

# Notes to the financial statements

## (Parent and Group)

### Significant accounting policies

#### Reporting entity

Counties Manukau District Health Board (“CMDHB”) is a Health Board established by the New Zealand Public Health and Disability Act 2000. Counties Manukau DHB is a crown entity in terms of the Crown Entities Act 2004 owned by the Crown and domiciled in New Zealand.

The CMDHB group consists of the ultimate parent Counties Manukau District Health Board and its “deemed” subsidiaries, Manukau Health Trust, and South Auckland Health Foundation. These are not considered to be material and have not been consolidated into the accounts. Its associate companies are healthAlliance Ltd (50%), Auckland Regional RMO Services Ltd (33%) and the Northern DHB Support Agency (33.3%) are equity accounted. All CMDHB subsidiaries and associates are incorporated and domiciled in New Zealand.

Counties Manukau DHB is a reporting entity for the purposes of the New Zealand Public Health and Disability Act 2000, the Financial Reporting Act 1993, the Public Finance Act 1989 and the Crown Entities Act 2004.

Counties Manukau DHB is a public benefit entity, as defined under NZIAS 1.

Counties Manukau DHB's activities involve delivering health and disability services and mental health services in a variety of ways to the community.

The financial statements were authorised for issue by the Board on 03/10/08.

#### Statement of compliance

The consolidated financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZGAAP). They comply with New Zealand equivalents to International Financial Reporting Standards (NZIFRS), and other applicable Financial Reporting Standards, as appropriate for public benefit entities.

These are CMDHB's first NZIFRS financial statements and NZIFRS 1 has been applied.

An explanation of how the transition to NZIFRS has affected the reported financial position and financial performance of CMDHB is provided in note 25.

#### Basis of preparation

The financial statements are presented in New Zealand Dollars (NZD), rounded to the nearest thousand. The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments (interest rate swap contracts) and financial instruments classified as available-for-sale and land and buildings.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing an opening NZIFRS Statement of Financial Position at 1 July 2006 for the purposes of the transition to NZIFRS.

#### Critical accounting estimates and assumptions

In preparing these financial statements the DHB 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.

#### Basis for consolidation subsidiaries

Basis for consolidation Subsidiaries Counties Manukau District Health Board 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 to Counties Manukau District Health Board. This is irrespective of legal ownership.

The Manukau Health Trust Board which is operated by a group of trustees includes nominees from Counties Manukau District Health Board. This entity is not consolidated as it is not material to Counties Manukau District Health Board.

The South Auckland Health Foundation operates as a registered Charitable Trust controlled by a group of trustees and includes three nominees from Counties Manukau District Health Board. Counties Manukau District Health Board has no legal right or equally, obligation in respect of SAHF. This entity is not consolidated as it is not material to Counties Manukau District Health Board.

#### Associates

The Board holds share holdings in associate companies. The interests in these associates are not accounted for as they are not material to Counties Manukau District Health Board.

#### Budget figures

The budget figures are those approved by the health board in its District Annual Plan and included in the Statement of Intent tabled in parliament. The budget figures have been prepared in accordance with NZGAAP. They comply with NZIFRS and other applicable Financial Reporting Standards as appropriate for public benefit entities. Those standards are consistent with the accounting policies adopted by CMDHB for the preparation of these financial statements.

#### Financial instruments

##### Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity securities, trade and other receivables, cash and cash equivalents,

interest bearing loans and borrowings, and trade and other payables. Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if CMDHB becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if CMDHB's contractual rights to the cash flows from the financial assets expire or if CMDHB transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset.

Cash and cash equivalents comprise cash balances and call deposits with maturity of no more than three months from the date of acquisition. Bank overdrafts that are repayable on demand and form an integral part of CMDHB's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Accounting for finance income and expense is explained in a separate note.

#### ***Instruments at fair value through profit or loss***

An instrument is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments (interest rate swaps) are designated at fair value through profit or loss if CMDHB manages such investments and makes purchase and sale decisions based on their fair value. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

#### ***Other***

Subsequent to initial recognition, other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

#### **Trade and other receivables**

Trade and other receivables are initially recognised at fair value and subsequently stated at their amortised cost less impairment losses. Bad debts are written off during the period in which they are identified.

#### **Interest-bearing loans and borrowings**

Interest-bearing loans and borrowings are classified as other non-derivative financial instruments.

#### **Trade and other payables**

Trade and other payables are initially measured at fair value and subsequently at amortised cost using the effective interest rate.

### **Derivative financial instruments**

CMDHB uses foreign exchange and interest rate swap contracts to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. Derivatives that do not qualify for hedge accounting are accounted for as Interest Rate swaps.

Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, derivative financial instruments that do not qualify for hedge accounting are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the statement of financial performance. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged.

The fair value of interest rate swaps is the estimated amount that CMDHB would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price.

### **Hedging Cash flow hedges**

The Board has entered into financial instruments by way of interest rate options and foreign currency hedges which give rise to off-balance sheet exposures, in order to reduce exposure to fluctuations in interest rates and foreign currencies. Any gains or losses arising from exposure to these instruments are offset against the related losses or gains on the assets or liabilities being hedged. Any premiums paid on interest rate options are amortised over the period to maturity.

### **Hedge of monetary assets and liabilities**

Where a derivative financial instrument is used to hedge economically the foreign exchange exposure of a recognised monetary asset or liability, no hedge accounting is applied and any gain or loss on the hedging instrument is recognised in the statement of financial performance.

### **Property, plant and equipment Classes of property, plant and equipment**

The major classes of property, plant and equipment are as follows:

- ▲ freehold land
- ▲ freehold buildings
- ▲ plant and equipment
- ▲ clinical equipment
- ▲ motor vehicles
- ▲ other equipment
- ▲ work in progress.

### Owned assets

Except for land and buildings and the assets vested from the hospital and health service (see below), items of property, plant and equipment are stated at cost, less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of direct overheads.

Land and buildings are revalued to fair value as determined by an independent registered valuer, with sufficient regularity to ensure the carrying amount is not materially different to fair value, and at least every five years. Any increase in value of a class of land and buildings is recognised directly to equity unless it offsets a previous decrease in value recognised in the statement of financial performance. Any decreases in value relating to a class of land and buildings are debited directly to the revaluation reserve, to the extent that they reverse previous surpluses and are otherwise recognised as an expense in the statement of financial performance.

Additions to property, plant and equipment between valuations are recorded at cost.

Where material parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate components of property, plant and equipment.

### Property, Plant and Equipment Vested from the Hospital and Health Service

Under section 95(3) of the New Zealand Public Health and Disability Act 2000, the assets of Counties Manukau Health Ltd (a hospital and health service company) vested in COUNTIES MANUKAU DHB on 1 January 2001. Accordingly, assets were transferred to COUNTIES MANUKAU DHB at their net book values as recorded in the books of the hospital and health service. In effecting this transfer, the health board has recognised the cost and accumulated depreciation amounts from the records of the hospital and health service. The vested assets will continue to be depreciated over their remaining useful lives.

### Disposal of Property, Plant and Equipment

Where an item of property, plant and equipment is disposed of, the gain or loss recognised in the statement of financial performance is calculated as the difference between the net sales price and the carrying amount of the asset.

### Leased assets

Leases where CMDHB assumes substantially all the risks and rewards of ownership are classified as finance leases. The assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

### Subsequent costs

Subsequent costs are added to the carrying amount of an item of property, plant and equipment when that cost is incurred if it is probable that the service potential or future economic benefits embodied within the new item will flow to CMDHB. All other costs are recognised in the statement of financial performance as an expense as incurred.

### Depreciation

Depreciation is charged to the statement of financial performance using the straight line method. Land and Work in Progress are not depreciated.

Depreciation is set at rates that will write off the cost or fair value of the assets, less their estimated residual values, over their useful lives. The estimated useful lives of major classes of assets and resulting rates are as follows:

Class of asset	Estimated life	Depreciation rate
▲ Buildings	50 years	2%
▲ - Structure/Envelope	10 - 50 years	2% - 10%
▲ - Electrical Services	10 - 15 years	6% - 10%
▲ - Other Services	15 - 25 years	4% - 6%
▲ - Fit out	5 - 10 years	10% - 20%
▲ Plant and equipment	5 - 10 years	10% - 20%
▲ Clinical Equipment	3 - 25 years	4% - 33%
▲ Information Technology	3 - 5 years	20% - 33%
▲ Vehicles	4 years	25%
▲ Other Equipment	3 - 25 years	4% - 33%

The residual value of assets is reassessed annually.

Work in progress is not depreciated. The total cost of a project is transferred to the appropriate class of asset on its completion and then depreciated.

### Intangible assets

#### Other intangibles

Intangible assets comprise software that is acquired by CMDHB are stated at cost less accumulated amortisation and impairment losses.

### Subsequent expenditure

Subsequent expenditure on intangible assets is capitalised only when it increases the service potential or future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

### Amortisation

Amortisation is charged to the statement of financial performance on a straight-line basis over the estimated useful lives of intangible assets. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

Type of asset	Estimated life	Amortisation rate
▲ Software	2 - 3 years	33% - 50%

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

**Inventories held for distribution**

Inventories held for distribution are stated at the lower of cost and current replacement cost.

**Impairment**

The carrying amounts of CMDHB's assets, inventories and inventories held for distribution are reviewed at each balance date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated.

If the estimated recoverable amount of an asset is less than its carrying amount, the asset is written down to its estimated recoverable amount and an impairment loss is recognised in the statement of financial performance.

An impairment loss on property, plant and equipment revalued on a class of asset basis is recognised directly against any revaluation reserve in respect of the same class of asset to the extent that the impairment loss does not exceed the amount in the revaluation reserve for the same class of asset.

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is recognised in the statement of financial performance even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in the statement of financial performance is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in the statement of financial performance.

Impairment losses on an individual basis are determined by an evaluation of the exposures on an instrument by instrument basis. All individual trade receivables that are considered significant are subject to this approach. For trade receivables which are not significant on an individual basis, collective impairment is assessed on a portfolio basis based on numbers of days overdue, and taking into account the historical loss experience in portfolios with a similar amount of days overdue.

**Calculation of recoverable amount**

Impairment gains and losses, for items of property, plant and equipment that are revalued on a class of assets basis, are also recognised on a class basis.

**Reversals of impairment**

Impairment losses are reversed when there is a change in the estimates used to determine the recoverable amount.

An impairment loss on an equity instrument investment classified as available-for-sale or on items of property, plant and equipment carried at fair value is reversed through the relevant reserve. All other impairment losses are reversed through the statement of financial performance.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**Interest-bearing borrowings**

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the statement of financial performance over the period of the borrowings on an effective interest basis.

**Employee benefits****Defined contribution plans**

Obligations for contributions to defined contribution plans are recognised as an expense in the statement of financial performance as incurred.

**Long service leave, sabbatical leave and retirement gratuities**

CMDHB's net obligation in respect of long service leave, sabbatical leave and retirement gratuities is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected unit credit method and is discounted to its present value. The discount rate is the market yield on relevant New Zealand government bonds at the balance sheet date.

**Annual leave, conference leave, sick leave and medical education leave**

Annual leave, conference leave, sick leave and medical education leave are short-term obligations and are calculated on an actual basis at the amount CMDHB expects to pay. CMDHB accrues the obligation for paid absences when the obligation both relates to employees' past services and it accumulates.

**Provisions**

A provision is recognised when CMDHB has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

**Restructuring**

A provision for restructuring is recognised when CMDHB has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly. Future operating costs are not provided for.

**Revenue relating to service contracts**

CMDHB is required to expend all monies appropriated within certain contracts during the year in which it is appropriated. Should this not be done, the contract may require repayment of the money or CMDHB, with the agreement of the Ministry of Health, may be required to expend it on specific services in subsequent years. The amount unexpended is recognised as a liability.

**Mental Health Ring Fenced Revenue**

In accordance with Generally Accepted Accounting Practice and NZIFRS, surpluses of Income over expenditure are reported through the Statement of Financial Performance. Where such surpluses are in respect of Mental Health Ring Fenced Revenue, the unspent portion of the revenue is only available to be spent on Mental Health Services in subsequent accounting periods. As at 30 June 2008 there were no unspent amounts in respect of Mental Health Ring Fenced Revenue (as at 30 June 2007 - nil)

**Income tax**

CMDHB is a public authority and consequently is exempt from the payment of income tax. Accordingly, no charge for income tax has been provided for

**Goods and services tax**

All amounts are shown exclusive of Goods and Services Tax (GST), except for receivables and payables that are stated inclusive of GST. Where GST is irrecoverable as an input tax, it is recognised as part of the related asset or expense.

**Revenue****Crown funding**

The majority of revenue is provided through an appropriation in association with a Crown Funding Agreement. Revenue is recognised monthly in accordance with the Crown Funding Agreement payment schedule, which allocates the appropriation equally throughout the year.

**Goods sold and services rendered**

Revenue from goods sold is recognised when CMDHB has transferred to the buyer the significant risks and rewards of ownership of the goods and CMDHB does not retain either continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.

Revenue from services is recognised, to the proportion that a transaction is complete, when it is probable that the payment associated with the transaction will flow to CMDHB

and that payment can be measured or estimated reliably, and to the extent that any obligations and all conditions have been satisfied by CMDHB.

**Rental income**

Rental income is recognised in the statement of financial performance on a straight-line basis over the term of the lease.

**Expenses****Operating lease payments**

Payments made under operating leases are recognised in the statement of financial performance on a straight-line basis over the term of the lease. Lease incentives received are recognised in the statement of financial performance over the lease term as an integral part of the total lease expense.

**Finance lease payments**

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term on an effective interest basis.

**Interest Expense**

The interest expense component of finance lease payments is recognised in the statement of financial performance using the effective interest rate method.

**New standards adopted and interpretations not yet adopted**

Certain new standards, amendments and interpretations to existing standards have been published that are not yet effective for the year ended 30 June 2008, and have not been applied in preparing these consolidated financial statements. The adoption of the following standards is not expected to have a material impact on the CMDHB's consolidated financial statements.

- ▲ NZIAS 1, Presentation of Financial Statements (revised) - (effective from annual periods beginning on or after 1 January 2008)
- ▲ NZIAS 23, Borrowing costs (revised) - (effective from annual periods beginning on or after 1 January 2009)
- ▲ NZIAS 27, Consolidated and Separate financial statements (amended 2008) – (effective from annual periods beginning on or after 1 July 2009)
- ▲ NZIFRS 3, Business Combinations (amended 2008) – (effective from annual periods beginning on or after 1 July 2009)

**Cost of Service (Statement of Service Performance)**

The cost of service statements, as reported in the statement of service performance, report the net cost of services for the outputs of CMDHB and are represented by the cost of providing the output less all the revenue that can be allocated to these activities.

**Cost Allocation**

CMDHB has arrived at the net cost of service for each significant activity using the cost allocation system outlined below.

**Cost Allocation Policy**

Direct costs are charged directly to output classes. Indirect costs are charged to output classes based on cost drivers and related activity and usage information.

**Criteria for Direct and Indirect Costs**

Direct costs are those costs directly attributable to an output class.

Indirect costs are those costs that cannot be identified in an economically feasible manner with a specific output class.

**Cost Drivers for Allocation of Indirect Costs**

The cost of internal services not directly charged to outputs is allocated as overheads using appropriate cost drivers such as actual usage, staff numbers and floor area.

# Notes to the financial statements (Parent and Group)

For the year ended 30 June 2008

in thousands of New Zealand Dollars

	Note	Parent and Group 2008 Actual	Parent and Group 2007 Actual
<b>I Revenue</b>			
Health and disability services (MOH contracted revenue)		941,378	839,542
ACC contract		16,820	16,795
Inter District Patient Inflows		78,640	65,663
Other revenue		538	7,929
		<b>1,037,376</b>	<b>929,929</b>
Revenue for health services includes all revenue received from the Crown (via the Ministry of Health), Accident Rehabilitation and Compensation Insurance Corporation (ACC), and other sources.			
<b>2 Other operating income</b>			
Donations and bequests received		2,361	2,182
Rental income		965	903
Other		16,784	14,522
		<b>20,110</b>	<b>17,607</b>
<b>3 Other operating expenses</b>			
Impairment of trade receivables (bad and doubtful debts)		3,357	3,476
Loss on disposal of property, plant and equipment		-	6
Audit fees (for the audit of the financial statements)		136	126
Audit related fees (for assurance and related services IFRS)		21	8
Board fees and expenses	21	464	362
Operating lease expenses		4,169	4,196
Increase/(decrease) in provisions		(1,231)	(1,326)
Koha		2	-
		<b>6,918</b>	<b>6,848</b>

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

	Note	Parent and Group 2008 Actual	Parent and Group 2007 Actual
<b>4 Employee benefit costs</b>			
Wages and salaries		334,235	298,832
Changes in Employee Benefits		11,422	12,448
		<b>345,657</b>	<b>311,280</b>

**5a Finance income**

Interest income	3,092	1,689
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**5b Finance costs**

Interest expense	8,187	6,410
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**6 Capital charge**

COUNTIES MANUKAU DHB pays a monthly capital charge to the Crown based on the greater of its actual or budgeted closing equity balance for the month. The capital charge rate for the period ended 30 June 2008 was 8 per cent (2007: 8 per cent).

7 Property, plant and equipment	Freehold land (at valuation)	Buildings & Plant (at valuation)	Clinical equipment, IT and vehicles	Leased assets	Other equipment	Work in progress	Total
<b>Cost</b>							
Balance at 1 July 2006	84,066	240,226	93,467	1,419	12,453	8,599	440,230
Additions	-	20,591	8,245	-	1,031	6,752	36,619
Balance at 30 June 2007	84,066	260,817	101,712	1,419	13,484	15,351	476,849
Balance at 1 July 2007	84,066	260,817	101,712	1,419	13,484	15,351	476,849
Additions	-	30,867	12,171	-	238	3,765	47,041
Disposals	-	-	(807)	-	-	-	(807)
Revaluations	-	3,389	-	-	-	-	3,389
Balance at 30 June 2008	84,066	295,073	113,076	1,419	13,722	19,116	526,473
<b>Depreciation and impairment losses</b>							
Balance at 1 July 2006	-	-	62,514	211	8,551	-	71,276
Depreciation charge for the year	-	8,648	10,131	102	1,415	-	20,297
Balance at 30 June 2007	-	8,648	72,645	313	9,966	-	91,573

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

	Freehold land (at valuation)	Buildings & Plant (at valuation)	Clinical equipment, IT and vehicles	Leased assets	Other equipment	Work in progress	Total
<b>7 Property, plant and equipment (cont.)</b>							
<b>Depreciation and impairment losses</b>							
Balance at 1 July 2007	-	8,648	72,646	313	9,966	-	91,573
Depreciation charge for the year	-	9,918	11,113	67	1,100	-	22,198
Disposals	-	-	806	-	-	-	806
Balance at 30 June 2008	-	18,566	82,953	380	11,066	-	112,965
<b>Carrying amounts</b>							
At 1 July 2006	84,066	240,226	30,953	1,208	3,902	8,599	368,954
At 30 June 2007	84,066	252,169	29,065	1,106	3,518	15,351	385,275
At 1 July 2007	84,066	252,169	29,065	1,106	3,518	15,351	385,275
At 30 June 2008	84,066	276,508	30,125	1,039	2,656	19,116	413,509

### Revaluation

Current Crown accounting policies require all crown entities to revalue land and buildings in accordance with NZIAS 16, Property, Plant and Equipment. Current valuation standards and guidance notes have been developed in association with the Treasury for the valuation of hospitals and tertiary institutions.

The revaluation of land and buildings was carried out as at 30 June 2008 by Telfer Young Ltd, an independent registered valuer and a member of the New Zealand Institute of Valuers. The valuation conforms to International Valuation Standards and was based on an optimised depreciation replacement cost methodology. The valuer was contracted as an independent valuer. The next valuation will be completed by 30 June 2009.

The revaluation of the Land & Buildings resulted in an increase to Buildings of \$3,389k.

### Restrictions

CMDHB does not have full title to crown land it occupies but transfer is arranged if and when land is sold. Some of the land is subject to Waitangi Tribunal claims. The disposal of certain properties may be subject to the provision of section 40 of the Public Works Act 1981.

Titles to land transferred from the Crown to CMDHB are subject to a the 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 claims under the Treaty of Waitangi Act 1975 cannot be quantified.

### Leased assets

CMDHB leases equipment under a number of operating and finance lease agreements

### Property, plant and equipment under construction

During the year ended 30 June 2008, CMDHB continued with construction of a new hospital building on the Middlemore site



	<b>Total</b>		
<b>8 Intangible assets (Software)</b>			
<b>Cost</b>			
Balance at 1 July 2006	24,094		
Additions	781		
Balance at 30 June 2007	24,875		
Balance at 1 July 2007	24,875		
Additions	327		
Balance at 30 June 2008	25,202		
<b>Amortisation and impairment losses</b>			
Balance at 1 July 2006	21,737		
Amortisation charge for the year	1,262		
Balance at 30 June 2007	22,999		
Balance at 1 July 2007	22,999		
Amortisation charge for the year	1,096		
Balance at 30 June 2008	24,095		
<b>Carrying amounts</b>			
At 1 July 2006	2,357		
At 30 June 2007	1,876		
At 1 July 2007	1,876		
At 30 June 2008	1,107		
		<b>Parent and Group 2008 Actual</b>	<b>Parent and Group 2007 Actual</b>
<b>9 Inventories</b>			
Central stores	112	108	
Pharmaceuticals	507	913	
Other supplies	-	56	
	619	1,077	

Write-down of inventories amounted to NIL for 2008 (2007: NIL).

The carrying amount of inventories held for distribution carried at current replacement cost at 30 June 2008 was 619k (2007:\$1,022k).

No inventories are pledged as security for liabilities but some inventories are subject to retention of title clauses (Romalpa clauses). The value of stocks subject to such clauses cannot be quantified due to the inherent difficulties in identifying the specific inventories affected at year-end.

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

**10 Investments in associates**

CMDHB has the following investments in associates:

**a) General information**

Name of entity	Principal activities	Interest held at 30 June 2008	Balance date
Auckland Regional RMO Services Ltd	Provision of health training services	33%	30 June
Northern DHB Support Agency Ltd	Provision of health support services	33.3%	30 June
healthAlliance Ltd	Provision of shared services	50%	30 June

**b) Summary of financial information on associate entities (100 per cent)**

2008 Actual	Assets	Liabilities	Equity	Revenues	Profit/ (loss)
Auckland Regional RMO Services Ltd	2,490	2,489	1	2,005	0
Northern DHB Support Agency Ltd	5,455	5,173	282	6,156	60
healthAlliance Ltd	7,703	7,703	-	32,112	-

2007 Actual	Assets	Liabilities	Equity	Revenues	Profit/ (loss)
Auckland Regional RMO Services Ltd	1,819	1,818	1	939	41
Northern DHB Support Agency Ltd	3,446	3,224	222	7,471	70
healthAlliance Ltd	7,459	7,459	-	29,837	0

**c) Share of profit of associate entities**

	Parent and Group 2008 Actual	Parent and Group 2007 Actual
Share of profit/(loss)	20	37

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

	Note	Parent and Group 2008 Actual	Parent and Group 2007 Actual
<b>11 Trade and other receivables</b>			
Trade receivables due from associates	21	1,057	684
Trade receivables from non-related parties		7,277	7,312
Ministry of Health receivables		5,903	6,475
Accrued income		18,172	16,724
Prepayments		864	985
Fair value interest rate swaps		755	681
		34,028	32,861

Trade receivables are shown net of provision for doubtful debts amounting to \$3,072k (2007: \$4,303k) recognised in the current year and arising mainly from unrecoverable Non-Resident debt.

#### Movements in the provision for impairment of receivables are as follows

Balance of provision 1 July	4,303	4,867
Additional provision made during the year	2,126	2,912
Receivables written off during the year	(3,357)	(3,476)
Closing Balance 30 June	3,072	4,303

#### 12 Cash and cash equivalents

Bank balances	1,410	854
Cash and cash equivalents	13	13
Trusts & Special Funds	810	762
Cash and cash equivalents in the statement of cash flows	2,233	1,629

CMDHB 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 \$49k is included in the Statement of Financial Position and the related Cash flows are included in the Statement of Cash Flows of CMDHB

#### Working capital facility

CMDHB has a working capital facility supplied by Commonwealth Bank (limit of \$45m), which was established in December 2003. The facility consists of a revolving cash advances facility.

The Commonwealth Bank, revolving cash advances facility is unsecured and is governed by a negative pledge agreement.

CMDHB Group must have a "net cash flow from operating activities" greater than zero. At all times since the facility was established the covenant has been met.

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

	Note	Parent and Group 2008 Actual	Parent and Group 2007 Actual
<b>12 Reconciliation of surplus for the period with net cash flows from operating activities:</b>			
Surplus for the period	13	7,193	1,086
<b>Add back non-cash items:</b>			
Depreciation and assets written off		23,294	21,558
Other non-cash items (movement in non-current staff entitlements)		181	1,077
<b>Add back items classified as investing activity:</b>			
Net loss/(gain) on disposal of property, plant and equipment		-	(6)
<b>Add back items classified as financing activity:</b>			
<b>Movements in working capital:</b>			
(Increase)/decrease in trade and other receivables		64	(15,131)
(Increase)/decrease in inventories		1,875	(1,648)
Increase/(decrease) in trade and other payables		(10,777)	27,921
Increase/(decrease) in employee benefits		13,736	10,551
Increase/(decrease) in provision for doubtful debts		(1,231)	(564)
Net movement in working capital		3,667	21,129
Net cash inflow/(outflow) from operating activities		34,335	44,844

<b>13 Movement in capital and reserves</b>	Crown equity	Land revaluation reserve	Buildings revaluation reserve	Trust/ Special funds	Retained earnings	Total equity
Balance at 1 July 2006	101,894	80,462	53,867	724	(67,119)	169,828
Total recognised income and expense	-	-	-	38	1,086	1,124
Contribution from the Crown	322	-	-	-	-	322
NZIFRS Adjustment	-	-	-	-	-	-
<b>Balance at 30 June 2007</b>	<b>102,216</b>	<b>80,462</b>	<b>53,867</b>	<b>762</b>	<b>(66,033)</b>	<b>171,274</b>
Balance at 1 July 2007	102,216	80,462	53,867	762	(66,033)	171,274
Total recognised income and expense				48	7,193	7,241
Repayment to the Crown	(420)					(420)
Revaluation	-	-	3,389	-	-	3,389
<b>Balance at 30 June 2008</b>	<b>101,796</b>	<b>80,462</b>	<b>57,256</b>	<b>810</b>	<b>(58,840)</b>	<b>181,484</b>

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

### 13 Capital and reserves (continued)

#### Revaluation reserve

The revaluation reserve relates to land and buildings. Where buildings are reclassified as investment property, the cumulative increase in the fair value of the buildings at the date of reclassification in excess of any previous impairment losses is included in the revaluation reserve.

#### Trust/ Special funds

Special 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. The revenue and expenditure in respect of these funds is included in the statement of financial performance. Disbursements from restricted funds accumulated prior to 1993 are not recognised in the Statement of Financial Performance but are directly debited to the Restricted Funds component of Equity.

	Parent and Group 2008 Actual	Parent and Group 2007 Actual
<b>Trust / Special funds</b>		
Balance at beginning of year	762	724
Interest received on Restricted Funds	48	38
<b>Balance at end of year</b>	<b>810</b>	<b>762</b>

### 14 Interest-bearing loans and borrowings

#### Non-current

Crown Health Financing Agency	70,000	-
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#### Current

Commercial Bond Issue	-	70,000
Unsecured bank facility	29,000	14,000
	<b>29,000</b>	<b>84,000</b>

#### Unsecured bank loans

CMDHB has an unsecured bank loan with the Crown Health Financing Agency. The details of terms and conditions are as follows:

#### Interest rate summary

Crown Health Financing Agency	6.35% - 6.5%	-
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#### Repayable as follows:

Within one year	29,000	84,000
Later than five years	70,000	-

#### Term loan facility limits

Crown Health Financing Agency	252,000	252,000
Term loan & standby cash facility	45,000	45,000

## 14 Interest-bearing loans and borrowings (continued)

### Security and terms

The term loan is unsecured.

CMDHB uses interest rate swaps in order to manage interest rate risk. The notional principal or contract amount of interest rate swaps outstanding at 30 June 2008 was \$40.0m (2007: \$54.0m).

The loan facility is provided by the Crown Health Financing Agency, which is part of the Treasury.

The Crown Health Financing Agency term liabilities are by a negative pledge.

CMDHB Group must have a "net cash flow from operating activities" greater than zero. At all times since the facility was established the covenant has been met.

The Government of New Zealand does not guarantee term loans.

### Unsecured bank loans

CMDHB has an unsecured bank loan denominated in NZD with Commonwealth Bank with the maximum facility of \$45.0m. Of this \$29.0m has been drawn down at balance date, leaving an available balance of \$16.0m. Interest is charged based on market rate.

	Parent and Group 2008 Actual	Parent and Group 2007 Actual
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## 15 Employee benefits

### Non-current liabilities

Liability for Accident Insurance (ACC)	365	365
Liability for long-service leave	3,662	3,658
Liability for sick leave	190	190
Liability for retirement gratuities	5,662	5,485
	9,879	9,698

### Current liabilities

Liability for sabbatical leave	500	500
Liability for annual leave	29,477	27,926
Liability for continuing medical education leave	1,744	1,744
Salary and wages accrual	35,771	25,900
	67,492	56,070

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

	Note	Parent and Group 2008 Actual	Parent and Group 2007 Actual
<b>16 Trade and other payables</b>			
Trade payables due to associates	21	946	1,228
Trade payables to non-related parties		8,671	11,186
ACC levy payable		2,281	2,315
GST and PAYE payable		9,252	8,179
Income in advance		8,115	16,567
Capital charge due to the Crown		1,485	8,675
Other non-trade payables and accrued expenses		62,891	54,946
		93,641	103,096

## 17 Operating leases

### Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

Less than one year	851	482
Between one and five years	2,317	247
More than five years	-	-
	3,168	729

CMDHB leases a number of buildings, vehicles and office equipment (mainly photocopiers and computers) under operating leases. The leases typically run for a period of 3 years (for buildings, vehicles and office equipment), with an option to renew the lease.

## 18 Non-current assets held for sale

As at 30 June 2008, CMDHB held no non-current assets for sale. (2007 \$1,418k). The 2007 assets were Motor Vehicles on a Sale & Lease-back arrangement.

## 19 Financial instruments

Exposure to credit, interest rate and currency risks arise in the normal course of CMDHB's operations. Derivative financial statements are used to hedge exposure to fluctuations in foreign exchange rates and interest rates.

### Credit risk

Financial instruments, which potentially subject the health board to concentrations of risk, consist principally of cash, short-term deposits and accounts receivable.

The health board places its cash and short-term deposits with high-quality financial institutions and the health board has a policy that limits the amount of credit exposure to any one financial institution.

Concentrations of credit risk from accounts receivable are limited due to the large number and variety of customers. The Ministry of Health is the largest single debtor (approximately 34 per cent). It is assessed to be a low risk and high-quality entity due to its nature as the government funded purchaser of health and disability support services.

**19 Financial instruments (cont.)**

The status of trade receivables at the reporting date is as follows:

	<b>Gross Receivable 2008</b>	<b>Impairment 2008</b>	<b>Gross Receivable 2007</b>	<b>Impairment 2007</b>
<b>Trade receivables</b>				
Current	9,026	-	9,232	-
Past due 0-30 days	2,281	(307)	1,416	(430)
Past due 31-180 days	3,680	(922)	4,126	(1,291)
Past due 181-360 days	866	(614)	1,131	(861)
Past due more than 1 year	1,456	(1,229)	2,869	(1,721)
<b>Total</b>	<b>17,309</b>	<b>(3,072)</b>	<b>18,774</b>	<b>(4,303)</b>

In summary, trade receivables are determined to be impaired as follows:

	<b>Parent and Group 2008 Actual</b>	<b>Parent and Group 2007 Actual</b>
<b>Trade receivables</b>		
Gross trade receivables	17,309	18,774
Individual impairment	(3,072)	(4,303)
<b>Net total trade receivables</b>	<b>14,237</b>	<b>14,471</b>

At the balance sheet date there were no significant other concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the statement of financial position.

**Liquidity risk**

Liquidity risk represents the CMDHB's ability to meet its contractual obligations. The CMDHB evaluates its liquidity requirements on an ongoing basis. In general, the CMDHB generates sufficient cash flows from its operating activities to meet its obligations arising from its financial liabilities and has credit lines in place to cover potential shortfalls.

The following table sets out the contractual cash flows for all financial liabilities and for derivatives that are settled on a gross cash flow basis.

	<b>Balance Sheet</b>	<b>Contractual cash flow</b>	<b>6 mths or less 2007</b>	<b>More than 5 years</b>
<b>2008</b>				
CHFA loans	70,000	70,000	-	70,000
Unsecured bank loans	29,000	29,000	29,000	-
Trade and other payables	93,641	93,641	93,641	-
<b>Total</b>	<b>192,641</b>	<b>192,641</b>	<b>122,641</b>	<b>70,000</b>
<b>2007</b>				
Bank loans	84,000	84,000	84,000	-
Trade and other payables	103,096	103,096	103,096	-
<b>Total</b>	<b>187,096</b>	<b>187,096</b>	<b>187,096</b>	<b>-</b>

**19 Financial instruments (cont.)**

**Market risk**

The CMDHB enters into derivative arrangements in the ordinary course of business to manage foreign currency and interest rate risks. A finance and audit committee, composed of Board appointees and Senior management attendees, provides oversight for risk management and derivative activities. This committee determines the CMDHB's financial risk policies and objectives, and provides guidelines for derivative instrument utilisation. This committee also establishes procedures for control and valuation, risk analysis, counterparty credit approval, and ongoing monitoring and reporting.

**Interest Rate risk**

Interest rate risk is the risk that the fair value of a financial instrument will fluctuate or, the cash flows from a financial instrument will fluctuate, due to changes in market interest rates.

CMDHB adopts a policy of ensuring that between 40 and 100 per cent of its exposure to changes in interest rates on borrowings is on a fixed rate basis. Interest rate swaps, denominated in NZD, have been entered into to achieve an appropriate mix of fixed and floating rate exposure within CMDHB's policy. The swaps mature over the next six years following the maturity of the related loans (see the following table) and have fixed swap rates ranging from 6.50 per cent to 6.845 per cent. At 30 June 2008, CMDHB had interest rate swaps with a notional contract amount of \$40m (2007: \$54.0m).

The net fair value of swaps at 30 June 2008 was \$755k (2007: \$681k) comprising assets of \$755k (2007: \$1,005k) and liabilities of \$0k (2007: \$324k). These amounts were recognised as fair value derivatives.

	Group and Parent 2008 Actual				Group and Parent 2007 Actual		
	Effective interest rate	Total	6 mths or less	More than 5 yrs	Effective interest rate	Total	6 mths or less
	%				%		
Cash and cash equivalents	6.0 -7.0%	2,233	2,233	-	7.38%	1,629	1,629
CHFA loans:	6.3-6.5%	70,000	-	70,000	-	-	-
Bank facility	6.5 – 7.5%	29,000	29,000	-	7.38 – 7.5%	84,000	84,000

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

## 19 Financial instruments (cont.)

### Foreign currency risk

Foreign exchange risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

CMDHB is exposed to foreign currency risk on purchases that are denominated in a currency other than NZD. The currency giving rise to this risk is primarily U.S. Dollars.

As at year end CMDHB had no exposure to foreign currency risk (2007 nil).

### Capital management

The CMDHB's capital is its equity, which comprises Crown equity, reserves, Trust/Special funds and retained earnings. Equity is represented by net assets. The CMDHB manages its revenues, expenses, assets, liabilities and general financial dealings prudently in compliance with the budgetary processes.

The CMDHB's policy and objectives of managing the equity is to ensure the CMDHB effectively achieves its goals and objectives, whilst maintaining a strong capital base. The CMDHB policies in respect of capital management are reviewed regularly by the governing Board.

There have been no material changes in the CMDHB's management of capital during the period.

### Sensitivity analysis

In managing interest rate and currency risks CMDHB aims to reduce the impact of short-term fluctuations on CMDHB's earnings. Over the longer-term, however, permanent changes in foreign exchange and interest rates would have an impact on consolidated earnings.

At 30 June 2008, it is estimated that a general movement of one percentage point in interest rates would either increase or decrease CMDHB DHB's surplus before tax by approximately \$0.914m (2007: \$0.900m). Interest rate swaps have been included in this calculation.

### Classification and fair values

The classification and fair values together with the carrying amounts shown in the statement of financial position are as follows:

19	Financial instruments (continued)		Held for trading	Designated at value through profit & loss	Loans and receivables	Carrying amount	Fair value
	2008	Note				2008 Actual	2008 Actual
	Trade and other receivables	11			33,273	33,273	33,273
	Cash and cash equivalents	12		2,233		2,233	2,233
	Interest rate swaps:						
	Assets	11	755			755	755
	Secured bank loans	14			(70,000)	(70,000)	(70,000)
	Unsecured bank liabilities	14			(29,000)	(29,000)	(29,000)
	Trade and other payables	16		(93,641)		(93,641)	(93,641)

19	Financial instruments (continued)	Note	Held for trading	Designated at value through profit & loss	Loans and receivables	Carrying amount	Fair value
						2007 Actual	2007 Actual
	Trade and other receivables	11	-	-	32,180	32,180	32,180
	Cash and cash equivalents	12	-	1,629	-	1,629	1,629
	Interest rate swaps:						
	Assets	11	681	-	-	681	681
	Unsecured bank liabilities	14	-	-	(84,000)	(84,000)	(84,000)
	Trade and other payables	16	-	(103,096)	-	(103,096)	(103,096)

## 19 Financial instruments (continued)

### Estimation of fair values analysis

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table.

#### Securities

Fair value is based on quoted market prices at the balance sheet date without any deduction for transaction costs.

#### Derivatives

Interest rate swaps are marked to market using listed market prices. Those quotes are back tested using pricing models or discounted cash flow techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate for a similar instrument at the balance sheet date. Where other pricing models are used, inputs are based on market related data at the balance sheet date.

#### Interest-bearing loans and borrowings

Fair value is calculated based on discounted expected future principal and interest cash flows.

#### Trade and other receivables / payables

For receivables / payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value. All other receivables / payables are discounted to determine the fair value.

#### Interest rates used for determining fair value

The entity uses the government yield curve as of 30 June 2008 plus an adequate constant credit spread to discount financial instruments. The interest rates used are as follows:

	Parent and Group 2008 Actual	Parent and Group 2007 Actual
Loans and borrowings	6.30 - 7.50%	7.38% - 7.50%

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

**20 Performance by Output Classes**

	Funding	Elimination	DHB Hospital Provider	Governance Funding Administration	Total DHB
<b>Revenue</b>					
▲ Crown	970,948	(482,943)	540,990	8,381	1,037,376
▲ Other	153	-	22,793	256	23,202
Total Revenue	971,101	(482,943)	563,783	8,637	1,060,578
<b>Budget Revenue</b>	<b>945,152</b>	<b>(470,260)</b>	<b>529,994</b>	<b>8,998</b>	<b>1,013,884</b>
<b>Expenditure</b>					
▲ Personnel	-	-	339,241	6,416	345,657
▲ Depreciation	-	-	23,294	-	23,294
▲ Capital Charge	-	-	13,722	-	13,722
▲ Other	965,374	(482,943)	183,883	4,398	670,712
<b>Total expenditure</b>	<b>965,374</b>	<b>(482,943)</b>	<b>560,140</b>	<b>10,814</b>	<b>1,053,385</b>
<b>Budget Expenditure</b>	<b>945,340</b>	<b>(470,260)</b>	<b>529,794</b>	<b>10,392</b>	<b>1,015,266</b>
Net surplus/(deficit)	5,727	-	3,643	(2,177)	7,193
<b>Budget Surplus/(Deficit)</b>	<b>(188)</b>	<b>-</b>	<b>200</b>	<b>(1,394)</b>	<b>(1,382)</b>
<b>Reconciliation to retained earnings</b>					
Opening retained earnings	(2,070)	-	(53,422)	(10,541)	(66,033)
Plus/(less) surplus/ (deficit) for year	5,727	-	3,643	(2,177)	7,193
Closing retained earnings	3,657	-	(49,779)	(12,718)	(58,840)
<b>Budget</b>	<b>(2,258)</b>	<b>-</b>	<b>(53,189)</b>	<b>(11,935)</b>	<b>(67,382)</b>

The surplus for the year of \$7,193k is \$8,575k greater than the budgeted loss of \$1,382k. Refer note 23 for an explanation of this variance. Elimination relates to the transfer of funds between Funding and both the Hospital Provider and the Governance Arms.



## 21 Related parties

### Identity of related parties

CMDHB has a related party relationship with its subsidiaries, associates, and with its board members and executive officers.

### Compensations

The Executive Management Team compensations are as follows:

### Remuneration

Total remuneration is included in "wages and salaries" (see note 4)

	FTE 2008	FTE 2007	Parent and Group 2008 Actual	Parent and Group 2007 Actual
Board & committee members	39	34	464	362
Executive team	17	14	3,991	3,183
	56	48	4,455	3,545

Employee Remuneration		
Total Remuneration Banding	Number of Employees 2007	Number of Employees 2006
\$ 100,000 – 109,999	71	47
\$ 110,000 – 119,999	58	31
\$ 120,000 – 129,999	29	23
\$ 130,000 – 139,999	26	26
\$ 140,000 – 149,999	19	27
\$ 150,000 – 159,999	22	20
\$ 160,000 – 169,999	27	26
\$ 170,000 – 179,999	19	29
\$ 180,000 – 189,999	25	19
\$ 190,000 – 199,999	23	17
\$ 200,000 – 209,999	25	18
\$ 210,000 – 219,999	13	10
\$ 220,000 – 229,999	13	6
\$ 230,000 – 239,999	15	5
\$ 240,000 – 249,999	10	3
\$ 250,000 – 259,999	12	3
\$ 260,000 – 269,999	5	3
\$ 270,000 – 279,999	2	4
\$ 280,000 – 289,999	4	2
\$ 290,000 – 299,999	3	1
\$ 300,000 – 309,999	4	2
\$ 310,000 – 319,999	3	1
\$ 320,000 – 329,999	4	1
\$ 340,000 – 349,999	1	-
\$ 350,000 – 359,999	2	1
\$ 360,000 – 369,999	1	-
\$ 420,000 – 429,999	1	-
	437	325

No Board member or Executive team member receives a vehicle, parking or medical insurance. Some Executive team members may be members of a Kiwi saver scheme.

### Termination Payments

3 Employees were paid a total of \$20,756 as redundancy payments.

1 x \$1,394, 1 x \$7,701, 1 x \$11,661

### Senior Employees Salaries

During the Year Ended 30 June 2008, the following numbers of employees received remuneration of at least \$100,000 on an annualised basis - of these employees, 375 (275) are Medical Staff and 62 (50) are Management.

The Chief Executive's remuneration and other benefits are in the \$420,000 - \$429,999 (2006/07 \$210,000 - \$219,999 seven months) on an annualised basis.

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 609 compared with the actual total number of employees of 437.

	Parent and Group 2008 Actual	Parent and Group 2007 Actual
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### Sales to related parties

	Parent and Group 2008 Actual	Parent and Group 2007 Actual
Auckland Regional RMO Services Ltd	24	15
Northern DHB Support Agency Ltd	290	-
healthAlliance Ltd	245	245
Manukau Health Trust	1,622	1,328
	2,181	1,588

### Purchases from related parties

	Parent and Group 2008 Actual	Parent and Group 2007 Actual
Auckland Regional RMO Services Ltd	3,005	1,911
Northern DHB Support Agency Ltd	2,660	1,718
healthAlliance Ltd	15,179	15,463
	20,844	19,092

### Outstanding balances to related parties

	Parent and Group 2008 Actual	Parent and Group 2007 Actual
Auckland Regional RMO Services Ltd	13	572
Northern DHB Support Agency Ltd	931	656
healthAlliance Ltd	2	-
	946	1,228

### Outstanding balances from related parties

	Parent and Group 2008 Actual	Parent and Group 2007 Actual
healthAlliance Ltd	22	284
Manukau Health Trust	1,035	400
	1,057	684

### Ownership

COUNTIES MANUKAU DHB is a crown entity in terms of the Crown Entities Act 2004, and is owned by the Crown.

## 21 Related parties (continued)

### Transactions with other entities controlled by the Crown

There have been transactions with other entities controlled by the Crown that have not been separately disclosed because the transactions have been carried out on the same terms as if the transactions had been carried out at arms length.

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 and is referred to under the Accounting Policies.

### The Manukau Health Trust

The Manukau Health Trust was formed to conduct health screening and other health activities to promote and provide for the health, wellbeing and benefit of a health nature to South Auckland Communities.

CMDHB has historically had two nominees on the five person MHT 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 MHT, disclosing through this Note, the unaudited financial position of MHT for the period ending 30th June 2008



	June 2008 Actual \$000's	June 2007 Actual \$000's
<b>Statement of Financial Performance</b>		
Net Income	2,132	1,342
<b>Net Surplus (Deficit)</b>	<b>392</b>	<b>222</b>

Statement of Financial Position		
<b>Total Equity</b>	<b>687</b>	<b>295</b>
Non-Current Assets	38	37
Current Assets	2,002	873
<b>Total Assets</b>	<b>2,040</b>	<b>910</b>
Current Liabilities	1,353	615
<b>Net Assets</b>	<b>687</b>	<b>295</b>

### South Auckland Health Foundation (SAHF)

CMDHB has historically had 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 2008

	June 2008 Actual \$000's	June 2007 Actual \$000's
<b>Statement of Financial Performance</b>		
Net Income	3,397	3,336
Operating Surplus	3,045	3,016
Distributions	3,089	2,177
<b>Net Surplus (Deficit)</b>	<b>(44)</b>	<b>839</b>

<b>Statement of Financial Position</b>		
<b>Total Equity</b>	<b>4,595</b>	<b>4,639</b>
Non-Current Assets	10	12
Current Assets	4,669	4,663
<b>Total Assets</b>	<b>4,679</b>	<b>4,675</b>
Current Liabilities	84	36
<b>Net Assets</b>	<b>4,595</b>	<b>4,639</b>

<b>Statement of Cashflows</b>		
<b>Opening Cash Balance</b>	<b>53</b>	<b>35</b>
Net cash from Operations	(8)	845
Net cash from Investing	3	(827)
<b>Closing Cash Balance</b>	<b>48</b>	<b>53</b>

**22 Subsequent events**

There were no material events to report which took place after Balance date

**23 Accounting estimates and judgements**

**Infrastructural assets**

There are a number of assumptions and estimates used when performing DRC valuations over infrastructural

assets. These include:

- ▲ The physical deterioration and condition of an asset, for example CMDHB could be carrying an asset at an amount that does not reflect its actual condition.
- ▲ Estimating any obsolescence or surplus capacity of an asset; and
- ▲ Estimates are made when determining the remaining useful lives over which the asset will be depreciated.

These estimates can be impacted by the local conditions. If useful lives do not reflect the actual consumption of the benefits of the asset, then CMDHB could be over or under estimating the annual depreciation charge recognised as an expense in the statement of financial performance. To minimise this risk CMDHB's infrastructural asset useful lives have been determined with reference to the NZ Infrastructural Asset Valuation and have been adjusted for local conditions based on past experience. Asset inspections are also carried out regularly as part of the CMDHB asset management planning activities, which gives CMDHB further assurance over its useful life estimates.

Experienced independent valuers performed the asset revaluations.

**Critical judgements in applying CMDHB's accounting policies**

Management has exercised the following critical judgements in applying the CMDHB's accounting policies for the period ended 30 June 2008:

**Classification of property**

CMDHB owns a number of properties, which are maintained primarily to provide health services to the community. These properties are held for service delivery objectives as part of the CMDHB's health policy. These properties are accounted for as property, plant and equipment.

CMDHB owns unoccupied land, which was classified as property, plant and equipment. This land has been identified by CMDHB as a potential site for the construction of health facilities in the future. The final decision as to the suitability of the site as a health facility is still dependent on the outcomes of community consultation and resource consent processes. If the site is not suitable then CMDHB will reassess the best use of the land.

**24 Explanation of financial variances from budget**

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 NZIFRS, and are consistent with the accounting policies adopted by the Board for the preparation of the financial statements.

**The major variances in the Statement of Performance are due to**

- ▲ Revenue for the year (excluding Donations) was \$31.8m greater than budget, while expenditure for the year was \$25.5m greater than budget. These increases reflect additional volumes and services purchased by the Crown during the year, as well as specific programmes.

**The major variances in the Statement of Position are due to**

- ▲ under spending on property, plant , equipment due to timing of construction as well as Land & Buildings not being revalued to the extent as anticipated in the 2007/08 year
- ▲ trade receivables due to timing of collections

**Major variances in Statement of Cashflow are attributed to**

- ▲ improved operating cash flows \$14m due to increased revenue from the Crown
- ▲ delayed spending on property, plant , equipment \$9m
- ▲ lower funding requirements



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Explanation of transition to NZIFRS Reconciliation of the equity	Transition Balance Sheet 1 July 2006			Comparative Balance Sheet 30 June 2007		
	Previous GAAP	Effect of transition to NZIFRS	NZIFRS	Previous GAAP	Effect of transition to NZIFRS	NZIFRS
Property, plant and equipment	371,310	(2,357)	368,953	387,153	(1,878)	385,275
Intangible assets	-	2,357	2,357	-	1,878	1,878
<b>Total non-current assets</b>	<b>371,310</b>	<b>-</b>	<b>371,310</b>	<b>387,153</b>	<b>-</b>	<b>387,153</b>
Inventories	231	-	231	1,022	55	1,077
Trade and other receivables	20,581	-	20,581	32,180	681	32,861
Cash and cash equivalents	7,607	-	7,607	867	-	867
Trust/special fund assets	724	-	724	762	-	762
Assets classified as held for sale	575	-	575	1,418	-	1,418
<b>Total current assets</b>	<b>29,718</b>	<b>-</b>	<b>29,718</b>	<b>36,249</b>	<b>736</b>	<b>36,985</b>
<b>Total assets</b>	<b>401,028</b>	<b>-</b>	<b>401,028</b>	<b>423,402</b>	<b>736</b>	<b>424,138</b>
<b>Equity</b>						
Crown equity	104,680	(2,786)	101,894	105,002	(2,786)	102,216
Other reserves	134,329	-	134,329	134,329	-	134,329
Retained earning/(losses)	(67,119)	-	(67,119)	(66,001)	(32)	(66,033)
Trust/Special funds	724	-	724	762	-	762
<b>Total equity</b>	<b>172,614</b>	<b>(2,786)</b>	<b>169,828</b>	<b>174,092</b>	<b>(2,818)</b>	<b>171,274</b>
<b>Liabilities</b>						
Interest-bearing loans and borrowings	70,000	-	70,000	-	-	-
Employee benefits	8,621	791	9,412	8,536	1,162	9,698
<b>Total non-current liabilities</b>	<b>78,621</b>	<b>791</b>	<b>79,412</b>	<b>8,536</b>	<b>1,162</b>	<b>9,698</b>
Interest-bearing loans and borrowings	28,500	-	28,500	84,000	-	84,000
Trade and other payables	78,089	501	78,590	102,448	648	103,096
Employee benefits	43,205	1,494	44,699	54,326	1,744	56,070
<b>Total current liabilities</b>	<b>149,794</b>	<b>1,995</b>	<b>151,789</b>	<b>240,774</b>	<b>2,392</b>	<b>243,166</b>
<b>Total liabilities</b>	<b>228,415</b>	<b>2,786</b>	<b>231,201</b>	<b>249,310</b>	<b>3,554</b>	<b>252,864</b>
<b>Total equity and liabilities</b>	<b>401,028</b>	<b>-</b>	<b>401,028</b>	<b>423,402</b>	<b>736</b>	<b>424,138</b>

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

**25 Explanation of transition to NZIFRS (continued)**

	Note	Previous GAAP	Effect of transition to NZIFRS	NZIFRS
Revenue	1	929,929		929,929
Other operating income	2	17,607		17,607
Finance income	5a	1,689		1,689
<b>Total income</b>		<b>949,225</b>	<b>-</b>	<b>949,225</b>
Employee benefit costs	4	310,486	794	311,280
Depreciation and amortisation expense 7,8		21,558		21,558
Outsourced services		39,493		39,493
Clinical supplies		62,570		62,570
Infrastructure and non-clinical expenses		49,392		49,392
Payments to non-health board providers		437,600		437,600
Other operating expenses	3	7,610	(762)	6,848
Finance costs	5b	6,410		6,410
Capital charge	6	12,988		12,988
<b>Total expenses</b>		<b>948,107</b>	<b>32</b>	<b>948,139</b>
<b>Surplus before and after tax</b>	<b>13</b>	<b>1,118</b>	<b>(32)</b>	<b>1,086</b>
<b>Cash flows from operating activities</b>				
<i>Cash receipts from Ministry of Health and patients</i>		941,620	-	941,620
Cash paid to suppliers		(592,616)		(592,616)
Cash paid to employees		(296,465)	-	(296,465)
Cash generated from operations		52,539		52,539
Interest received		1,689	-	1,689
Interest paid		(4,660)	-	(4,660)
Net taxes refunded/(paid) (goods and services tax)		1,423	-	1,423
<i>Capital charge paid</i>		(6,147)	-	(6,147)
<b>Net cash flows from operating activities</b>		<b>44,844</b>	<b>-</b>	<b>44,844</b>
<b>Cash flows from investing activities</b>				
Acquisition of property, plant and equipment		(37,407)	-	(37,407)
<b>Net cash flows from investing activities</b>		<b>(37,407)</b>	<b>-</b>	<b>(37,407)</b>
<b>Cash flows from financing activities</b>				
Proceeds from equity injection		322	-	322
Borrowings raised		-	-	-
Repayment of borrowings		(14,461)	-	(14,461)
Payment of finance lease liabilities			-	-
<b>Net cash flows from financing activities</b>		<b>(14,139)</b>	<b>-</b>	<b>(14,139)</b>
Net increase in cash and cash equivalents		(6,702)	-	(6,702)
Cash and cash equivalents at beginning of year		8,331	-	8,331
Effect of exchange rate fluctuations on cash held		-	-	-
<b>Cash and cash equivalents at end of year</b>		<b>1,629</b>	<b>-</b>	<b>1,629</b>

**25 Notes to the reconciliation of previous GAAP  
Explanation of transition to NZIFS (continued)**

**a) Derivative financial instruments**

Under previous GAAP derivative financial instruments (e.g. foreign exchange forward contracts or interest rate swaps) were not recognised in its financial statements until the underlying cashflow occurred.

In accordance with NZIAS 39, derivative financial instruments are always classified as a financial instrument at fair value through profit or loss with changes in fair value recognised in net profit unless hedging accounting is applied.

**1 July 2006 adjustments**

In accordance with NZIAS 39, all derivatives (foreign exchange contracts and interest rate swaps) have been recognised as assets or liabilities at their fair values. The effect of this is to increase derivatives (presented in trade and other payables) by \$149k, increase payables by \$000k, hedging reserve in equity by \$000k and retained earnings (for ineffective component) by \$149k at 1 July 2006.

**30 June 2007 adjustments**

Similarly at 30 June 2007, valuing derivatives (foreign exchange contracts and interest rate swaps) at fair value had the following impact: increase derivatives (presented in trade and other payables) by \$681k, increase payables by \$000k, increase hedging reserve in equity by \$000k and increase retained earnings by \$681k.

**b) Long service leave and sick leave**

Under previous GAAP long service leave was recognised when the employees' long service leave days had vested. In accordance with NZIAS 19, the provision for long service leave is calculated as the present value of the future benefit that employees have earned in return for their services in past periods.

Under previous GAAP sick leave was not provided for. Sick leave granted by CMDHB to some of its employees is an accumulating compensating absence, CMDHB has the obligation for those employees only, to provide for accumulated sick leave expected to be taken in future periods (over and above the entitlement to be earned by employees in those future periods). Under NZIAS 19, CMDHB now recognises the expected cost of accumulated compensated absences which CMDHB expects to be used in the future years. This provision was based on its historical payroll information.

**1 July 2006 adjustments**

The effect of recognising the above employee entitlements resulted in an increase in current

provisions by \$1,494k and non current provisions by \$426k as at 1 July 2006, and a reduction in retained earnings by \$1,920k

**30 June 2007 adjustments**

Similarly, the effect of recognising the above employee entitlements resulted in an increase in current provisions by \$250k and non current provisions by \$371k as at 30 June 2007, and a reduction in retained earnings by \$621k

**c) ACC liability**

ACC Partnership Program (APP) offers CMDHB the option to accept injury management and financial responsibility for employees who suffer work-related illness or injury for a specified period. In return, the accredited employer's ACC premiums are reduced. Participation in the APP is an insurance contract between the employer and the employee, as the employer (insurer) accepts significant insurance risk from the employee (policyholder) by agreeing to compensate the employee if a work-related injury (the insured event) adversely affects the employee.

Under previous GAAP no liability resulting from insurance risk was recognised by CMDHB. In accordance with NZIFRS 4, CMDHB accounted for its participation in the APP as an insurance contract and recognised the resulting insurance liability.

**1 July 2006 adjustments**

The effect of recognising the insurance provision was an increase in current provisions by \$365k and a decrease in retained earnings by \$365k at 1 July 2006.

**30 June 2007 adjustments**

Likewise, the effect of the above adjustment was an increase in current provisions by \$0k and a decrease in retained earnings by \$0k at 30 June 2007.

**d) Software**

Computer software has been reclassified under the heading Intangible Assets. It was previously shown under Fixed Assets.

**e) Retained earnings and reserves**

The effect of the above adjustments on retained earnings is as follows:

	Note	Retained earnings	Total other reserves
NZIFRS adjustment		(2,786)	
<b>Total adjustments to equity at 1 July 2006</b>		<b>(2,786)</b>	-
Employee benefit costs		(32)	
<b>Total adjustments to equity at 1 July 2007</b>		<b>(2,818)</b>	-

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