

Statement of Commitments

As at 30 June 2007

	June 2007 Actual \$000's	June 2006 Actual \$000's
Capital Commitments		
Capital Commitments approved and contracted	18,129	10,430
Operating Commitments		
To the Crown, SOEs or other Crown entities	411	411
To third parties	32,832	44,176
	33,243	44,587
Total Commitments	51,372	55,017

Term Classification of commitments

Less than one year	36,621	32,318
One to two years	5,238	14,186
Two to five years	5,591	4,590
Over five years	3,922	3,923
	51,372	55,017

Operating lease Commitments

Less than one year	482	4,968
One to two years	114	457
Two to five years	133	138
	729	5,563

The Board's Funder Arm has a number of open ended or evergreen contracts at the end of the financial year. Funder Arm operating commitments as at 30 June 2007 in respect of the 2007/8 financial year total \$119.0m and in respect of the 2008/09 financial year, total \$106.7m. In addition to these amounts, there is a total of \$91.9m committed for the 2010/12 financial years.

The operating commitments disclosed in this note include committed obligations for health purchasing expenditure with various external parties. The DHB is also obligated to funding significant streams of 'demand driven' health purchasing expenditure. Commitments of this nature are in place for the purchase of pharmacy, laboratory and GP services. Because this expenditure is 'demand driven' it is not possible to quantify the obligation in this note. Expenditure of this nature in the 2006/07 year totalled \$160.7m (2005/06 \$139.6m).

Statement of Contingent Liabilities

As at 30 June 2007

The Board is aware of a number of possible claims involving employment and medical issues, which may ultimately, result in legal action. However, the potential liability to the Board is not considered material.

The position for this year is unchanged from the 2005/06 year.

Asbestos

There may be a potential cost relating to the discovery of asbestos on the Middlemore site. However if any were to be found it would be expensed in the year it is found as is the current practice.

The accompanying accounting policies & notes form part of these financial statements.

Notes to the Financial Statements

As at 30 June 2007

	June 2007 Actual \$000's	June 2006 Actual \$000's
Note 1 - Net Surplus/(Deficit)		
After Charging:		
Remuneration of Auditors - Audit Fees	126	93
Remuneration of Auditors - Audit Fees IFRS	8	-
Depreciation – Buildings & Plant	8,750	8,435
Depreciation – Clinical Equipment	7,385	6,786
Depreciation – Other Equipment	1,414	893
Depreciation – Information Technology	3,982	4,720
Depreciation – Vehicles	24	27
Board Members' Fees	362	324
Interest Expense	6410	5,805
Rental and operating lease costs	4,196	4,091
Bad debts written off	3,476	-
Loss on Disposal of Assets	6	-
Changes in Provision for Doubtful Debts	-	2,872
Capital Charge (refer Note 14)	12,988	7,207
After crediting:		
Interest income	1,689	1,374
Changes in Provision for Doubtful Debts	564	-
Donations	2,182	4,000

Note 2 - Public Equity

(a) General Funds

Opening Balance 1 July 2006	104,680	104,680
Funds Injected	741	-
Equity Returned	(419)	-
Balance at 30 June	105,002	104,680

(b) Retained Earnings

Accumulated Deficit at 1 July 2006	(67,119)	(68,511)
Net Surplus/(Deficit)	1,118	1,392
Accumulated Deficit at 30 June	(66,001)	(67,119)

(c) Restricted Funds

Opening Balance 1 July 2006	724	680
Net Movement of Funds	38	44
Balance 30 June	762	724

	June 2007 Actual \$000's	June 2006 Actual \$000's
(d) Revaluation Reserve		
Land Revaluation Reserve		
Opening balance 1 July	80,461	27,439
Revaluation	-	53,022
Balance 30 June	80,461	80,461
Building Revaluation Reserve		
Opening balance 1 July	53,868	24,070
Revaluation	-	29,798
Balance 30 June	53,868	53,868
Total Revaluation Reserve	134,329	134,329

Restricted Funds

Restricted Funds are funds donated or bequeathed for a specific purpose. The use of these assets must comply with the specific terms of the sources from which the funds were derived.

Revenue and expenditure in respect of these funds is recognised in the Statement of Financial Performance. An amount equal to expenditure is transferred from the Fund component of Equity to Retained Earnings. An amount equivalent to the revenue is transferred from Retained Earnings to the Restricted Fund. Disbursements related to prior 1993 funds are not recognised in the Statement of Financial Performance but are directly debited to the Restricted Funds component of Equity. All Restricted Funds are held in bank accounts that are separate from the Board's normal banking facilities.

	June 2007 Actual \$000's	June 2006 Actual \$000's
Note 3 - Cash and Short Term Deposits		
Bank Accounts & Petty Cash	867	7,607
	867	7,607

Note 4 - Receivables and Prepayments

Trade Debtors	18,774	21,355
Provision for doubtful debts	(4,303)	(4,867)
	14,471	16,488
Other Receivables	16,724	3,346
Prepayments	985	747
Total Receivables and Prepayments	32,180	20,581

As at 30 June 2007 Debtors included Manukau Health Trust for \$0.4m



Note 5 - Inventories

No inventories are pledged as security for liabilities and inventory items are expensed on issue to wards, theatres or clinics.

Note 6 - Fixed Assets

	At Cost June 2007 \$000's	Valuation \$000's	Accumulated Depreciation \$000's	Book Value June 2007 \$000's
Freehold Land	-	84,066	-	84,066
Buildings & Plant	22,010	240,226	8,961	253,275
Clinical Equipment	76,888	-	51,567	25,321
Other Equipment	13,484	-	9,966	3,518
Information Technology Equipment	49,433	-	43,876	5,557
Motor Vehicles	267	-	201	66
Work in Progress	15,350	-	-	15,350
	177,432	324,292	114,571	387,153

	At Cost June 2006 \$000's	Valuation \$000's	Accumulated Depreciation \$000's	Book Value June 2006 \$000's
Freehold Land	-	84,066	-	84,066
Buildings & Plant	1,419	240,226	211	241,434
Clinical Equipment	70,150	-	44,181	25,969
Other Equipment	12,453	-	8,550	3,903
Information Technology Equipment	47,144	-	39,894	7,250
Motor Vehicles	267	-	177	90
Work in Progress	8,599	-	-	8,599
	140,032	324,292	93,013	371,311

Land and Buildings includes revaluation as at 30 June 2006 of \$82.8m. Registered Valuer, Telfer Young, performed this revaluation. Valuations have been assessed for inclusion in the annual report in accordance with FRS-3, Accounting for Property, Plant and Equipment, and VS-3, Valuations for Financial Statements, of the New Zealand Property Institute. Land has been assessed at fair market value and improvements by reference to market evidence or, where appropriate, on the basis of Optimised Depreciated Replacement Cost. A review of Land and Buildings was undertaken in June 2007 but the movement in valuation was found to be immaterial.

The disposal of certain land may be subject to legislation such as the Reserve Act 1977 and the "offerback" provisions of section 40 of the Public Works Act 1981. Subject to the legislation, if the Board has declared land surplus and wishes to sell it, the Crown may require the Board to sell that surplus land to it for use in the redress of Treaty of Waitangi claims. The Board may also be required to assist the Crown to meet its obligations over Maori sites of significance. There are currently no claims in respect of the above.

	June 2007 Actual \$000's	June 2006 Actual \$000's
Note 7 - Payables and Accruals		
Trade Creditors and Accruals	93,773	76,255
Capital Charge due to the Crown	8,675	1,834
Employee Entitlements	54,326	43,205
Total Payables and Accruals	156,774	121,294

Note 8 - Borrowings

Stand-by Cash Advances & Overdraft Facilities	14,000	28,500
Bonds	70,000	70,000
	84,000	98,500

Repayment terms :

Less than One year	84,000	28,500
One to Two years	-	70,000
	84,000	98,500

Interest rates as at 30 June 2007:

Stand by cash advances and overdraft facilities	7.38%	6.38%
Bonds	7.50%	7.50%

The fair value of the Board's borrowings is approximated by the carrying amount disclosed in the Statement of Financial Position as the Board intends to hold its borrowings until maturity. Due to the nature of the funding from the Crown the Board utilises short term cash advances and overdraft facilities to minimise its interest expense.

At balance date, the Board had in place unsecured funding facilities totalling \$252.0m (which includes bonds, stand by cash advances and overdraft facilities). Of these, \$84.0m has been drawn at balance date.

The Board, therefore, has available undrawn facilities of \$168.0m, which includes term loans, standby cash advances and overdraft facilities.

The Board has entered into a negative pledge dated 26 November 1999. Under its debt covenants it has to comply with three requirements, which are interest rate cover, minimum capitalisation and debt to equity ratio. The Board is fully compliant with all covenants. The Board has negotiated ratios and covenants more appropriate to the changes in Public Health Funding for its banking and CFHA relationship although the 1999 Negative Pledge covenants still apply to the bonds.

In accordance with Government policy, private term debt which matures can be refinanced with the Crown Health Financing Agency, with the ability to access replacement debt for up to 7 years.

In support of its borrowing programme, the Board sought a credit rating from Standard and Poors in November 2000. A rating of AA/Stable was subsequently issued and in February 2004, was upgraded to AAA and has been maintained at this level since.

The Government of New Zealand does not guarantee loans.



June 2007
Actual
\$000's

June 2006
Actual
\$000's

Note 9 - Employee Entitlements

Retirement Entitlements	6,254	6,233
Long Service Leave	2,282	2,388
	8,536	8,621

Note 10 - Reconciliation of Net Surplus to Net Cash Flow from Operating Activities

Net Surplus/ (Deficit)	1,118	1,392
Add/(Less) non-cash items		
Depreciation	21,555	20,998
Increase/(Decrease) In Non-Current Employee Entitlements	(85)	1,104
Gain on sale of Fixed Assets	(6)	-
Add/(Less) Movements in Working Capital items		
(Increase)/Decrease in Receivables	(13,596)	(329)
(Increase)/Decrease in Prepayments	(238)	(424)
(Increase)/Decrease in Inventories	(998)	(540)
Increase/(Decrease) in Payables and Accruals	37,658	5,386
(Increase)/Decrease in Provision for Doubtful Debts	(564)	2,872
Net Cash Flow from Operating Activities	44,844	30,459

Note 11 - Financial Instruments

Counties Manukau District Health Board has a series of policies providing risk management with respect to financial instruments. The Board does not use derivative financial instruments for speculative purposes.

Interest Rate Risk

It is the Board's policy to hedge its interest rate exposure on core debt in order to minimise the impact of adverse interest rate movements.

At balance date, the Board had two interest rate swaps totalling \$54.0m in place to cover interest rate movements on actual borrowings, in line with the Board's treasury policy. The mark to market at balance date for these instruments was \$0.7m favourable for the Board. (2005/06 \$0.4m favourable).

Currency Risk

The Board has no foreign exchange exposure at present.

Credit Risk

In the normal course of its business, the Board incurs credit risk from trade receivables and financial institutions with which it places cash and short term deposits.

With respect to trade receivables, there is a significant concentration of credit risk in that typically more than 90% of the Board's receivables are due from the Ministry of Health.

The Board's policy is to limit counterparty risk on its exposure to cash and short term deposits placed with financial institutions, by restricting the amount which may be placed with any one institution. All such financial institutions must be registered banks in New Zealand with a Standard and Poors long term rating of at least A+. The Board does not require any collateral or security to support financial instruments due to the quality of the financial institutions dealt with.

The maximum exposure to credit risk is represented by the fair value of the financial instruments as approximated by the carrying amount disclosed in the Statement of Financial Position.

Fair Value

Other than interest rate swaps, where the fair value is disclosed above, the fair value of the Board's financial instruments is approximated by the carrying amount disclosed in the Statement of Financial Position.

Note 12-Transactions with Related Parties

Counties Manukau District Health Board is a wholly owned entity of the Crown. The Government significantly influences the role of the Board as well as being its major source of revenue. The funding received from the Government and the related amounts outstanding at year-end are shown below.

In addition to the funding relationship, the Board enters into numerous transactions with Government Departments and Crown agencies on an arm's length basis where those parties are only acting in the course of their normal dealings with the Board. These transactions are not considered to be related party transactions.

A number of Board members have associations with some of the providers of service to CMDHB. To the best of the Board's knowledge, these associations are fully disclosed through the Board's Conflict of Interest Register and none of these Board members are involved in any direct or indirect contract negotiations or discussions.

Related party transactions and balances:

▲ Government Funding

Counties Manukau District Health Board received revenue of \$897.2m (2005/06 \$828.6m) from the Government, through the Ministry of Health, to provide health services to the Counties Manukau district for the year.

The amount outstanding as at 30 June 2007 was \$7.2m.

Associates

▲ Auckland Regional RMO Services Ltd.

Counties Manukau District Health Board owns 33% of Auckland Regional RMO Services Ltd (ARRMOS), (previously known as the Northern Clinical Training Network Ltd). ARRMOS produced a profit of \$41,000 for the period ending 30 June 2007, of which \$13,667 is attributable to Counties Manukau District Health Board. As at 30 June 2007, \$0.572m was owed by CMDHB to ARRMOS on normal trading terms. CMDHB's share of the post acquisition retained surplus / (deficit) is \$293.

▲ Northern DHB Support Agency Ltd.

Northern DHB Support Agency Ltd (NDSA), is a limited liability company jointly owned by the Counties Manukau, Auckland and Waitemata DHBs. The role of the NDSA is to provide support to the northern region DHBs (Auckland, Counties Manukau, Northland and Waitemata) in their role as health service funders, in functional areas specifically delegated to the NDSA. Services supplied to CMDHB account for 26% (\$1.816m) of the supplies made by the company and as at 30 June 2007, \$0.656m was owed by CMDHB on normal trading terms. CMDHB's share of the post acquisition retained surplus / (deficit) is \$0.072m

▲ healthAlliance Limited

healthAlliance Ltd. is 50% owned by Counties Manukau District Health Board and has been established in conjunction with Waitemata District Health Board in order to secure benefits through joint procurement and shared services initiatives. Services supplied to CMDHB amount to \$15.463m for the year ended 30 June 2007 and as at the 30 June 2007 the sum of \$0.205m was owed to healthAlliance Ltd. In addition, services supplied by CMDHB to hA amount to \$0.424m for the year ended 30 June 2007 and as at 30 June 2007 the sum of \$0.284m was owed to CMDHB. CMDHB's share of the post acquisition retained surplus / (deficit) is \$0.0m

Subsidiaries

▲ Manukau Health Trust

The Manukau Health Trust (MHT) is a vehicle for treating private patients at the Manukau SuperClinic and is operated by a group of trustees. These trustees include nominees from CMDHB, who hold a minority position on the MHT Board.

MHT produced a profit of \$0.2m for the year ended 30 June 2007 and had Net Assets of \$0.3m as at 30 June 2007. The trust balances have not been consolidated into these accounts, because they are not material to the overall results of Counties Manukau District Health Board. At the end of financial year, MHT owed \$0.4m to Counties Manukau District Health Board.

▲ South Auckland Health Foundation

Counties Manukau District Health Board [CMDHB] is required under the Crown Entities Act, to consolidate into its statutory Accounts; those entities deemed "subsidiaries" under this Act. The definition of subsidiaries extends to those entities, whose sole or primary purpose gives "benefit", in this case to CMDHB. This is irrespective of legal ownership.

Under this technical definition CMDHB would be required to consolidate the South Auckland Health Foundation [SAHF] accounts into its final statutory accounts. CMDHB has determined not to follow this requirement as SAHF is a registered Charitable Trust and as such is an independent legal entity and is not under the control of CMDHB. In our view to consolidate the SAHF accounts into those of CMDHB would overstate the financial position of CMDHB as well as give a misleading picture of CMDHB's legal right or ability to access SAHF funds.

The Board has received independent legal advice that has confirmed that we have no legal right or equally, obligation in respect of SAHF. While CMDHB has been the major beneficiary of the Trust, it must meet all normal Charitable Trust requirements in terms of applications for funding.

CMDHB has had historically three nominees on the twelve person SAHF Board of Trustees, with the external Trustees having control under the Constitution.

In the interests of full disclosure and transparency, CMDHB is with the consent of SAHF, disclosing through this Note, the unaudited financial position of SAHF for the period ending 30th June 2007.

	June 2007 Actual \$000's	June 2006 Actual \$000's
Statement of Financial Performance		
Net Income	3,364	4,771
Operating Surplus	3,016	4,084
Distributions	2,177	5,021
Net Surplus (Deficit)	839	(937)

Statement of Financial Position

Total Equity	4,639	3,800
Non-Current Assets	12	11
Current Assets	4,669	3,831
Total Assets	4,681	3,842
Current Liabilities	42	42
Net Assets	4,639	3,800

Note 13 - Segmental Reporting

Counties Manukau District Health Board operates in the health and disability support services industry and in the geographical location of South and East Auckland.

Note 14 - Capital Charge

Counties Manukau District Health Board pays a capital charge quarterly to the Crown 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 2007 was 8.0% (2005/06 8.0%).

Note 15 - Patient funds

Counties Manukau District Health Board administers certain funds on behalf of patients, these funds being held in a separate bank account. The transactions during the year are not recognised in the Statement of Financial Performance. However, the bank account balance of \$0.05m is included in the Statement of Financial Position and the related Cash flows are included in the Statement of Cash Flows of Counties Manukau District Health Board.



Note 16 - Performance by Output Classes

	Funding Administration \$000's	Governance and Funding Administration \$000's	DHB Hospital Provider \$000's	Elimin- ation \$000's	Total DHB \$000's	Total Budget \$000's
Revenue						
■ Crown	869,199	9,303	462,097	(435,070)	905,529	897,656
■ Other	147	1,498	42,052	-	43,697	20,308
Total Revenue	869,346	10,801	504,149	(435,070)	949,226	917,964
Budget Revenue	840,338	6,297	491,916	(420,587)	917,964	
Expenditure						
■ Personnel	-	7,331	342,718	-	350,049	305,687
■ Depreciation	-	-	21,557	-	21,557	25,780
■ Capital Charge	-	-	12,988	-	12,988	12,653
■ Other	872,602	4,812	121,170	(435,070)	563,514	579,825
Total expenditure	872,602	12,143	498,433	(435,070)	948,108	923,945
Budget expenditure	843,662	7,659	493,211	(420,587)	923,945	
Net surplus (deficit)	(3,256)	(1,342)	5,716	-	1,118	(5,981)
Budget	(3,235)	(1,361)	(1,295)	-	(5,981)	
Reconciliation to retained earnings						
Opening retained earnings	1,186	(9,199)	(59,106)	-	(67,119)	(80,807)
Plus/(less) surplus/ (deficit) for year	(3,256)	(1,342)	5,716	-	1,118	(5,981)
Closing retained earnings	(2,070)	(10,541)	(53,390)	-	(66,001)	(86,788)
Budget	(2,796)	(9,739)	(74,253)	-	(86,788)	

The surplus for the year of \$1.118m is \$7.099m greater than the budgeted loss of \$5.981m. Refer to Note 20 for an explanation of this variance.

Note 17 - Employee Remuneration**Senior Employee Salaries**

During the Year Ended 30 June 2007, the following numbers of employees received remuneration of at least \$100,000 on an annualised basis:

Of the employees (opposite) 275 (280) are Medical Staff and 50 (44) are Management.

The Chief Executive's remuneration and other benefits are in the \$210,000 - \$219,999 band (seven months) (2005/06 \$440,000 - \$449,999) on an annualised basis. There was a change of the incumbent from December 2006.

If the remuneration of part-time employees were grossed up to an FTE (full time equivalent) basis, the total number of employees with FTE salaries of \$100,000 or more would be 484 compared with the actual total number of employees of 325.

Note 18 - Board Members Fees

Total Board Members fees paid amounted to \$0.4m for the period ending 30 June 2007 compared with \$0.3m in the previous year.

Counties Manukau District Health Board gives no guarantees or indemnities to any Board member or staff member.

Note 19 - Termination Payments

6 employees were paid a total of \$107,612 as redundancy payments:

1x \$4,000	1x \$6,887	1x \$16,171	1x \$21,643	1x \$29,322	1x \$29,589
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Note 20 - Major variations from the Statement of Intent

The budget figures are those approved by the Board at the beginning of the period in the initial Statement of Intent. The budget figures have been prepared in accordance with generally accepted accounting practice and are consistent with the accounting policies adopted by the Board for the preparation of the financial statements.

There has been a considerable increase in the volume of revenue received (and consequently operating cash) as a result of changes in Ministry of Health (MOH) policy. These changes include Inter District Flows, additional MOH funding and significant additional PHO funding. These additional amounts have been matched by additional expenditures.

Revenue for the year (excluding Donations) was \$31.6m greater than budget, while expenditure for the year was \$24.2m greater than budget. These increases reflect additional volumes and services, as well as specific programmes, and also specific costs such as the effect of the Holidays Act 2003.

The major variances in the Statement of Position are due to under spending on fixed assets.

Major variances in Statement of Cashflow are attributed to improved operating cashflows \$8.1m (delay in payment of the capital charge to the crown) and delayed spending on fixed assets \$21.4m resulting in lower funding requirements of \$28m than budgeted.

Employee Remuneration		
Total Remuneration Banding	Number of Employees 2007	Number of Employees 2006
\$100,000 - 109,999	47	46
\$110,000 - 119,999	31	31
\$120,000 - 129,999	23	23
\$130,000 - 139,999	26	25
\$140,000 - 149,999	27	27
\$150,000 - 159,999	20	20
\$160,000 - 169,999	26	28
\$170,000 - 179,999	29	29
\$180,000 - 189,999	19	20
\$190,000 - 199,999	17	18
\$200,000 - 209,999	18	16
\$210,000 - 219,999	10	9
\$220,000 - 229,999	6	6
\$230,000 - 239,999	5	5
\$240,000 - 249,999	3	3
\$250,000 - 259,999	3	4
\$260,000 - 269,999	3	2
\$270,000 - 279,999	4	4
\$280,000 - 289,999	2	2
\$290,000 - 299,999	1	1
\$300,000 - 309,999	2	2
\$310,000 - 319,999	1	-
\$320,000 - 329,999	1	1
\$340,000 - 349,999	-	-
\$350,000 - 359,999	1	1
\$440,000 - 449,999	-	1
	325	324