpluses/deficits are \$3.12m (2010 \$ 3.87m) of unspent mental health ring fenced funding representing the excess of funding received over relevant mental health expenses since this funding was established.		

NZ IAS 7 NZ 20.1 **21 Reconciliation of net surplus/(deficit) to net cash flow from operating activities**

	Actual 2011 \$000	Actual 2010 \$000
	(9,394)	(9,949)
NZ IAS 7 NZ 20.2(a) <b>Net surplus/(deficit)</b>		
<b>Add/(less) non-cash items</b>		
Share of associate surplus	(51)	0
Donated property, plant, and equipment	(2,059)	0
Increase in provisions	1,505	235
Depreciation and amortisation expense	13,465	11,397
Net (gains)/losses on derivative financial instruments	60	(244)
<i>Total non-cash items</i>	12,920	11,388
NZ IAS 7 NZ 20.2(c) <b>Add/(less) items classified as investing or financing activities</b>		
(Gains)/losses on disposal of property, plant, and equipment	1,323	110
<i>Total items classified as investing or financing activities</i>	1,323	110
NZ IAS 7 NZ 20.2(b) <b>Add/(less) movements in statement of financial position items</b>		
Debtors and other receivables <sup>29</sup>	2,426	(7,726)
Inventories	(17)	166
Creditors and other payables <sup>30</sup>	142	7,256
Provisions	(298)	(273)
Employee entitlements	(1,275)	3
<i>Net movements in working capital items</i>	978	(574)
<b>Net cash flow from operating activities</b>	<b>5,827</b>	<b>975</b>

**22 Capital commitments and operating leases**

	Actual 2011 \$000	Actual 2010 \$000
	1,503	9,444
NZ IAS 16.74(c) <b>Capital commitments</b>		
Property, plant, and equipment	1,503	9,444
NZ IAS 38.122(e) Intangible assets	0	0
<b>Total capital commitments</b>	<b>1,503</b>	<b>9,444</b>

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

**Non-cancellable operating lease commitments**

NZ IAS 17.35(a) The future aggregate minimum lease payments to be paid under non-cancellable operating leases are as follows:

	Actual 2011 \$000	Actual 2010 \$000
	2,128	1,867
NZ IAS 17.35(a)(i) Not later than one year		
NZ IAS 17.35(a)(ii) Later than one year and not later than five years	5,582	4,512
NZ IAS 17.35(a)(iii) Later than five years	1,136	27
<b>Total non-cancellable operating leases</b>	<b>8,846</b>	<b>6,406</b>

<sup>29</sup> Any debtors or accruals for the sale of property, plant, and equipment will need to be excluded when calculating this movement.

<sup>30</sup> Any creditors and accruals for capital expenditure will need to be excluded when calculating this increase or decrease.

## 22 Capital commitments and operating leases (continued)

The DHB 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 2025, 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 2016, with a right of renewal for a further three periods of three years each, and a review to market rent every two years.

Good practice

### Other non-cancellable contractual operating commitments

The future aggregate payments to be paid under other non-cancellable contractual operating commitments are as follows:

	Actual 2011 \$000	Actual 2010 \$000
Not later than one year	48,754	58,639
Later than one year and not later than five years	42,466	69,118
Later than five years	142	0
<b>Total other non-cancellable contractual operating commitments</b>	<b>91,362</b>	<b>127,757</b>

The majority of these commitments relate to the purchase of health services to be provided by other health service providers.

## 23 Contingencies

### Contingent liabilities

#### *Lawsuits against the DHB*

NZ IAS 37.86(a),(b)

The DHB has been notified of three legal claims against it but 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 DHB is vigorously contesting the claims and there is uncertainty as to what any legal judgement may be. The DHB believes that any court award will be met by its insurers.

#### *Superannuation schemes*

NZ IAS 19.30(b)(iii)

The DHB 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 DHB could be responsible for any deficit of the Scheme. Similarly, if a number of employers ceased to participate in the Scheme, the DHB could be responsible for an increased share of any deficit.

As at 31 March 2010, the Scheme had a past service surplus of \$43.60m (exclusive of Employer Superannuation Contribution Tax). 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 NZ IAS 19.<sup>31</sup>

The actuary of the Scheme has recommended that the employer contributions be suspended with effect from 1 April 2011.

### Contingent assets

NZ IAS 37.89

The DHB has no contingent assets (2010 \$nil).<sup>32</sup>

<sup>31</sup> NZ IAS 19.30(c) requires that, where there is a surplus or deficit in a scheme that may 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 implications, if any, for the entity.

<sup>32</sup> Where no contingent assets exist, it is good practice to state that fact.

## 24 Related party transactions

All related party transactions have been entered into on an arms' length basis.<sup>33</sup>

NZ IAS 24.26(a)

The DHB is a wholly-owned entity of the Crown.

NZ IAS 24.26(b)(i)

### Significant transactions with government-related entities<sup>34</sup>

The DHB has received funding from the Crown and ACC of \$456.94m (2010 \$431.94m) to provide health services in the Te Motu area for the year ended 30 June 2011.

Revenue earned from other DHBs for the care of patient's outside the DHB's district amounted to \$41.97m (2010 \$35.84m) for the year ended 30 June 2011. Expenditure to other DHBs for their care of patients from the DHB's district amounted to \$31.93m (2010 \$25.18m) for the year ended 30 June 2011.

NZ IAS 24.26(b)(ii)

### Collectively, but not individually, significant, transactions with government-related entities<sup>35</sup>

In conducting its activities, the DHB is required to pay various taxes and levies (such as GST, FBT, PAYE, and ACC levies) to the Crown and entities related to the Crown. The payment of these taxes and levies, other than income tax, is based on the standard terms and conditions that apply to all tax and levy payers. The DHB is exempt from paying income tax.

The DHB also purchases goods and services from entities controlled, significantly influenced, or jointly controlled by the Crown. Purchases from these government-related entities for the year ended 30 June 2011 totalled \$3.21m (2010 \$3.01m). These purchases included the purchase of electricity from Genesis, air travel from Air New Zealand, and postal services from New Zealand Post.

NZ IAS 24.17,18

### Related party transactions with the DHB's subsidiary and associate

	Actual 2011 \$000	Actual 2010 \$000
<b>Subsidiary – Te Motu Laundry Services Limited</b>		
Services provided to the DHB	515	502
Payable for services provided to the DHB	25	21
<b>Associate – Shared Services Limited</b>		
Services provided to the DHB	217	201
Payable for services provided to the DHB	20	15

NZ IAS 24.16

### Transactions with key management personnel

#### Key management personnel compensation

	Actual 2011 \$000	Actual 2010 \$000
Salaries and other short-term employee benefits	1,428	1,579
Post-employment benefits	10	16
Other long-term benefits	25	6
Termination benefits	53	0
<b>Total key management personnel compensation</b>	<b>1,516</b>	<b>1,601</b>

Good practice

Key management personnel include all Board members, the Chief Executive, and the other seven members of the management team.<sup>36</sup>

#### Related party transactions involving key management personnel (or their close family members)

During the year, the DHB contracted with Te Motu PHO Limited in which the Chair is the Director and shareholder. The value of the expenditure totalled \$2.31m (2010 \$2.22m) and was incurred on normal commercial terms. There is a balance of \$128,000 (2010 \$143,000) outstanding for unpaid invoices at year end.

<sup>33</sup> Disclosures that related party transactions were made on terms equivalent to those that prevail in arm's length transactions are made only if such terms can be substantiated (NZ IAS 24.23).

<sup>34</sup> The nature and amount of each individually significant transaction with a government-related entity shall be separately disclosed (NZ IAS 24.26(b)(i)). The significance of a transaction is assessed both on its size and nature.

<sup>35</sup> A qualitative or quantitative indication of the extent of collectively, but not individually, significant, transactions with government-related entities shall be disclosed (NZ IAS 24.26(b)(ii)).

<sup>36</sup> This disclosure provides useful information to readers as to who are key management personnel.

## 24 Related party transactions (continued)

During the year, the DHB transacted with Te Motu Pharmacy Limited in which Board member D Wattle is a Director and shareholder. The value of the expenditure totalled \$1.21m (2010 \$1.12m) and was incurred on normal commercial terms. There is a balance of \$28,000 (2010 \$32,000) outstanding for unpaid invoices at year end.

NZ IAS 24.17,18(f)

During the year, the DHB purchased legal services from Hamstead, Brown and Wilkinson, a legal firm in which Board member D Wattle's husband is a partner. These services cost \$34,546 (2010 \$22,345) and were supplied on normal commercial terms. There is a balance of \$2,342 (2010 \$0) outstanding for unpaid invoices at year end.

During the year, the DHB contracted with Construction Specialists Limited in which the Chief Executive's son is the sole company Director. The value of the contract works totalled \$2.28m (2010 \$nil) and was negotiated on normal commercial terms. There is a balance of \$228,000 (2010 \$nil) outstanding for retentions at year end.

There are close family members of key management personnel employed by the DHB. The terms and conditions of those arrangements are no more favourable than the DHB would have adopted if there were no relationship to key management personnel.

NZ IAS 24.17(c),(d)

No provision has been required, nor any expense recognised for impairment of receivables, for any loans or other receivables to related parties (2010 \$nil).

CEA s152(1)(a)

## 25 Board member remuneration<sup>37</sup>

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

	Actual 2011 \$000	Actual 2010 \$000
Board member 1(Chair) <sup>38</sup>	44	45
Board member 2 (Deputy Chair)	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
Board member 9	34	34
<b>Total board member remuneration</b>	<b>319</b>	<b>324</b>

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 Directors 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 (2010 \$nil).

<sup>37</sup> The disclosures required by section 152 of the Crown Entities Act 2004 shall be made in the annual report. It is good practice to include these disclosures in the financial statements section of the annual report.

<sup>38</sup> The actual names of board members will need to be included in this disclosure.

CEA s152(1)(c)

## 26 Employee remuneration<sup>39</sup>

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 2011	Actual 2010
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
<b>Total employees</b>	<b>182</b>	<b>175</b>

CEA s152(1)(d)

During the year ended 30 June 2011, 2 (2010: 3) employees received compensation and other benefits in relation to cessation totalling \$225,000 (2010 \$174,000).

## 27 Events after the balance date

NZ IAS 10.19,21

There were no significant events after the balance date.

## 28 Financial instruments

NZ IFRS 7.8

### 28A Financial instrument categories

The carrying amounts of financial assets and liabilities in each of the NZ IAS 39 categories are as follows:

	Actual 2011 \$000	Actual 2010 \$000
<b>Fair value through surplus or deficit – Held for trading<sup>40</sup></b>		
NZ IFRS 7.8(e)(ii) Forward foreign exchange contracts in a liability position	1,040	98
<b>Loans and receivables</b>		
NZ IFRS 7.8(c) Cash and cash equivalents	14,464	17,624
Debtors and other receivables	12,822	15,248
Investments	13,000	10,250
<i>Total loans and receivables</i>	40,286	43,122
<b>Financial liabilities measured at amortised cost</b>		
NZ IFRS 7.8(f) Creditors and other payables (excluding income in advance and GST)	27,429	28,723
Borrowings – CHFA loans	55,301	54,867
<i>Total financial liabilities measured at amortised cost</i>	82,730	83,590

<sup>39</sup> For the purposes of total remuneration paid or payable, the remuneration that should be considered includes the following elements: salary, cash allowances, bonuses, incentive payments, and other benefits included in the employee's total remuneration package (for example, superannuation contributions, medical insurance, and motor vehicles).

<sup>40</sup> 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.

## 28B Fair value hierarchy

NZ IFRS 7.27B(a) The only financial instruments the DHB 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).

## 28C Financial instrument risks

NZ IFRS 7.31 The DHB's activities expose it to a variety of financial instrument risks, including market risk, credit risk, and liquidity risk. The DHB 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.

NZ IFRS 7.33(a),(b) **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 DHB 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 DHB's exposure to fair value interest rate risk arises from bank deposits and bank loans that are at fixed rates of interest. The exposure to fair value interest rate risk is not actively managed by the DHB as investments and borrowings 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 DHB'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.

NZ IFRS 7.40 *Sensitivity analysis*

As at 30 June 2011, 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 (2010 \$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 DHB 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 DHB's policy is to manage foreign currency risks arising from contractual commitments and liabilities by entering into foreign exchange forward contracts for purchases over NZ\$100,000 to manage the foreign currency risk exposure.

NZ IFRS 7.40 *Sensitivity analysis*<sup>41</sup>

As at 30 June 2011, if the NZ dollar had weakened/strengthened by 5% against the US dollar with all other variables held constant, the surplus for the year would have been:

- \$140,000 (2010 \$200,000) lower if the NZ dollar had weakened; or
- \$150,000 (2010 \$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 DHB has no outstanding foreign denominated payables at balance date (2010 \$nil).

### **Credit risk**

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

Due to the timing of its cash inflows and outflows, surplus cash is invested with registered banks.

NZ IFRS 7.36(a)  
NZ IFRS 7.36(b),37(c)  
NZ IFRS 7 Appdx  
B10(b)

In the normal course of business, exposure to credit risk arises from cash and term deposits with banks, debtors and other 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.

<sup>41</sup> A sensitivity analysis for derivative financial instruments is required when the aggregated fair value of derivatives is significant.

## 28C Financial instrument risks (continued)

NZ IFRS 7.36(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 and A- for long-term investments. The DHB has experienced no defaults of interest or principal payments for term deposits and forward foreign exchange contracts.

Concentrations of credit risk for debtors and other 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.

NZ IFRS 7.36(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 2011 \$000	Actual 2010 \$000
<b>COUNTERPARTIES WITH CREDIT RATINGS</b>		
<b>Cash and cash equivalents and investments</b>		
AA	17,605	17,037
AA-	9,859	10,837
<i>Total cash and cash equivalents and investments</i>	27,464	27,874
<b>COUNTERPARTIES WITHOUT CREDIT RATINGS</b>		
<b>Debtors and other receivables</b>		
Existing counterparty with no defaults in the past	12,770	15,248
Existing counterparty with defaults in the past	52	0
<i>Total debtors and other receivables</i>	12,822	15,248

### Liquidity risk

NZ IFRS 7.39(c) *Management of liquidity risk*

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

The DHB 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*

NZ IFRS 7.39(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. Future interest payments on floating rate debt are based on the floating rate of the instrument at balance date. The amounts disclosed are the contractual undiscounted cash flows.<sup>42</sup>

	Carrying amount \$000	Contractual cash flows \$000	Less than 1 year \$000	1-2 years \$000	2-5 years \$000	More than 5 years \$000
<b>2010</b>						
Creditors and other payables	28,723	28,723	28,723	0	0	0
Finance leases	614	641	534	107	0	0
CHFA loans	54,867	69,361	7,556	6,104	30,812	27,044
<b>Total</b>	<b>84,204</b>	<b>98,725</b>	<b>36,813</b>	<b>6,211</b>	<b>30,812</b>	<b>27,044</b>

<sup>42</sup> NZ IFRS 7 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.

28C Financial instrument risks (continued)

	Carrying amount \$000	Contractual cash flows \$000	Less than 1 year \$000	1-2 years \$000	2-5 years \$000	More than 5 years \$000
<b>2011</b>						
Creditors and other payables	27,429	27,429	27,429	0	0	0
Finance leases	1,841	2,041	490	500	1,051	0
CHFA loans	55,301	69,361	3,545	16,081	35,256	14,479
<b>Total</b>	<b>84,571</b>	<b>98,831</b>	<b>31,464</b>	<b>16,581</b>	<b>36,307</b>	<b>14,479</b>

*Contractual maturity analysis of forward foreign exchange contracts<sup>43</sup>*

NZ IFRS 7.39(b),  
B11D(d)

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 NZ\$ \$000	Asset carrying amount NZ\$ \$000	Contractual cash flows NZ\$ \$000	Less than 6 months NZ\$ \$000	6-12 months NZ\$ \$000	1-2 years NZ\$ \$000
<b>2010</b>						
Forward foreign exchange contracts	1,040	0				
-outflow			6,690	1,190	5,500	0
-inflow			5,967	1,009	4,958	0
<b>2011</b>						
Forward foreign exchange contracts	980	0				
-outflow			6,830	1,879	4,951	0
-inflow			5,987	1,987	4,000	0

29 Capital management

NZ IAS 1.134

The DHB's capital is its equity, which comprises Crown equity, accumulated surpluses, revaluation reserves, and trust funds. Equity is represented by net assets.

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

30 Te Motu Laundry Services Limited

The DHB has not consolidated its wholly-owned subsidiary Te Motu Laundry Services Limited (TMLSL). The DHB's investment in TMLSL is \$200,000.

For the year ended 30 June 2011, TMLSL had total revenue of \$722,345 (2010 \$712,492) and a net surplus of \$22,373 (2010 \$18,540). TMLSL had assets of \$516,897 (2010 \$502,540) and liabilities of \$313,844 (2010 \$321,541) as at 30 June 2011.

<sup>43</sup> Entities shall include all gross settled derivative financial instruments regardless of whether their fair value is an asset or a liability.

NZ IAS 1.112(c)

### 31 Patient trust monies

	Actual 2011 \$000	Actual 2010 \$000
Balance at 1 July	163	159
Monies received	825	270
Interest received	4	6
Payments made	(851)	(272)
<b>Balance at 30 June</b>	<b>141</b>	<b>163</b>

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 DHB's financial statements.

### 32 Explanation of major variances against budget

NZ IAS 1 NZ 46.1

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

#### Statement of comprehensive income

Patient care revenue was \$4.10m higher than budgeted, mainly due to:

- increased MoH revenue of \$2.80m for various programmes, including the Human Papilloma Virus Immunisation Programme;
- additional funding from the Clinical Training Agency of \$1.00m, mainly for nursing; and
- additional income from other DHB's of \$500,090.

Other income was \$1.96m higher than budgeted due to donated property, plant, and equipment of \$2.06m.

Personnel costs was \$9.58m higher than budgeted, mainly due to planned savings of \$8.2m not being achieved and unbudgeted restructuring costs of \$1.1m.

Outsourced services was \$4.57m 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 \$1.46m higher than budgeted, mainly due to the impact of the property revaluation increase of 30 June 2010 not being budgeted for.

#### Statement of changes in equity

The deficit was \$5.85m greater than budgeted due to the statement of comprehensive income explanations provided above.

#### Statement of financial position

Cash and cash equivalents are under budget by \$12.01m, which is offset by the increase in investments of \$11.00m.

Property, plant, and equipment is over budget by \$15.88m, mainly due to the revaluation of land and buildings in the prior year not being budgeted for.

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

#### Statement of cash flows

Receipts from patient care other is \$4.99m below budget, mainly due to lower ACC contracted revenue of \$2.4m.

Payments to employees was \$10.72m greater than budget, mainly due to planned employee cost savings of \$8.2m not being achieved.

Good practice 33 Summary cost of services

	Parent and group		
	Actual 2011 \$000	Budget 2011 \$000	Actual 2010 \$000
<b>Income</b>			
Prevention services	9,431	8,235	9,344
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
<i>Total income</i>	509,931	504,022	478,397
<b>Expenditure</b>			
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
<i>Total expenditure</i>	519,376	507,561	488,346
Share of associate surplus/(deficit)	51	0	0
<b>Surplus/deficit</b>	<b>(9,394)</b>	<b>(3,539)</b>	<b>(9,949)</b>

**SUBJECT INDEX**

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## OUR SERVICES

Audit New Zealand has a unique position as a business unit of the Controller and Auditor-General (the Auditor-General). The core business of Audit New Zealand is carrying out annual audits across the New Zealand public sector. We are also an experienced, trusted and independent provider of assurance services, in "real-time" or retrospectively. These services are provided under Section 17 of the Public Audit Act 2001.

Our core strengths include provision of assurance services over:

- asset management;
- contract management;
- project management;
- tendering and procurement; and
- taxation.

We can also help public sector organisations with review and assurance services for governance arrangements, risk management practices, performance management and reporting, sensitive and discretionary expenditure, and investigations of probity and other sensitive matters where independence may be essential.

We are the Auditor-General's in-house specialists. We support her work by providing public sector organisations with greater levels of assurance in areas that really matter.

Our assurance services complement our audit work. Our independence and integrity are fundamental to us. You can be confident that our assurance work meets international standards of auditor independence.

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