

WAITAKI DISTRICT HEALTH SERVICES LIMITED

HALF YEARLY REPORT - 1 JULY 2017 TO 31 DECEMBER 2017

General Comment

This half yearly report is provided as required by the Company's Statement of Intent for 2017/2018 year, which requires the directors to deliver to the Council as shareholder an unaudited report containing information required by the Financial Reporting Act 1993 and a commentary on the results for the first six months of the current year, together with a report on the outlook for the second six months with reference to any significant factors that are likely to have an effect on the Company's performance.

The Company continued to maintain and fulfil its contractual commitments to the Southern District Health Board, Accident Compensation Corporation, and other contractual partners for the half year in accordance with contract specifications.

The group has recorded an operating deficit of \$253,017 for the 6 months ended 31 December 2017. This compares to a deficit of \$576,816 for the corresponding 6-month period ended 31 December 2016. The Company had positive cash flow from operations of \$62,421 for the period.

The company completed a strategic review in November 2017. This review was facilitated by an external consultant and was attended by the Board, management, senior hospital staff and a CEO of another Rural Hospital. Incorporated into the Strategic Plan were the recommendations from the Model of Care review. The resulting Strategic Plan was for the period 2018-2030. The Plan will be the basis of staff forum in June to finalise goals.

Operational

The Company has signed a 5-year funding agreement with the Southern District Health Board (SDHB), with the provision for annual contract reviews. All 51 service lines have been retained in the new contract. In addition, the Company has signed a 12-month funding agreement for \$150,000 for 12 additional CT Scans per week. This means patients not having to travel to Dunedin for scans and reduced wait times. The CT scan contract is consistent with the Model of Care plan with services closer to home.

In August 2017 the Company completed the review of how best to provide sustainable health services for the Waitaki community into the future. This was termed "The New Model of Care" (MOC). This was jointly undertaken with all key stakeholders including the Southern District Health Board (SDHB), GP's staff, general community and the review team was led by an independent consultant. The review team participated in a series of workshops and community engagement meetings held between May 2016 and July 2017. The MOC plan is in line with the Strategic direction of the hospital.

Implementation of the MOC recommendations are now being actioned. These include the appointment of new senior roles for nursing, allied health, community services, enhanced IT and a review of the physical layout of the hospital. In addition to this a

skills lab has been established to provide staff training onsite. Senior staff have been provided training on the Skills for Change Programme, which kick-started the first 5 projects that were undertaken and completed within the three-month period of training. Funding support has been received from the SDHB to cover project development costs both retrospectively and for the current year.

One of the major strategic MOC recommendations was the transitioning of the hospital's medical model from Specialist to a Generalist model and accordingly the Company has intentionally focussed medical staffing recruitment to doctors who are rural health medicine specialists and as such hold the Rural Hospital Medicine Fellow qualifications. This will take time, but recruitment is underway, and this is necessitating the employment of locum assistance in the intervening period.

The Takaro Lodge residential care unit ceased its operation when the Observatory Life Care Village opened in August 2017. The residents were transferred to the new facility in a seamless fashion and employment processes have gone smoothly for all affected employees during the transition.

In July 2017 the Company entered into partnership with Age Concern for the provision of Meals on Wheels which is working well for the community and providing some addition volume for the hospital kitchen.

Telehealth Pre-Admission Anaesthetic clinics have been established and an in-depth training on the new system has been provided to relevant staff.

A new service, the Cancer Psychological and Social Support Service, commenced in Outpatients early in the financial year.

HealthLearn, which is an E-learning tool, was implemented early in the financial year, with several Superusers trained and enabled to guide staff on the use of this system ongoing.

The Company received Funding Grants to fund this purchase. Grants were received from the Waitaki District Health Services Trust (\$75,000), Lions Foundation (\$35,886) and the Otago Community Trust (\$50,000) towards the purchase of a new Patient Acuity Monitoring system for the hospital.

Financial

The group has recorded an operating deficit of \$253,017 for the 6 months ended 31 December 2017. This compares to a deficit of \$576,816 for the corresponding 6-month period ended 31 December 2016. The Company had positive cash flow from operations of \$62,421 for the period. The actual operating deficit is lower than the budgeted deficit. The Company is budgeting a deficit for the full financial year. There are several one-off costs that are planned to be eliminated, efficiencies in staffing and general operations that are planned with the execution of the New MOC. We will also be going into contract review with the SDHB to determine funding for the 2019 financial year.

Total revenue for the period was \$6,282,253 compared to \$5,926,653 from the same period in 2016. This is an increase of \$355,600 or 6%, major items include an additional \$336,000 in DHB revenue and additional ACC revenue of \$71,000. Additionally, the

closure of the Takaro lodge and Kurow GP practice has resulted in decreased revenue of \$101,000.

Total expenditure for the same period was up \$428,889 from \$6,088,690 in 2016 to \$6,517,579 in 2017. Most of this increase is staff costs.

The Waitaki District Health Services Trust had a favourable increase in fair value adjustments on the loan to the Observatory Village retirement centre recording a fair value increase of \$72k in the 6 months to 31 December 2017.

Unaudited accounts for the period 1 July 2017 to 31 December 2017 are attached to this report.

Conclusions

The directors consider the current position and trading outlook for both the Company and the Trust, all things considered, to be satisfactory in the circumstances. This year is an important year for the hospital as the MOC recommendations are developed into action plans and executed. This execution is well advanced and the benefits from this will be evident in the 2019 year onwards.

Dated this 24th day of April 2018

For and on behalf of the Board of Directors:



Chris Swann
Chairman

WAITAKI DISTRICT HEALTH SERVICES LIMITED GROUP

**Financial Statements
For the 6 months ended 31 December 2017**

Waitaki District Health Services Limited Group

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For the 6 months ended 31 December 2017

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Waitaki District Health Services Limited Group
Company Directory
For the 6 months ended 31 December 2017

Issued Capital

100 Ordinary Shares

Postal Address

P O Box 94, Oamaru

Registered Office

20 Eden Street, Oamaru

Directors

Christopher J Swann
Helen M Algar
Ian A Hurst
Dr James J Reid
Andrew C F Wilson

Company Number

DN 910387

Bankers

Westpac

Date of Formation

29th May 1998

Shareholder

Waitaki District Council

Share Registry

20 Eden Street, Oamaru

Accountants

Deloitte, Dunedin

Auditors

Audit New Zealand on behalf of the Controller and Auditor-General

Solicitors

Berry & Co, Oamaru

Waitaki District Health Services Limited Group

Directors Report

For the 6 months ended 31 December 2017

The Directors are pleased to present the consolidated report for the Company and Trust For the 6 months ended 31 December 2017

Principal Activities

Waitaki District Health Services Limited is the principal provider of health and disability services to the people living in the Oamaru district. These services include medical, women's health, child health, elderly, disability support, public health and related support services. Waitaki District Health Services Limited operates Oamaru Hospital. The majority of its funding comes from the Ministry of Health that is the government-funded purchaser of health and disability support services.

The Waitaki District Health Services Trust was established as an independent trust fund from which grants can be made to support Oamaru Hospital and other health services and healthcare needs of Waitaki District. The Trust receives & invests donations & bequests for these purposes from individual donors and community organisations. The Trust is particularly important to being able to assist health care in areas where government funding is either not available or limited. The Trust relies on the generosity of the community to maintain and grow the trust fund and all forms of donations will be gratefully accepted and carefully administered as part of a capital endowment fund, the income from which is utilised for grants.

	Dec 2017 Group Actual \$	Dec 2016 Group Actual \$	June 2017 Group Actual \$
Results			
Total Comprehensive Revenue and Expense	(163,017)	(576,816)	(1,505,191)

Dividend

No dividend is recommended.

Directors

In accordance with the Company's constitution, Waitaki District Council has appointed Christopher J Swann (Chairman), Helen M Algar, Ian A Hurst, Dr James J Reid and Andrew CF Wilson as Directors. Directors are not shareholders and remain in office until changed by shareholders.

	Dec 2017 Group Actual \$	Dec 2016 Group Actual \$	June 2017 Group Actual \$
Directors Remuneration			
Christopher J Swann (Chairman)	20,250	10,500	29,400
Helen M Algar	11,250	10,500	21,000
Ian A Hurst	11,250	10,500	21,000
Dr James J Reid	11,250	10,500	21,000
Andrew CF Wilson	11,250	-	8,750
George L Berry (Resigned)	-	18,900	18,900
	<u>65,250</u>	<u>60,900</u>	<u>120,050</u>

Waitaki District Health Services Limited Group

Directors Report

For the 6 months ended 31 December 2017

Employees' Remuneration

Details of employees who earned over \$100,000 over a year are:

	Dec 2017 Group Actual	Dec 2016 Group Actual	June 2017 Group Actual
\$100,001 - \$110,000	2	3	2
\$110,001 - \$120,000	-	-	1
\$120,001 - \$130,000	1	-	-
\$130,001 - \$140,000	1	-	-
\$140,001 - \$150,000	-	-	-
\$150,001 - \$160,000	-	-	-
\$160,001 - \$170,000	-	-	1
\$170,001 - \$180,000	-	2	1
\$180,001 - \$190,000	1	-	1
\$190,001 - \$200,000	1	2	1
\$200,001 - \$210,000	1	-	1
\$210,000 - \$220,000	-	-	-
\$220,000 - \$230,000	1	-	-
	<u>8</u>	<u>7</u>	<u>8</u>

Directors' Interests

The Directors have disclosed the following interest.

- Ian A Hurst is a director of Observatory Village Lifecare Limited, Observatory Village Care Limited and a Trustee in the Observatory Village Charitable Trust.

Use of Company Information

During the period the Board received no notices from Directors of the Company requesting to use Company information received in their capacity as Directors which would not otherwise have been available to them.

Insurance of Directors

During the period the Company paid Director's indemnity insurance on behalf of Directors.

Donations

The company made no donations during the period.

Audit

The Company's annual audit is undertaken by Audit New Zealand on behalf of the Auditor-General.

Future Trading

The Directors anticipate that the Company and group will continue to operate at the level required by the Statement of Intent.

Waitaki District Health Services Limited Group**Statement of Responsibility****For the 6 months ended 31 December 2017**

The Board is responsible for the preparation of the Group Financial Statements and Statement of Performance and any of the judgements made in them for Waitaki District Health Services Limited Group.

The Board is responsible for any half-year performance information provided by Waitaki District Health Services Limited Group under section 19A of the Public Finance Act 1989.

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

In the opinion of the Board, these Group Financial Statements and Statement of Performance fairly reflect the financial position and operations of Waitaki District Health Services Limited Group for the 6 months ended 31 December 2017.

For and on behalf of the Board of Directors,

Director _____

Director _____

Dated this 28th Day of February, 2018

Waitaki District Health Services Limited Group

Statement of Comprehensive Revenue and Expense

For the 6 months ended 31 December 2017

	Note	Dec 2017 Actual \$	Dec 2016 Actual \$	June 2017 Actual \$
Revenue				
DHB Revenue		5,244,679	4,908,300	9,809,487
Other Revenue		985,695	960,142	1,818,636
Interest Revenue		51,879	58,211	109,227
Total Revenue	2	6,282,253	5,926,653	11,737,350
Expenditure				
Personnel Costs	3	4,470,733	4,179,052	8,581,958
Depreciation Expense	10	329,470	351,130	690,136
Other Expenses	4	1,717,376	1,558,508	3,023,351
Total Expenditure		6,517,579	6,088,690	12,295,445
Surplus/(Loss) from continuing operations		<u>(235,326)</u>	<u>(162,037)</u>	<u>(558,095)</u>
Other Expenditure				
Fair Value Adjustment on Loans	18	72,309	(414,779)	(947,096)
Surplus (Deficit)		<u>(163,017)</u>	<u>(576,816)</u>	<u>(1,505,191)</u>
Total Comprehensive Revenue and Expense		<u><u>(163,017)</u></u>	<u><u>(576,816)</u></u>	<u><u>(1,505,191)</u></u>

Waitaki District Health Services Limited Group
Statement of changes in Net Assets/Equity
For the 6 months ended 31 December 2017

	Dec 2017	Dec 2016	June 2017
	Actual	Actual	Actual
	\$	\$	\$
Balance at Beginning of Period	14,860,158	16,365,349	16,365,349
Total Comprehensive Revenue and Expense	<u>(163,017)</u>	<u>(576,816)</u>	<u>(1,505,191)</u>
Balance at End of Period	<u><u>14,697,141</u></u>	<u><u>15,788,533</u></u>	<u><u>14,860,158</u></u>

Waitaki District Health Services Limited Group

Statement of Financial Position

As at 31 December 2017

	Note	Dec 2017 Actual \$	Dec 2016 Actual \$	June 2017 Actual \$
Current Assets				
Cash and Cash Equivalents	6	979,754	1,485,779	543,155
Current Term Deposits	7	3,033,489	2,592,011	3,451,000
Trade and Other Receivables	8	1,165,954	1,095,030	1,069,963
Inventory	9	166,127	168,174	166,127
Accrued Interest		45,474	37,727	40,508
Prepayments		56,883	55,774	68,553
Other Current Assets	15	-	3,780	-
Total Current Assets		<u>5,447,681</u>	<u>5,438,275</u>	<u>5,339,306</u>
Non-Current Assets				
Financial Assets	20	2,446,999	2,907,007	2,374,690
Property, Plant and Equipment	10	<u>9,354,358</u>	<u>9,927,316</u>	<u>9,640,495</u>
Total Non-Current Assets		<u>11,801,357</u>	<u>12,834,323</u>	<u>12,015,185</u>
Total Assets		<u>17,249,038</u>	<u>18,272,598</u>	<u>17,354,491</u>
Current Liabilities				
Trade and Other Payables	11	729,280	665,098	654,807
Employee Benefits	12	<u>1,732,742</u>	<u>1,742,792</u>	<u>1,755,607</u>
Total Current Liabilities		<u>2,462,022</u>	<u>2,407,890</u>	<u>2,410,414</u>
Non-Current Liabilities				
Employee Benefits	12	<u>89,875</u>	<u>76,175</u>	<u>83,919</u>
Total Non - Current Liabilities		<u>89,875</u>	<u>76,175</u>	<u>83,919</u>
Total Liabilities		<u>2,551,897</u>	<u>2,484,065</u>	<u>2,494,333</u>
Net Assets		<u>14,697,141</u>	<u>15,788,533</u>	<u>14,860,158</u>
Equity				
Share Capital		100	100	100
Retained Earnings		7,618,553	8,709,945	7,781,570
Revaluation Reserve		<u>7,078,488</u>	<u>7,078,488</u>	<u>7,078,488</u>
Total Equity	14	<u>14,697,141</u>	<u>15,788,533</u>	<u>14,860,158</u>

Represented by:

Waitaki District Health Services Limited Group

Statement of Cashflows

For the 6 months ended 31 December 2017

	Note	Dec 2017 Actual \$	Dec 2016 Actual \$	June 2017 Actual \$
Cashflows From Operating Activities				
<i>Cash was provided from</i>				
Receipts from DHB and Patients		6,047,498	5,865,395	11,645,198
Interest Received		46,913	44,817	93,050
Donations Received		86,885	3,298	8,243
		<u>6,181,296</u>	<u>5,913,510</u>	<u>11,746,491</u>
<i>Cash was disbursed to</i>				
Payments to Suppliers and Employees		6,112,734	5,770,211	11,645,951
Net GST Paid		6,141	16,150	4,841
		<u>6,118,875</u>	<u>5,786,361</u>	<u>11,650,792</u>
Net Cashflow From Operating Activities	17	<u>62,421</u>	<u>127,149</u>	<u>95,699</u>
Cashflows From Investing Activities				
<i>Cash was provided from</i>				
Withdrawal from Term Deposits		417,511	-	-
		<u>417,511</u>	<u>-</u>	<u>-</u>
<i>Cash was disbursed to</i>				
Observatory Village Loan		-	1,459,000	1,459,000
Payments to Term Deposits		-	31,551	890,540
Purchase of Property, Plant and Equipment		43,333	37,882	90,067
Net Cashflows from Investing Activities		<u>43,333</u>	<u>1,528,433</u>	<u>2,439,607</u>
Net Cashflow from Investing Activities		<u>374,178</u>	<u>(1,528,433)</u>	<u>(2,439,607)</u>
Cashflows from Financing Activities				
<i>Cash was provided from</i>				
Repayment of Advance		-	-	-
		<u>-</u>	<u>-</u>	<u>-</u>
Net Cashflow from Financing Activities		<u>-</u>	<u>-</u>	<u>-</u>
Net Increase (Decrease) in Cash and Cash Equivalents		436,599	(1,401,284)	(2,343,908)
Add Opening Cash and Cash Equivalents		543,155	2,887,063	2,887,063
Closing Cash and Cash Equivalents	6	<u>979,754</u>	<u>1,485,779</u>	<u>543,155</u>

Waitaki District Health Services Limited Group

Notes to the Financial Statements

For the 6 months ended 31 December 2017

1. Statement of Accounting Policies

Reporting Entity

Waitaki District Health Services Limited ("the Company") is a Council Controlled Trading Organisation as defined in the Local Government Act 2002. The company is wholly owned by Waitaki District Council and is registered under the Companies Act 1993.

The primary objective of the company is to provide services or goods for the community or social benefit rather than making a financial return. Accordingly, the company has designated itself as a public benefit entity (PBE) for reporting purposes.

Waitaki District Health Services Trust ("the Trust") is a Charitable Trust as defined in the Charities Act 2005. The primary objective of the Trust is to hold and administer funds for the charitable purpose of providing health services within the Waitaki District in New Zealand. The Trustees of the Trust are the directors of Waitaki District Health Services Limited.

Waitaki District Health Services Limited Group ("the Group") incorporates the Company and Trust.

The Group Financial Statements are for the period ended 31 December 2017. The Financial Statements were authorised for issue by the Directors on 28 February 2018.

Basis of Preparation

The Group Financial Statements have been prepared on an historical cost basis, modified by the revaluation of certain fixed assets.

The Group Financial Statements are presented in New Zealand dollars, which is the functional currency of the Company, rounded to the nearest dollar.

The Group Financial Statements have been prepared on a going concern basis, and the accounting policies set out below have been applied consistently to all periods presented in these financial statements.

Statement of Compliance

The Group Financial Statements have been prepared in accordance with NZ GAAP. They comply with Tier 2 PBE (RDR) accounting standards on the basis the Group is not considered publically accountable or large with expenditure under \$30 million per annum. The statements meet the requirements of the Local Government Act 2002.

Subsidiaries

The Company consolidates as subsidiaries in the Group Financial Statements all entities where the Company has the capacity to control their financing and operating policies so as to obtain benefits from the activities of the entity. This power exists where the company controls the majority voting power on the governing body or where such policies have been irreversibly predetermined by the company or where the determination of such policies is unable to materially impact the level of potential ownership benefits that arise from the activities of the subsidiary.

Waitaki District Health Services Limited Group

Notes to the Financial Statements

For the 6 months ended 31 December 2017

Basis of Consolidation

The following entities and the bases of their inclusion for consolidation in these financial statements are as follows:

Waitaki District Health Services Trust

The Company is the 100% beneficial owner of Waitaki District Health Services Trust.

The accounts have been consolidated using the purchase method on a line by line basis.

The Trust is exempt as a Council Controlled Organisation under section 7 of the Local Government Act 2002.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies which materially affect the measurement of results and financial position have been applied:

Revenue

Revenue is measured at the fair value of consideration received.

DHB funding is set annually and relates to a financial year. All DHB funding is invoiced within the financial year to which the funding has been set. DHB funding is recognised when eligibility has been established.

Operating revenues represent the gross revenue from commercial operations in the ordinary course of business and are recognised when earned.

Fees and charges are recognised when invoiced.

Interest income is recognised when earned.

Borrowing Costs

Borrowing costs are recognised as an expense in the period in which the charge relates.

Finance Leases

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

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

The lease is charged to the surplus or deficit over the lease period so as to produce a consistent periodic rate of interest on the remaining balance of the liability.

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

Waitaki District Health Services Limited Group

Notes to the Financial Statements

For the 6 months ended 31 December 2017

Operating Leases

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

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

Lease incentives received are recognised in the surplus or deficit as a reduction of rental expenses over the lease term.

Goods and Services Tax

These accounts have been prepared on a GST exclusive basis and any net GST due or owing at balance date is included in trade receivable or payables (as appropriate). Trade receivables and payables are stated inclusive of GST. Where GST is not recoverable as an input tax then it is recognised as part of the related asset or expense.

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

Cash and Cash Equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

Investments

Investments in bank term deposits are initially measured at the amount invested.

After initial recognition, these investments are measured at amortised cost using the effective interest method, less any provision for impairment.

Trade and Other Receivables

Trade and other receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment.

A provision for impairment of receivables is established when there is objective evidence that the Company and Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the effective interest method.

Inventory

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

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

Waitaki District Health Services Limited Group

Notes to the Financial Statements

For the 6 months ended 31 December 2017

Property, Plant and Equipment

Property, Plant and Equipment consists of:

Operational assets – these include land, buildings, building fittings, motor vehicles, furniture & fittings and plant & equipment.

Land is measured at fair value, and buildings are measured at fair value less accumulated depreciation. All other assets are measured at cost, less accumulated depreciation and impairment losses.

Revaluations

Certain classes of assets, as detailed below, are re-valued.

Land and Buildings

The land and buildings were valued by Rural Value on 30 June, 2015. The valuation was carried out for financial reporting purposes in accordance with the valuation requirements of PBE IPSAS 17. Land and buildings are revalued at three year intervals, but are reviewed at each balance date to ensure that their carrying value is not materially different from their fair value.

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

The net revaluation results are credited or debited to other comprehensive revenue and expense and are accumulated to an asset revaluation reserve in equity for that class of asset

Additions

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

Disposals

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are reported net in the surplus or deficit.

Subsequent costs

Costs incurred subsequent to initial acquisition are capitalised only when the future economic benefits are probable. The cost of day-to-day servicing property, plant and equipment are recognised in the statement of revenue and expense as they are incurred.

Depreciation

Depreciation is provided on a diminishing value basis for motor vehicles, and both diminishing value and straight line basis for land improvements, buildings, plant and equipment, and furniture and fittings at rates which will write off the cost (or revaluation) of the assets to their estimated residual values over their useful lives.

Waitaki District Health Services Limited Group

Notes to the Financial Statements

For the 6 months ended 31 December 2017

The applied rates are as follows:

Land Improvements	2%	(SL)
Buildings	2%	(SL)
Plant and Equipment	4% to 60%	(SL) & (DV)
Furniture and Fittings	3% to 60%	(SL) & (DV)
Motor Vehicles	20% to 30%	(DV)

Impairment of Non-financial Assets

Non-financial assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that have a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Value in use is depreciated replacement cost for an asset where the future economic benefits or service potential of the asset are not primarily dependent on the asset's ability to generate net cash inflows and where the entity would, if deprived of the asset, replace its remaining future economic benefits or service.

The value in use for cash-generating assets is the present value of expected future cash flows. For non cash-generating assets, value in use is determined using an approach based on either a depreciated or replacement cost approach.

If an asset's carrying amount exceeds its recoverable amount the asset is impaired and the carrying amount is written down to the recoverable amount. For re-valued assets the impairment loss is recognised against the revaluation reserve for that class of asset and in other comprehensive income. Where that results in a debit balance in the revaluation reserve, the balance is recognised in the surplus or deficit.

For assets not carried at a re-valued amount, the total impairment loss is recognised in the

The reversal of an impairment loss on a re-valued asset is credited to the revaluation reserve. However, to the extent that an impairment loss for that class of asset was previously recognised in the surplus or deficit and other comprehensive income, a reversal of the impairment loss is also recognised in the surplus or deficit.

For assets not carried at a re-valued amount the reversal of an impairment loss is recognised in the surplus or deficit.

Provisions

Provisions are recognised when the Group has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Waitaki District Health Services Limited Group

Notes to the Financial Statements

For the 6 months ended 31 December 2017

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

Employee Entitlements

Short-term benefits

Employee benefits that the hospital expects to be settled within 12 months of balance date are measured at nominal values based on accrued entitlements at current rates of pay.

These include salaries and wages accrued up to balance date, annual leave earned to, but not yet taken at balance date, and long service leave entitlements expected to be settled within 12 months, and sick leave.

The Group recognises a liability for sick leave to the extent that absences in the coming year are expected to be greater than the sick leave entitlements earned in the coming year. The amount is calculated based on the unused sick leave entitlement that can be carried forward at balance date, to the extent that the hospital anticipates it will be used by staff to cover those

The Group recognises a liability and an expense for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

Long service leave

Entitlements that are payable beyond 12 months, such as long service leave have been calculated on an actuarial basis. The calculations are based on:

Likely future entitlements accruing to staff, based on years of service, years to entitlement, the likelihood that staff will reach the point of entitlement and contractual entitlements and;

We have based our calculation on the collective employment agreements then used a probability of 95% chance of staff reaching entitlement requirements. This probability is based upon the nature of the workforce and staff turnover in the past.

Financial Instruments

The Group is party to financial instrument arrangements as part of everyday operations. These financial instruments include bank overdraft facilities and draw-down facilities, short-term deposits, investments, debtors and creditors.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

The Group has classified its financial assets as 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, bank balances and loan to the Observatory Village Trust) are measured at amortised cost using the effective interest method, less any impairment or fair value

Waitaki District Health Services Limited Group

Notes to the Financial Statements

For the 6 months ended 31 December 2017

Impairment of Financial Instruments

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through surplus or deficit to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Critical Accounting Estimates and Assumptions

In preparing these financial statements the company 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 or future events that are believed to be reasonable under the circumstances. The main areas of estimate are in the useful lives of items or property, plant and equipment (see 'Depreciation' above). Useful lives are reviewed annually.

The Group reviews financial assets for impairment at the end of each reporting period. The discount rate applied to loans is as follows:

- Observatory Village Loan	6.09%
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Taxation

The company and its subsidiary are exempt from tax as charitable organisations.

Equity

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

- Share capital
- Retained earnings
- Revaluation reserves

Revaluation Reserve

This reserve relates to the revaluation of property, plant and equipment to fair value.

Waitaki District Health Services Limited Group

Notes to the Financial Statements

For the 6 months ended 31 December 2017

Statement of Cashflows

Cash means cash balances on hand, held in bank accounts, demand deposits and other highly liquid investments in which the company invests as part of its day-to-day cash management.

Operating activities include cash received from all income sources of the company and records the cash payments made for the supply of goods and services.

Investing activities are those activities relating to the acquisition and disposal of non-current assets.

Financing activities comprise the change in equity and debt capital structure of the Group.

Change in Accounting Policies

There have been no changes in accounting policies. All policies have been applied on a basis consistent with those from previous financial statements.

2. Revenue	Dec 2017 Actual \$	Dec 2016 Actual \$	June 2017 Actual \$
District Health Board Revenue	5,244,679	4,908,300	9,809,487
Other Operating Revenue	898,810	956,844	1,810,393
Interest Received	51,879	58,211	8,243
Donations and Bequests Received	86,885	3,298	109,227
	<u>6,282,253</u>	<u>5,926,653</u>	<u>11,737,350</u>
3. Personnel Costs	Dec 2017 Actual \$	Dec 2016 Actual \$	June 2017 Actual \$
Salaries and wages	4,382,852	4,094,433	8,385,722
Employer Contributed Superannuation	104,790	83,069	174,127
Increase / (Decrease) in employee benefit entitlements	(16,909)	1,550	22,109
	<u>4,470,733</u>	<u>4,179,052</u>	<u>8,581,958</u>
4. Other Expenses	Dec 2017 Actual \$	Dec 2016 Actual \$	June 2017 Actual \$
<i>Includes the following items:</i>			
Audit Fees - Financial Statements	15,774	15,250	27,287
Directors Fees	65,250	60,900	120,050
Rental & Operating Lease Costs	23,757	24,632	51,761
Insurance Premiums	34,896	33,311	66,523

5. Income Taxes

Sections CW41 and CW42 of the Income Tax Act 2007 provide tax exempt status for the

Waitaki District Health Services Limited Group

Notes to the Financial Statements

For the 6 months ended 31 December 2017

6. Cash & Cash Equivalents	Dec 2017 Actual	Dec 2016 Actual	June 2017 Actual
	\$	\$	\$
Berry & Co Trust	-	151,311	-
BNZ On call Account	-	828	-
Diocesan Trust	1,026	1,026	1,026
Food Trolley Float	60	60	60
Petty Cash	500	500	500
Westpac Bank	52,886	92,561	23,680
Westpac Call Account	925,282	763,102	517,889
	<u>979,754</u>	<u>1,485,779</u>	<u>543,155</u>

7. Current Term Deposits	Dec 2017 Actual	Dec 2016 Actual	June 2017 Actual
	\$	\$	\$
ANZ	-	1,000,000	-
Westpac	3,033,489	930,000	3,451,000
	<u>3,033,489</u>	<u>2,592,011</u>	<u>3,451,000</u>

8. Trade and Other Receivables	Dec 2017 Actual	Dec 2016 Actual	June 2017 Actual
	\$	\$	\$
Trade and Other Receivables from Exchange Transactions	44,209	55,336	62,294
Trade and Other Receivables from Non-Exchange Transactions	1,125,915	1,044,544	1,011,839
Less provisions for Impairment	(4,170)	(4,850)	(4,170)
	<u>1,165,954</u>	<u>1,095,030</u>	<u>1,069,963</u>

The carrying value of receivables approximates their fair value.

As at 31 December 2017 all overdue receivables have been assessed for impairment and appropriate provisions applied, as detailed below:

	2017			2016		
	Gross	Impairment	Net	Gross	Impairment	Net
	\$	\$	\$	\$	\$	\$
Current	1,148,272	-	1,148,272	1,035,526	-	1,035,526
Past due 0-30 days	2,160	-	2,160	10,148	-	10,148
Past due 31-60 days	8,843	-	8,843	42,789	-	42,789
Past due 61-90 days	10,849	4,170	6,679	11,417	4,850	6,567
Total	<u>1,170,124</u>	<u>4,170</u>	<u>1,165,954</u>	<u>1,099,880</u>	<u>4,850</u>	<u>1,095,030</u>

Waitaki District Health Services Limited Group

Notes to the Financial Statements

For the 6 months ended 31 December 2017

9. Inventory

	Dec 2017 Actual	Dec 2016 Actual	June 2017 Actual
	\$	\$	\$
Medical Supplies	166,127	168,174	166,127

The write-down of inventories amounted to \$Nil (2016: \$Nil)

No inventories are pledged as security for liabilities; however some inventories are subject to retention of title clauses.

10. Property, Plant & Equipment

	Land & Buildings	Plant & Equipment & Fixtures & Fittings	Motor Vehicles	Total
Cost or Revaluation				
Opening Balance	9,883,000	3,697,797	377,365	14,135,285
Additions	-	77,139	12,928	90,067
Disposals	-	(7,993)	-	(7,993)
Balance at 30 June 2017	9,883,000	3,766,943	390,293	14,217,359
Opening Balance	9,883,000	3,697,797	377,365	14,135,285
Additions	-	37,882	-	37,882
Balance at 31 December 2016	9,883,000	3,735,679	377,365	14,173,167
Opening Balance	9,883,000	3,766,943	390,293	14,217,359
Additions	-	43,333	-	43,333
Balance at 31 December 2017	9,883,000	3,810,276	390,293	14,260,692
Accumulated depreciation and impairment losses				
Opening Balance	379,673	3,098,669	275,134	3,894,722
Depreciation expense	381,479	288,588	11,225	690,136
Disposals	-	(7,993)	-	(7,993)
Balance at 30 June 2017	761,152	3,379,264	286,359	4,576,865
Opening Balance	379,673	3,098,669	275,134	3,894,722
Depreciation expense	192,009	149,178	5,485	351,130
Balance at 31 December 2016	571,682	3,247,847	280,619	4,245,852
Opening Balance	761,152	3,379,264	286,359	4,576,865
Depreciation expense	192,009	128,976	5,168	329,470
Balance at 31 December 2017	953,161	3,508,240	291,527	4,906,335
Carrying amounts				
At 30 June 2017 and 1 July 2017	9,121,848	387,679	103,934	9,640,495
At 31 December 2016	9,311,318	487,832	96,746	9,927,316
At 31 December 2017	8,929,839	302,036	98,766	9,354,358

Waitaki District Health Services Limited Group

Notes to the Financial Statements

For the 6 months ended 31 December 2017

Land and Buildings were revalued by Rural Value at 30 June, 2015, who are independent of the Company and Group.

The valuation methodology used in the valuation of the property plant and equipment is based on fair value of the asset. Where the fair value of an asset can be determined by reference to price in an active market for the same or similar asset, the fair value of the asset is determined using this information. Where fair value is unable to be reliably determined using market based evidence, depreciated replacement cost is considered the most appropriate basis for determination of fair value. The land and building have been classified as specialised and therefore depreciated replacement cost has been used to determine valuation.

11. Trade and Other Payables	Dec 2017 Actual	Dec 2016 Actual	June 2017 Actual
	\$	\$	\$
Trade Creditors	365,688	322,114	229,183
Accrued expenses	150,869	138,550	315,974
GST Payable	212,723	204,434	109,650
	<u>729,280</u>	<u>665,098</u>	<u>654,807</u>

Trade and other payables are non-interest bearing and are normally settled on 30 day terms, therefore the carrying value of trade and other payables approximates their fair value

12. Employee Benefit Liabilities	Dec 2017 Actual	Dec 2016 Actual	June 2017 Actual
	\$	\$	\$
Accrued Pay	377,383	330,969	300,016
Annual Leave	1,175,153	1,247,396	1,260,572
Long Service Leave	89,875	76,175	83,919
Sick Leave	22,739	20,032	22,739
Continuing Medical Education	157,467	144,395	172,280
	<u>1,822,617</u>	<u>1,818,967</u>	<u>1,839,526</u>

Comprising:

Current	1,732,742	1,742,792	1,755,607
Non-Current	89,875	76,175	83,919
Total employee benefit liability	<u>1,822,617</u>	<u>1,818,967</u>	<u>1,839,526</u>

Waitaki District Health Services Limited Group
Notes to the Financial Statements
For the 6 months ended 31 December 2017

13. Borrowings

Security

The group does not have any term loans or overdraft facilities

14. Shareholders Equity

	Dec 2017 Actual \$	Dec 2016 Actual \$	June 2017 Actual \$
(a) Capital			
Ordinary Shares	100	100	100
Total Issued and Paid up Capital	<u>100</u>	<u>100</u>	<u>100</u>
Total number issued shares	<u>100</u>	<u>100</u>	<u>100</u>
(b) Retained Earnings			
Opening Balance	7,781,570	9,286,761	9,286,761
Net Operating Surplus / (Deficit)	<u>(163,017)</u>	<u>(576,816)</u>	<u>(1,505,191)</u>
Retained Earnings	<u>7,618,553</u>	<u>8,709,945</u>	<u>7,781,570</u>
(c) Revaluation Reserve			
Opening Balance	7,078,488	7,078,488	7,078,488
Revaluation	-	-	-
Revaluation Reserve	<u>7,078,488</u>	<u>7,078,488</u>	<u>7,078,488</u>
Total Shareholder Equity	<u>14,697,141</u>	<u>15,788,533</u>	<u>14,860,158</u>

15. Other Current Assets

	Dec 2017 Actual \$	Dec 2016 Actual \$	June 2017 Actual \$
Work In Progress			
Pipeband Hall Redevelopment	-	3,780	-
Total Work In Progress	<u>-</u>	<u>3,780</u>	<u>-</u>

16. Related Party Transactions

	Dec 2017 Actual \$	Dec 2016 Actual \$	June 2017 Actual \$
(a) Related Parties			
Services provided by Waitaki District Council (GST exclusive)	48,835	31,971	67,798
Amounts payable at 31 December (GST inclusive)	3,999	3,999	4,232

Services provided by Waitaki District Council were supplied on normal commercial terms.

Waitaki District Health Services Limited Group

Notes to the Financial Statements

For the 6 months ended 31 December 2017

(b) Key Management and Directors

Key management personnel comprise of Directors and the Chief Executive Officer.

A close personal relation of a member of key management personnel is employed by the Group on the same terms as other comparable employees.

	Dec 2017 Actual \$	Dec 2016 Actual \$	June 2017 Actual \$
Salaries and short term employee benefits			
Salaries and short term employee benefits	155,663	149,004	300,879
	Dec 2017 Actual \$	Dec 2016 Actual \$	June 2017 Actual \$
Commitments			
Commitments on balance date	170,000	-	-
Non-cancellable operating lease commitments:			
Less than one year	38,230	38,230	38,230
One to Two years	36,449	38,230	38,230
Two to Five years	-	36,554	17,492
Five years and later	-	-	-
	<u>74,679</u>	<u>113,014</u>	<u>93,951</u>

The lease above is for land owned by the Waitaki District Council and Occupied by the Group. The lease is due for renewal on 14 December 2019. There are no restrictions imposed by the leasing arrangements.

Waitaki District Health Services Limited Group

Notes to the Financial Statements

For the 6 months ended 31 December 2017

17. Reconciliation of Net Surplus/ (Deficit) after tax with cashflows from operating activities

	Dec 2017 Actual \$	Dec 2016 Actual \$	June 2017 Actual \$
Net surplus/ (deficit)	(163,017)	(576,816)	(1,505,191)
Add/(less) non-cash items			
Depreciation & loss on sale	329,470	351,130	690,136
Loss/(gain) on disposal of assets	-	-	-
Fair value adjustments on loans	(72,309)	414,779	947,096
Vested Assets	-	-	-
Add/ (less) movements in working capital			
(Increase)/decrease in accounts receivable	(95,991)	251	25,318
(Increase)/decrease in prepayments	11,670	16,172	3,393
(Increase)/decrease in accrued interest	(4,966)	(13,396)	(16,177)
(Increase)/decrease in inventories	-	-	2,047
Increase/(decrease) in GST payable	103,073	100,979	4,091
Increase/(decrease) in accounts payable	(28,600)	(167,500)	(77,123)
Increase/(decrease) in long service leave	5,956	7,744	15,488
Increase/(decrease) in employee entitlements	(22,865)	(6,194)	6,621
Net cash inflow from operating activities	62,421	127,149	95,699

18. Financial Assets

	Dec 2017 Actual \$	Dec 2016 Actual \$	June 2017 Actual \$
Loan to Observatory Village Charitable Trust	5,600,000	5,600,000	5,600,000
Less: Fair Value Adjustments	(3,153,001)	(2,692,993)	(3,225,310)
	2,446,999	2,907,007	2,374,690

The loan to the Observatory Village Trust totalled \$5,600,000 at 31 December 2017. The loan is a financial asset classified as a loan and receivable. The loan was tested for impairment at 31 December in accordance with the relevant accounting policies in note 1.

Waitaki District Health Services Limited Group

Notes to the Financial Statements

For the 6 months ended 31 December 2017

Using a discounted cash flow model the loan was fair value adjusted using a discount rate of 6.09%, consistent with long term mortgage rates (2016: 5.77%). The fair value adjustment for the 6 months to 31 December was \$72,309.

The loan is expected to be repaid by the Observatory Village Trust from 1 July 2027 at \$560,000 per annum based on projections of the Retirement Village business plan. There is estimation uncertainty due to the length of the loan and reliance on the Retirement Village business plan to be met. The fair value of the loan will be reviewed annually and any movement taken to the surplus and deficit. The loan is interest free on demand until repayments begin. Security for the loan is a GSA over all assets of the Observatory Village Group.

19. Contingent Assets and Liabilities

Waitaki District Health Services Limited and Group has not granted any securities in respect of liabilities payable by any other party (2016: Nil).

Waitaki District Health Services Limited and Group have no contingent assets or liabilities (2016: Nil).

20. Financial Instruments

a) Credit Risk

Financial instruments which potentially subject the Group to credit risk principally consist of bank balances, short term deposits and accounts receivable. The maximum exposure to credit risk at balance date is the fair value for the financial instrument as stated in the Statement of Financial Position.

Significant concentrations of credit risk apply principally in respect of bank balances and short term deposits. The Group reduces this risk by investing with high credit rating institutions. Concentrations of credit risk with respect to accounts receivable are high due to the reliance on the Southern District Health Board for a high proportion of Waitaki District Health Services Limited's revenue. However, Southern District Health Board is considered a high credit quality

b) Fair Value

The fair value of financial instruments is equivalent to the carrying amount as stated in the Statement of Financial Position.

c) Currency Risk

The Group has no currency risk given that the financial instruments are transacted in New Zealand Dollars.

d) Interest rate risk

Interest rate risk is the risk that interest rate will change, increasing or decreasing the cost of borrowing or lending. The Group's short term deposits are at a fixed rate with maturities not exceeding one year. Consequently the Group is not exposed to significant interest rate risk.

Waitaki District Health Services Limited Group**Notes to the Financial Statements****For the 6 months ended 31 December 2017**

21. Events After Balance Date

The Directors are not aware of any items/events occurring between the period and the signing of the financial statements that are significant.