

Waitaki District Health Services Ltd

2017 Annual Report



The Year in Review

Governance

On the 1st January 2017 I replaced George Berry as Chairman of WDHSL. Dr. Andrew Wilson a local GP was appointed to the Board and commenced 1st February 2017. I would like to take this opportunity to thank George Berry for his skills, dedication and enthusiasm in the establishment and growth of the hospital over his 18-year term.

Model of Care

This Model of Care plan was completed in 2017. The WDHSL Model of Care plan stems from the reviews of the health care system within Waitaki District. These reviews were Patient Centric Model of Nursing Care Proposal, Waitaki District Health Services Review in Waitaki District and a review of Employed Case Loading Midwife Service in Oamaru. The hospital's operational model has not been significantly changed since commencement of WDHSL in 1999, but new ways of doing things have emerged. Shortages of healthcare professionals, the ever-increasing costs to provide care and the increasing demands on the health system underline the need for continually reviewing and redesigning the way the healthcare services are provided to patients.

Southern District Health Board Contract

Our services contract with SDHB expired on 30 June 2017. We have negotiated a new 5-year contract commencing 1st July 2017. We have received an increase in funding of \$300,000 for the 2018 financial year. We have also negotiated a contract for 12 CT scans each week, amounting to \$150,000 for the year. The new contract has annual reviews which includes funding reviews. During the 2018-year additional financial resource is going to be needed for the implementation of the new Model of Care. The exact amount is unclear at the moment and we are in discussions with the SDHB as to how this can be funded.

Financial Performance

The WDHSL company recorded an operational deficit before extraordinary items of \$593,945, (last year \$216,118). The increase in the deficit is because of static funding with significant staff cost increases.

Total operational revenue for the company was \$11,619,879 compared with \$11,514,637, last year. The SDHB revenue remained static on the previous year at \$9,809,487, there was an increase in ACC revenue of \$64,860 to \$560,877 and other revenue remained reasonably static at \$1,320,075.

Operational expenditure was \$12,284,384 (compared with \$11,865,159 last year). The majority increase in expenditure over last year is in staff costs, \$394,482. The majority increase in staff costs is a result of having to introduce nursing swing shifts and further administrative support to maintain safety standards within the hospital. The swing shifts were not anticipated at the start of the year. The other factor is increases in staff costs because of increases in the collective agreements.

Outlook

The hospital has reserves that have been accumulated over the years but are required for ongoing development of the hospital. The Board has determined they will not be used to fund operating deficits with the goal of achieving a cash break-even over the 2018 year. This year will be important to achieve an operating model that is financially sustainable while providing high quality health services to our Waitaki community that meet the community's needs into the future. WDHSL, with the support of SDHB, is at the forefront of these changes, which brings challenges as well as opportunities.

Challenges

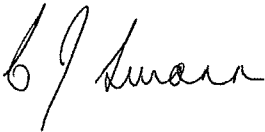
- On-going negotiation with SDHB to provide adequate funding to ensure adequate and safe provision of services
- Recruitment of professional staff to replace vacancies is an ongoing challenge for the organisation.

Opportunities

- Implementation of the Model of Care recommendations and expected outcomes for improvement to service delivery and patient experience.
- Review nursing practice and opportunities to release time to care
- Further enhance the quality of care to patients
- Telemedicine support systems now becoming available to local hospitals
- Integration/collaboration with SDHB, other Rural Hospitals, Primary Health and other community-based services

General

I would like to thank my fellow directors for their skill, drive and commitment to the Company. I would also like to thank all the staff for their skill and commitment in what has been and will continue to be a time of change. We cannot achieve what we need to without them.



C J Swann
Chairman

Operational Reporting

This annual report is made to Council which represents and oversees the community interest in health services through the Company, reporting to Council as shareholder. The Company comprises a Council Controlled Organisation in terms of the Local Government Act 2002.

In terms of its constitution the Company has non-profit making and charitable objectives, and operates with a policy as approved by Council of returning any financial surplus that can be achieved to the Waitaki District Community in the form of additional or enhanced health services.

This annual report covers the operations of the Company during the 2017 financial year and is accompanied by audited and consolidated financial statements for the financial year, the auditor's report on the financial statements, and commentary on performance targets and other measures by which the performance of the Company in relation to its Objectives and Statement of Intent.

ACC activity level has been slightly higher this financial year when compared to the previous year, which contributed towards required resources for ongoing service provision. Maternity local births had been static at 82 total compared to 80 births the previous year.

Service Highlights:

Telehealth

In collaboration with WellSouth Primary Health Network, the hospital has this year seen the installation of the Telehealth system which is now well utilised for Video Conference Education Sessions, Clinical Discussions and meetings, as well as clinic sessions at Outpatients. In addition to the Pediatric Diabetes Telehealth clinic, the Anesthetics Pre- Admission Telehealth clinic was introduced this year. This is now running regularly and saving patients having to travel to Dunedin for their pre-operative assessments. Additional Telehealth clinics are now being considered for implementation. The system is well supported by the WellSouth IT service, as required from time to time to ensure smooth IT operation.

Our IT link with the Southern DHB has been upgraded to a fibre connection and bandwidth capacity has been increased to a level considered to be adequate for daily IT related activities.

Nursing Achievements

This financial year there has been the introduction of a swing shift in 2016 to support ED and the ward on the pm shift. This brings staffing up to the recommended requirements and is being implemented through the Interim report commencing March 2017. This included bringing in support Clerical staff in ED 7 days a week 12 hours a day.

A proposal of change to improve efficiencies and leadership in Takaro Ward and ED Services is underway and should be fully implemented towards the end of October 2017. This will improve integration in acute services and provide closer leadership and improved organisation in the Outpatients Department. A new Model of Nursing Care 'Releasing Time to Care' will then commence.

Takaro Lodge moved to the Observatory Village in August 2017 and the Lodge has been redecorated and repaired. It will provide a better space to manage rehab AT&R Patients with a large lounge and kitchen space which patients and their families will be able to use. This will also enable a better usage of the ward space and enable the creation of a Skills Lab in the ward where staff will have access to education and support in situ.

Increasing the time for Nurse Education and Quality Assurance has enabled us to achieve a significant reduction of corrective actions from the hospital certification and contract specifications audits and improve practice.

Triage training for nurses is now able to be undertaken at Oamaru with the work of the Nurse Education Coordinator and will commence on October 2nd. Previously, this training was provided externally and it was difficult to release sufficient staff to attend.

There have been two return to work packages provided by the Nursing Education Coordinator for a Registered Nurse and Enrolled Nurse. Both achieved their registration and are now working in the facility. This also generated a small income for the organisation.

A new Orientation package for nurses has been established and is being implemented.

Staffing Support

In 2017 there was the addition of five new temporary Clerical Assistants. One appointment was for Social Work/Clinical Needs Assessor Services and the other four in the ED Department. These appointments have been very beneficial to the departments involved and have relieved a lot of Clerical work from the Clinical team. The feedback from the public from a Clerical person greeting them and being able to keep them informed of waiting times etc. in ED has been very positive

WDHSL Model of Care Plan “Shifting the Focus”

The WDHSL Model of Care review has been completed this year and the recently released report and recommendations will serve as our road map towards a more contemporary provision of Hospital and community health services for the Waitaki District over the next five years.

The report, which took seven months to produce following extensive consultation with hospital staff, primary care practitioners and community stakeholders, now represents the business case for which we are applying for the hump funding that was promised at the beginning of the review by the SDHB commissioners and planning and funding executives.

The report has identified six strategic recommendations as follows:

1. Establish a Clinical Healthcare Hub as a local point of entry with the aim of keeping people well and safe at home.
2. Implement a streamlined first response system to ensure patients get the right care in the right place when they have urgent health needs.
3. Improve processes for Post Hospital Discharge to reduce delays, avoid patient re-admission and support return to home.
4. Increase specialist outpatient services provided locally to ensure access to care is as close to home as possible and patients only travel for care when they need to.
5. Improve systems for communication and coordination to provide patient centred care through better use of technology and enhance relationships within the healthcare provider community.
6. Develop and maintain a workforce that will meet the needs of future service delivery.

Measures of Success to be adopted are as follows:

1. Decreasing numbers of ED presentations
2. Decreasing numbers of occupied inpatient bed days
3. Decreasing readmission rates
4. Increasing numbers of outpatient's appointments completed locally
5. Increasing levels of patient satisfaction

The implementation process is proposed as follows:

1. Provide a dedicated project management resource.
2. Establish a working group to implement the recommendations of the review.
3. Develop a work plan that allows time for further consultation with stakeholders.
4. Take a collaborative and alliance approach to decision making, upholding the 'best for patient, best for system' principle.
5. Produce and implement detailed service models including framework for funding.

Skills for Change

We have adopted the Skills for Change Programme to support the implementation of change into the new model. Five projects have accordingly commenced in August. Each project is allocated to a team of 2 or 3 staff members, who are expected to complete their respected projects by end of October. Our aim is to continue applying this quality improvement/innovation framework for the implementation of the rest of the Model of Care recommendations which could take up to 5 years to complete.

The inaugural projects are identified as follows:

- Emergency Department for Emergencies
- Admission & Discharge Planning
- Workforce Enhancement/Development
- Consistent Referral Process for Community based services
- Review of IT capabilities

A Nurse Manager and an Allied Health Team Leader position have been established and appointed in support of the structure required for service provision and Model of Care development.

Activity Statistics:

- 4479 Medical and 2664 AT&R bed days occupied at Takaro Ward, occupancy rate of 85.5% based on funded bed days. 408 ACC Non- Acute Rehab bed days provided.
- 4,583 Outpatient Clinic attendances (both new and follow up visits)
- 87 local births
- 148 postnatal admissions of women in Waitaki
- 7,323 attendances at Emergency Department
- 220 minor operations (local anesthetics) performed
- 13,142 meals on wheels delivered
- 13,482 District Nursing visits
- 245 Day Chemotherapy treatments
- 3879 Physiotherapy Outpatient & Community treatments
- 439 Community Occupational Therapy assessments completed
- 356 Community Social Work input provided
- 198 Needs Assessments completed
- 721 Podiatry treatments
- 54 Audiology treatments
- 30 Eye Fields Tests
- 307 Community Speech Language Therapy (SLT) interventions
- 597 Diabetes Fundus Screening
- 261 Diabetes patients educated and managed
- 664 Dietetics input
- 33 Cardiac education and management patient cases completed
- 132 Respiratory education and management cases completed
- 11,824 primary referred Radiology exams
- 10 Mobile Bus visits
- 156 Assessment, Treatment & Rehabilitation (AT&R) Day Hospital services
- 223 AT&R Outpatient attendances (Physio, OT, SLT, Geriatrician, Psych geriatrician)
- 615 AT&R Domiciliary visits (Physio, OT, SLT, Nursing)
- 66 patients transferred to Dunedin Hospital via Oamaru Hospital Patient Transfer Vehicle

Compliance Audits

The hospital continues to complete all compliance audits as they fall due. This year the following audits were completed:

1. Radiology Accreditation Surveillance Audit by International Accreditation New Zealand (IANZ)
2. NZ Blood Services Audit
3. Health & Disability Sector Standard Surveillance Audit
4. HSNO Compliance Audit
5. Financial Audit by Audit NZ

These audits required considerable time and effort and all areas of compliance and improvement identified have or are being actioned as part of ongoing quality improvement.

Health & Safety

- Colleen Myers has this year been appointed as our new H&S Advisor, being a joint appointment in collaboration with the Waitaki District Council.
- Transition training of H&S reps on recent legislative changes have been completed.
- The number of reported staff incidents including near misses from July 2016 – June 2017 totalled 27. Sprains, strains, pain and discomfort feature prominently as injury types, consistent with trends within the healthcare sector. This relates to continual patient handling and other manual handling activities by staff within the wards. So far, this year there is a spread of incidents across most units. However, the inpatient service recorded the highest number of incidents. Again, the focus required to reduce the number of incidents is around the provision of aids and continual training to reduce manual handling related incidents and injuries. It will be interesting to compare the number of manual handling incidents following the purchase of the Airpal bed aid for moving the more difficult patients.

Whilst staff incidents/accidents remain at a reasonably low level / low risk, improvements can be made to ensure that we send “everybody home safe every day” without deterring accurate reporting. The level of near miss reports continues at a low level and accurate reporting in this area remains a focus.

The following recommendations are now currently being worked on:

1. Continue to develop our health and safety culture where there is clear leadership from the top and staff encourage each other to work safely.
 2. Continue to educate and encourage a greater uptake of hazard reporting to reduce potential incidents.
 3. Continue to provide training to staff on Health and Safety matters in particular manual handling training.
 4. Continue to develop reporting to Management and Governance to provide meaningful data to assist with increasing knowledge and inform due diligence obligations.
 5. Stress has been a significant factor in the workplace and staff are feeling the pressure of the current working environment. This is an area which needs to be monitored and acted on early by management and HODs. Currently any situations where this has surfaced have been managed according to the Stress Policy and staff are encouraged to contact EAP.
- We have again successfully renewed our Tertiary level WSMP Accreditation with ACC.

Emergency Department and Outpatients

The Emergency Department has this year seen a further decrease in the number of presentations, with a total of 7,456 attendances compared with 7,612 the previous year and 7,742 two years before. This year's volume was made up of 6,702 first attendances (89.9%) and 754 returns (10.1%). Most returns were for arranged follow-up treatment/investigations and some for escalation of care as required.

Analysis of First Attendances showed:

- 99.6% were seen within their recommended triage times (99.8% the previous year).
- 3.6% have identified as Maori (compared with 3.7% the previous year), 4.9% Pacific Islander (4.2% the previous year) and the rest 91.7% were New Zealand European or other ethnicities (92.1% the previous year)

- 17.7% were admitted as inpatient at Oamaru Hospital (20.9% the previous year)
- 4.5% were transferred for admission to Dunedin or other hospitals (4.6% the previous year)
- 7.4% were referred by GPs (9.3% the previous year)
- 15.1% arrived by ambulance (17.9% the previous year)
- 33.3% were accident-related presentations (40.2% the previous year)
- Triage 1 = 0.3% (0.4% previous year)
- Triage 2 = 4.4% (3.8%)
- Triage 3 = 25.3% (22.3%)
- Triage 4 = 57.3% (67.2%)
- Triage 5 = 12.3% (6.3%)

Mobile Surgical Services

There were 10 visits by the Mobile Surgical Services Bus during the last year

| | | |
|----------|--------------------|------|
| 2 visits | Orthopedic | = 17 |
| 1 visits | ENT | = 6 |
| 3 visits | Gen Surgery | = 20 |
| 2 visit | Dental | = 12 |
| 1 visit | Plastics | = 6 |
| 1 visits | Education sessions | = 1 |

Total number of patients treated = 61 patients treated

Continuing access to this service locally remains well appreciated by patients (and family) who would otherwise have to travel to Dunedin for their minor surgery.

Takaro Ward

Inpatient admission trends over the last 5 years are as follows:

| Financial Year | Total Patients Admitted | DHB Funded Bed Days | ACC Funded Bed Days | Total Bed Days |
|----------------|-------------------------|---------------------|---------------------|----------------|
| 2012/13 | 2112 | 8056 | 250 | 8306 |
| 2013/14 | 2210 | 8048 | 600 | 8648 |
| 2014/15 | 2135 | 7737 | 374 | 8111 |
| 2015/16 | 2419 | 7632 | 436 | 8068 |
| 2016/17 | 1794 | 7143 | 408 | 7551 |
| | | | | |

During 2016/17 the clinical categories of patients admitted in the Ward were as follows:

- 50.6% Internal Medicine cases
- 37.3% General Surgical AT&R (Rehab) cases
- 4.8% Cardiology cases
- 0.9% Paediatric cases
- 6.4% Palliative/Terminal Care cases

The Takaro Lodge has remained fully occupied for the majority of the year and, in August 2017, all residents were successfully transferred to the new Observatory LifeCare Village.

Building Compliance

Annual Building Compliance Inspection and Reporting were again completed as follows:

- The fire systems
- Sewage pumps
- Mechanical Ventilation and Air Conditioning
- Diesel Stand-by Generator, including load tests
- Signs, means of escape from fire, safety barriers, access and facilities for disabled
- Backflow preventer tests
- Compliance Management

Donations received

This year the hospital received the following donations:

- \$4,944 from the Friends of Oamaru Hospital balance funds
- \$2,005 from the Plymouth Brethren Church Rapid Response Team towards purchase of equipment at Outpatients
- 2 x Apple iPads from Oamaru Stroke Support Group for use by the Speech & Language Therapy service
- \$1,225 from Friends of Oamaru Hospital towards purchase of recliner chair for the Ward

Financial

Audited financial reports for Waitaki District Health Services Limited Group accompany this report. The Group includes the operating company Waitaki District Health Services Limited (WDHSL) and the Waitaki District Health Services Trust. Each of these entities financial statements are consolidated to represent group Financial Statements. Both the Company and the Trust operate separately but because the directors of the company are the same as the Trustees of the Trust the requirement is to consolidate the financial statements.

The Group Consolidated Loss was \$1,505,191 compared to last year \$1,664,124. Further detail on Company and Trust results below.

The WDHSL company recorded an operational loss before extraordinary items of \$593,945, (last year \$216,118).

Total operational revenue for the company was \$11,619,879 compared to \$11,541,637 last year. The SDHB revenue remained static on the previous year at \$9,809,487, there was an increase in ACC revenue of \$64,860 to \$560,877 and other revenue remained reasonably static at \$1,320,075.

Operational expenditure was \$12,284,384 (compared with \$1,865,159 last year). The majority increase in expenditure over last year is all in staff costs, \$394,482. The increase in staff costs is a result of having to introduce nursing swing shifts and further administrative support to maintain safety standards within the hospital. The swing shifts were not anticipated at the start of the year. The other factor is increases in staff costs because of increases in the collective agreements.

A total of \$90,067 was invested by the Hospital Company on Capital Items in the 2016/17 financial year.

The Trust received income of \$156,579 from continuing operations, (last year \$302,360), and incurred operational expenses of \$120,729. The reason for reduced income is the loan to Observatory Village Trust reduced interest income in the current year. Interest revenue will be recouped in future years.

There was a deduction in the Statement of Comprehensive Revenue and Expense of \$947,096 on the Observatory Village Trust loan. This is a non- cash deduction which results from accounting policies required. Accounting rules require certain adjustments to reflect Observatory Village transactions during the year. These are recorded in Note 19 to the consolidated accounts (provision for "impairment") recognising that loan principal and interest is not payable on the loan advances the Trust is making to the project (unless demanded) until the budgeted provision for payments can be met.

This results in provisioning of \$3,225,310 against loan advances to date, but this figure will alter in subsequent years depending on when such payments can commence.

Meantime this provisioning effectively represents a grant to the project by the WDHS Trust which has enabled it to proceed and is consistent with the Company and Trust's obligations under Statement of Intent to provide for elderly and disability health and care including housing and care of the elderly.

These transactions reflect in the Group results, (recorded in "Other non-operating items"), (page 7).

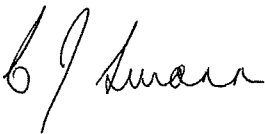
The Trust result is a surplus of \$35,850 before the Observatory Village Trust loan adjustment and group donations. After the Observatory Village Trust loan deduction, the Trust showed a Deficit of \$941,246.

The Trust equity was \$3,648,372 compared to \$4,589,618 last year.

The effect of these adjustments is that Group net equity has reduced from \$16,365,349 to \$14,860,158. Note that the loan impairment reduction of \$3,225,310 occurs within the WDHS Trust assets, not the hospital company.

The directors consider the current financial and operational position of the Group to be satisfactory although challenges do lie ahead in the operational changes that need to be made in the coming year and the associated funding arrangements.

DATED this 10th day of October 2017

A handwritten signature in black ink, appearing to read 'C Swann', written in a cursive style.

SIGNED for on behalf of the Board
CHRIS SWANN, Chairman

Waitaki District Health Services Limited Group

Consolidated Financial Statements

For the year ended 30 June 2017



Waitaki District Health Services Limited Group

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For the year ended 30 June 2017

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Waitaki District Health Services Limited Group

Company Directory

For the year ended 30 June 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 year ended 30 June 2017

The Directors are pleased to present the consolidated report for the Company and Trust For the year ended 30 June 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.

Results

Total Comprehensive Revenue and Expense

| 2017 Actual | 2016 Actual |
|----------------|----------------|
| \$ | \$ |

| | |
|-------------|-------------|
| (1,505,191) | (1,664,124) |
|-------------|-------------|

Dividend

No dividend is recommended.

Directors

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

Directors Remuneration

Christopher J Swann (Chairman)
Helen M Algar
Ian A Hurst
Dr James J Reid
Andrew CF Wilson
George L Berry (Resigned)
Kenneth J Scott (Resigned)

| 2017 Actual | 2016 Actual |
|----------------|----------------|
| \$ | \$ |
| 29,400 | 21,000 |
| 21,000 | 8,208 |
| 21,000 | 21,000 |
| 21,000 | 21,000 |
| 8,750 | - |
| 18,900 | 37,800 |
| - | 7,000 |
| 120,050 | 116,008 |

Waitaki District Health Services Limited Group

Directors Report

For the year ended 30 June 2017

Employees' Remuneration

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

| | 2017 Actual | 2016 Actual |
|-----------------------|----------------|----------------|
| | \$ | \$ |
| \$100,001 - \$110,000 | 2 | - |
| \$110,001 - \$120,000 | 1 | - |
| \$120,001 - \$130,000 | - | - |
| \$130,001 - \$140,000 | - | - |
| \$140,001 - \$150,000 | - | - |
| \$150,001 - \$160,000 | - | - |
| \$160,001 - \$170,000 | 1 | - |
| \$170,001 - \$180,000 | 1 | 1 |
| \$180,001 - \$190,000 | 1 | 1 |
| \$190,001 - \$200,000 | 1 | 2 |
| \$200,001 - \$210,000 | 1 | - |
| | <u>8</u> | <u>4</u> |

Directors' Interests

The Directors have disclosed the following interest.

- Ian A Hurst - is a director of Observatory Village Lifecare Limited, Hurst Lifecare 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.

Audit

The audit is undertaken by Audit New Zealand on behalf of the Auditor-General. Audit remuneration for the period under review was \$27,287 (2016: \$28,240). There were no other services, apart from audit services, provided by Audit New Zealand.

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 year ended 30 June 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 year ended 30 June 2017.

For and on behalf of the Board of Directors,

Director



Director



Dated this 29th Day of September, 2017

Waitaki District Health Services Limited Group

Statement of Comprehensive Revenue and Expense

For the year ended 30 June 2017

| | Note | 2017 Actual \$ | 2017 Budget \$ | 2016 Actual \$ |
|---|------|---------------------------|---------------------------|---------------------------|
| Revenue | | | | |
| DHB Revenue | 2 | 9,809,487 | 9,815,846 | 9,816,794 |
| Other Revenue | 2 | 1,818,636 | 1,897,816 | 1,742,507 |
| Interest Revenue | 2 | 109,227 | 126,666 | 282,429 |
| Total Revenue | | 11,737,350 | 11,840,328 | 11,841,730 |
| Expenditure | | | | |
| Personnel Costs | 3 | 8,581,958 | 8,555,753 | 8,187,476 |
| Depreciation Expense | 10 | 690,136 | 711,618 | 714,348 |
| Other Expenses | 4 | 3,023,351 | 3,251,828 | 2,979,322 |
| Total Expenditure | | 12,295,445 | 12,519,199 | 11,881,146 |
| Surplus from continuing operations | | <u>(558,095)</u> | <u>(678,871)</u> | <u>(39,416)</u> |
| Other non-operating items | | | | |
| Observatory Village Reimbursement/(Expenditure) | | - | - | 558,506 |
| Vested Assets | 10 | - | - | 95,000 |
| Fair Value Adjustment on Loans | 19 | <u>(947,096)</u> | <u>(830,000)</u> | <u>(2,278,214)</u> |
| Surplus (Deficit) | | <u>(1,505,191)</u> | <u>(1,508,871)</u> | <u>(1,664,124)</u> |
| Total Comprehensive Revenue and Expense | | <u><u>(1,505,191)</u></u> | <u><u>(1,508,871)</u></u> | <u><u>(1,664,124)</u></u> |

Waitaki District Health Services Limited Group

Statement of changes in Net Assets/Equity

For the year ended 30 June 2017

| Note | 2017 Actual \$ | 2017 Budget \$ | 2016 Actual \$ |
|---|----------------------|----------------------|----------------------|
| Balance at Beginning of Period | 16,365,349 | 16,365,349 | 18,029,473 |
| Total Comprehensive Revenue and Expense | (1,505,191) | (1,508,871) | (1,664,124) |
| Balance at End of Period | <u>14,860,158</u> | <u>14,856,478</u> | <u>16,365,349</u> |

Waitaki District Health Services Limited Group

Statement of Financial Position

As at 30 June 2017

| | Note | 2017 Actual \$ | 2016 Actual \$ |
|--|------|----------------------|----------------------|
| Current Assets | | | |
| Cash and Cash Equivalents | 6 | 543,155 | 2,887,063 |
| Current Term Deposits | 7 | 3,451,000 | 2,560,460 |
| Trade and Other Receivables | 8 | 1,069,963 | 1,095,281 |
| Inventory | 9 | 166,127 | 168,174 |
| Accrued Interest | | 40,508 | 24,331 |
| Prepayments | | 68,553 | 71,946 |
| Other Current Assets | 15 | - | 3,780 |
| Total Current Assets | | <u>5,339,306</u> | <u>6,811,035</u> |
| Non-Current Assets | | | |
| Financial Assets | 19 | 2,374,690 | 1,862,786 |
| Property, Plant and Equipment | 10 | <u>9,640,495</u> | <u>10,240,564</u> |
| Total Non-Current Assets | | <u>12,015,185</u> | <u>12,103,350</u> |
| Total Assets | | <u>17,354,491</u> | <u>18,914,385</u> |
| Current Liabilities | | | |
| Trade and Other Payables | 11 | 654,807 | 731,619 |
| Employee Benefits | 12 | <u>1,755,607</u> | <u>1,748,986</u> |
| Total Current Liabilities | | <u>2,410,414</u> | <u>2,480,605</u> |
| Non-Current Liabilities | | | |
| Employee Benefits | 12 | <u>83,919</u> | <u>68,431</u> |
| Total Non - Current Liabilities | | <u>83,919</u> | <u>68,431</u> |
| Total Liabilities | | <u>2,494,333</u> | <u>2,549,036</u> |
| Net Assets | | <u>14,860,158</u> | <u>16,365,349</u> |
| Equity | | | |
| Share Capital | 14 | 100 | 100 |
| Retained Earnings | 14 | 7,781,570 | 9,286,761 |
| Revaluation Reserve | 14 | <u>7,078,488</u> | <u>7,078,488</u> |
| Total Equity | | <u>14,860,158</u> | <u>16,365,349</u> |

Represented by:

Waitaki District Health Services Limited Group

Statement of Cashflows

For the year ended 30 June 2017

| | Note | 2017 Actual \$ | 2016 Actual \$ |
|--|------|----------------------|----------------------|
| Cashflows From Operating Activities | | | |
| <i>Cash was provided from</i> | | | |
| Receipts from DHB and Patients | | 11,645,198 | 11,592,387 |
| Interest Received | | 93,050 | 304,584 |
| Net GST Received | | - | 1,422 |
| Donations Received | | 8,243 | 17,667 |
| Observatory Village Reimbursement | | - | 651,758 |
| | | <u>11,746,491</u> | <u>12,567,818</u> |
| <i>Cash was disbursed to</i> | | | |
| Payments to Suppliers and Employees | | 11,645,951 | 11,146,802 |
| Net GST Paid | | 4,841 | - |
| Observatory Village Expenditure | | - | 93,252 |
| | | <u>11,650,792</u> | <u>11,240,054</u> |
| Net Cashflow From Operating Activities | 18 | <u>95,699</u> | <u>1,327,764</u> |
| Cashflows From Investing Activities | | | |
| <i>Cash was provided from</i> | | | |
| Withdrawal from Term Deposits | | - | 5,067,278 |
| | | <u>-</u> | <u>5,067,278</u> |
| <i>Cash was disbursed to</i> | | | |
| Observatory Village Loan | | 1,459,000 | 4,141,000 |
| Purchase of Property, Plant and Equipment | | 90,067 | 239,521 |
| Reinvestments to Term Deposits | | 890,540 | - |
| Net Cashflows from Investing Activities | | <u>2,439,607</u> | <u>4,380,521</u> |
| Net Cashflow from Investing Activities | | <u>(2,439,607)</u> | <u>686,757</u> |
| Cashflows from Financing Activities | | | |
| <i>Cash was provided from</i> | | | |
| Repayment of Advance from WDHS Trust | | - | - |
| Net Cashflow from Financing Activities | | <u>-</u> | <u>-</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | | (2,343,908) | 2,014,521 |
| Add Opening Cash and Cash Equivalents | | 2,887,063 | 872,542 |
| Closing Cash and Cash Equivalents | 6 | <u>543,155</u> | <u>2,887,063</u> |

Waitaki District Health Services Limited Group

Notes to the Financial Statements

For the year ended 30 June 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 30 June 2017. The Financial Statements were authorised for issue by the Directors on 29 September 2017.

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 Group, 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 year ended 30 June 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 year ended 30 June 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. The amount of trade and other receivables is split out based on exchange and non-exchange revenue.

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 year ended 30 June 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.

Assets are considered cash-generating where their primary objective is to generate a commercial return. Conversely, non-cash generating assets are those assets that are not held with the primary objective of generating a commercial return.

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 year ended 30 June 2017

The applied rates are as follows:

| | |
|------------------------|-----------------------|
| Land Improvements | 2% (SL) |
| Buildings | 2% to 9% (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 surplus or deficit.

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 year ended 30 June 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 future absences.

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, current term deposits, financial assets, 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 adjustments.

Waitaki District Health Services Limited Group

Notes to the Financial Statements

For the year ended 30 June 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 Group 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) and impairment of financial assets. Useful lives, impairment and discount rates 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% |
|----------------------------|-------|

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 year ended 30 June 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.

Budget Figures

The budget figures are those approved by the Group at the beginning of the year in the annual plan. The budget figures have been prepared in accordance with NZ GAAP, using accounting policies that are consistent with those adopted by the Group for the preparation of the financial statements.

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

| | 2017 Actual | 2016 Actual |
|---------------------------------|-------------------|-------------------|
| | \$ | \$ |
| District Health Board Revenue | 9,809,487 | 9,816,794 |
| Other Operating Revenue | 1,810,393 | 1,724,840 |
| Donations and Bequests Received | 8,243 | 17,667 |
| Interest Received | 109,227 | 282,429 |
| | <u>11,737,350</u> | <u>11,841,730</u> |

3. Personnel Costs

| | 2017 Actual | 2016 Actual |
|--|------------------|------------------|
| | \$ | \$ |
| Salaries and wages | 8,385,722 | 7,918,631 |
| Employer Contributed Superannuation | 174,127 | 165,638 |
| Increase / (Decrease) in employee benefit entitlements | 22,109 | 103,207 |
| | <u>8,581,958</u> | <u>8,187,476</u> |

Waitaki District Health Services Limited Group

Notes to the Financial Statements

For the year ended 30 June 2017

4. Other Expenses

| | 2017 Actual | 2016 Actual |
|--------------------------------------|----------------|----------------|
| | \$ | \$ |
| <i>Includes the following items:</i> | | |
| Audit Fees - Financial Statements | 27,287 | 28,240 |
| Directors Fees | 120,050 | 116,008 |
| Rental & Operating Lease Costs | 51,761 | 56,223 |
| Loss on Asset Disposal | - | 336 |
| Insurance Premiums | 66,523 | 69,649 |

5. Income Taxes

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

6. Cash & Cash Equivalents

| | 2017 Actual | 2016 Actual |
|---|----------------|------------------|
| | \$ | \$ |
| Berry & Co Trust | - | 2,134,088 |
| BNZ On call Account | - | 786 |
| Diocesan Trust | 1,026 | 1,026 |
| Food Trolley Float | 60 | 60 |
| Petty Cash | 500 | 500 |
| Westpac Bank | 23,680 | 14,552 |
| Westpac Call Account | 517,889 | 736,051 |
| Net cash and cash equivalents for purposes of the statement of cash flows | <u>543,155</u> | <u>2,887,063</u> |

7. Current Term Deposits

| | 2017 Actual | 2016 Actual |
|---------|------------------|------------------|
| | \$ | \$ |
| ANZ | - | 1,000,000 |
| Westpac | 3,451,000 | 1,560,460 |
| | <u>3,451,000</u> | <u>2,560,460</u> |

8. Trade and Other Receivables

| | 2017 Actual | 2016 Actual |
|--|------------------|------------------|
| | \$ | \$ |
| Trade and other receivables from Exchange Transactions | 62,294 | 49,042 |
| Trade and other receivables from Non-Exchange Transactions | 1,011,839 | 1,051,089 |
| Less provisions for Impairment | (4,170) | (4,850) |
| Total and other receivables | <u>1,069,963</u> | <u>1,095,281</u> |

The carrying value of receivables approximates their fair value.

Waitaki District Health Services Limited Group

Notes to the Financial Statements

For the year ended 30 June 2017

An exchange transaction is one in which the Group receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

The carrying amount of receivables that are past due, but not impaired, whose terms have been renegotiated is \$33,878 (2016: \$60,540).

As at 30 June 2017 all overdue receivables have been assessed for impairment and appropriate provisions applied, as detailed below:

| | Gross | 2017 Impairment | Net | Gross | 2016 Impairment | Net |
|---------------------|------------------|--------------------|------------------|------------------|--------------------|------------------|
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Current | 1,040,255 | - | 1,040,255 | 1,042,777 | - | 1,042,777 |
| Past due 0-30 days | 21,731 | - | 21,731 | 14,905 | - | 14,905 |
| Past due 31-60 days | 653 | - | 653 | 9,849 | - | 9,849 |
| Past due 61-90 days | 11,494 | 4,170 | 7,324 | 32,600 | 4,850 | 27,750 |
| Total | 1,074,133 | 4,170 | 1,069,963 | 1,100,131 | 4,850 | 1,095,281 |

| | 2017 Actual | 2016 Actual |
|--|----------------|----------------|
| | \$ | \$ |
| Balance at 1 July | 4,850 | - |
| Additional provisions made during year | - | 4,850 |
| Less receivables written off during the period | (680) | - |
| Balance at 30 June | 4,170 | 4,850 |

9. Inventory

| | 2017 Actual | 2016 Actual |
|------------------|----------------|----------------|
| | \$ | \$ |
| Medical Supplies | 166,127 | 168,174 |

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.

Waitaki District Health Services Limited Group

Notes to the Financial Statements

For the year ended 30 June 2017

10. Property, Plant & Equipment

| | Land & Buildings | Plant & Equipment | Fixtures & Fittings | Motor Vehicles | Total |
|---|------------------|-------------------|---------------------|----------------|-------------------|
| Cost or Revaluation | | | | | |
| Opening Balance | 9,643,000 | 3,603,612 | 377,365 | 177,123 | 13,801,100 |
| Additions | 145,000 | 94,521 | - | - | 239,521 |
| Disposals | - | (336) | - | - | (336) |
| Vested Assets | 95,000 | - | - | - | 95,000 |
| Balance at 30 June 2016 | 9,883,000 | 3,697,797 | 377,365 | 177,123 | 14,135,285 |
| Opening Balance | 9,883,000 | 3,697,797 | 377,365 | 177,123 | 14,135,285 |
| Additions | - | 77,139 | 12,928 | - | 90,067 |
| Disposals | - | (7,993) | - | - | (7,993) |
| Vested Assets | - | - | - | - | - |
| Balance at 30 June 2017 | 9,883,000 | 3,766,943 | 390,293 | 177,123 | 14,217,359 |
| Accumulated depreciation and impairment losses | | | | | |
| Opening Balance | - | 2,787,844 | 263,209 | 129,321 | 3,180,374 |
| Depreciation Expense | 379,673 | 310,825 | 11,925 | 11,925 | 714,348 |
| Revaluation Gain/(Loss) | - | - | - | - | - |
| Balance at 30 June 2016 | 379,673 | 3,098,669 | 275,134 | 141,246 | 3,894,722 |
| Opening Balance | 379,673 | 3,098,669 | 275,134 | 141,246 | 3,894,722 |
| Depreciation Expense | 381,479 | 288,588 | 11,225 | 8,844 | 690,136 |
| Disposals | - | (7,993) | - | - | (7,993) |
| Balance at 30 June 2017 | 761,152 | 3,379,264 | 286,359 | 150,090 | 4,576,865 |
| Carrying amounts | | | | | |
| At 30 June 2015 | 9,643,000 | 815,768 | 114,156 | 47,802 | 10,620,726 |
| At 30 June 2016 and 1 July 2016 | 9,503,327 | 599,128 | 102,231 | 35,877 | 10,240,564 |
| At 30 June 2017 | 9,121,848 | 387,679 | 103,934 | 27,033 | 9,640,495 |

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.

Waitaki District Health Services Limited Group

Notes to the Financial Statements

For the year ended 30 June 2017

11. Trade and Other Payables

| | 2017 Actual | 2016 Actual |
|--------------------------------------|----------------|----------------|
| | \$ | \$ |
| Trade Creditors | 229,183 | 259,798 |
| Accrued expenses | 315,974 | 366,262 |
| GST Payable | 109,650 | 105,559 |
| Total Payables & Accruals | 654,807 | 731,619 |

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

| | 2017 Actual | 2016 Actual |
|------------------------------------|------------------|------------------|
| | \$ | \$ |
| Accrued Pay | 300,016 | 263,062 |
| Annual Leave | 1,260,572 | 1,315,866 |
| Long Service Leave | 83,919 | 68,431 |
| Sick Leave | 22,739 | 20,032 |
| Continuing Medical Education | 172,280 | 150,026 |
| Total Employee Entitlements | 1,839,526 | 1,817,417 |

Comprising:

| | | |
|---|------------------|------------------|
| Current | 1,755,607 | 1,748,986 |
| Non-Current | 83,919 | 68,431 |
| Total employee benefit liability | 1,839,526 | 1,817,417 |

13. Borrowings

Security

The group does not have any term loans or overdraft facilities

14. Shareholders Equity

| | 2017 Actual | 2016 Actual |
|-----------------------------------|----------------|----------------|
| | \$ | \$ |
| (a) Capital | | |
| Ordinary Shares | 100 | 100 |
| Total Issued and Paid up Capital | 100 | 100 |
| Total number issued shares | 100 | 100 |

Waitaki District Health Services Limited Group

Notes to the Financial Statements

For the year ended 30 June 2017

(b) Retained Earnings

| | | |
|-----------------------------------|------------------|------------------|
| Opening Balance | 9,286,761 | 10,950,885 |
| Net Operating Surplus / (Deficit) | (1,505,191) | (1,664,124) |
| Retained Earnings | 7,781,570 | 9,286,761 |

(c) Revaluation Reserve

| | | |
|----------------------------|------------------|------------------|
| Opening Balance | 7,078,488 | 7,078,488 |
| Revaluation | - | - |
| Revaluation Reserve | 7,078,488 | 7,078,488 |

Total Shareholder Equity

| | |
|------------|------------|
| 14,860,158 | 16,365,349 |
|------------|------------|

15. Other Current Assets

| | 2017 Actual | 2016 Actual |
|-----------------------------|----------------|----------------|
| | \$ | \$ |
| Work In Progress | | |
| Pipeband Hall Redevelopment | - | 3,780 |
| | - | 3,780 |

16. Related Party Transactions

| | 2017 Actual | 2016 Actual |
|---|----------------|----------------|
| | \$ | \$ |
| (a) Related Parties | | |
| Services provided by Waitaki District Council (GST exclusive) | 67,798 | 52,370 |
| Amounts payable at 30 June 2017 (GST inclusive) | 4,232 | 4,146 |

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

(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.

| | 2017 Actual | 2016 Actual |
|--|----------------|----------------|
| | \$ | \$ |
| Salaries and short term employee benefits | | |
| Salaries and short term employee benefits | 300,879 | 291,053 |

Waitaki District Health Services Limited Group

Notes to the Financial Statements

For the year ended 30 June 2017

17. Commitments

| | 2017 Actual \$ | 2016 Actual \$ |
|--|----------------------|----------------------|
| The group has no capital commitments on balance date | - | - |
| Non-cancellable operating lease commitments: | | |
| Less than one year | 38,230 | 38,230 |
| One to Two years | 38,230 | 38,230 |
| Two to Five years | 17,492 | 55,721 |
| Five years and later | - | - |
| | <u>93,951</u> | <u>132,181</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.

18. Reconciliation of Net Surplus/ (Deficit) with cashflows from operating activities

| | 2017 Actual \$ | 2016 Actual \$ |
|--|----------------------|----------------------|
| Net surplus/ (deficit) | (1,505,191) | (1,664,124) |
| Add/(less) non-cash items | | |
| Depreciation & loss on sale | 690,136 | 714,348 |
| Loss/ (Gain) on Disposal of Assets | - | 336 |
| Fair Value Adjustment on Loans | 947,096 | 2,278,214 |
| Vested Assets | - | (95,000) |
| Add/ (less) movements in working capital | | |
| (Increase)/decrease in accounts receivable | 25,318 | 50,753 |
| (Increase)/decrease in prepayments | 3,393 | (1,986) |
| (Increase)/decrease in accrued interest | (16,177) | 22,154 |
| (Increase)/decrease in inventories | 2,047 | 7,014 |
| Increase/(decrease) in GST payable | 4,091 | (1,422) |
| Increase/(decrease) in accounts payable | (77,123) | (85,730) |
| Increase/(decrease) in long service leave | 15,488 | 15,487 |
| Increase/(decrease) in employee entitlements | 6,621 | 87,720 |
| Net cash inflow from operating activities | <u>95,699</u> | <u>1,327,764</u> |

Waitaki District Health Services Limited Group

Notes to the Financial Statements

For the year ended 30 June 2017

19. Financial Assets

| | 2017 Actual | 2016 Actual |
|-----------------------------------|------------------|------------------|
| | \$ | \$ |
| Loan to Observatory Village Trust | 5,600,000 | 4,141,000 |
| Less: Fair Value Adjustments | (3,225,310) | (2,278,214) |
| | <u>2,374,690</u> | <u>1,862,786</u> |

The loan to the Observatory Village Trust totalled \$5,600,000 at balance date. The loan is a financial asset classified as a loan and receivable. The loan was adjusted to its fair value at balance date in accordance with the relevant accounting policies in note 1.

Using a discounted cash flow model the loan was valued using a discount rate of 6.09%, consistent with long term mortgage rates (2016: 5.77%). Total fair value adjustment for the period is \$947,096.

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.

20. 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 contingent liabilities (2016: Nil).

21. 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 entity.

(b) Fair Value

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

Waitaki District Health Services Limited Group

Notes to the Financial Statements

For the year ended 30 June 2017

(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. The Group has no debt.

22. 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.

23. Statement of Objectives and Performance

The principal objective of the Group is the charitable public purpose of operating a successful healthcare business to meet the healthcare needs of the Waitaki District Community by providing healthcare services beneficial to the community.

The objective of the Group for this financial year was specified in the statement of intent which was approved by the shareholder in its Annual Plan.

The objective is listed below with the relevant targets and measures of performance achieved during the financial year.

Objective

To maintain the long-term financial viability of the Group.

Statement of Intent Targets

Target

Operate and provide planned services within budgeted income, including services contract income with the Southern District Health Board and income from other contracted sources.

Achievement

Net operating surplus before interest revenue, depreciation, taxation expense.

All planned services were provided

| 2017 Budget | 2017 Actual |
|----------------|----------------|
| \$ | \$ |

(93,919)

22,814

Target

Achieve a break even or better result after prudent provision for assets depreciation and replacement for future trading requirements

Waitaki District Health Services Limited Group

Notes to the Financial Statements

For the year ended 30 June 2017

| | 2017 Budget | 2017 Actual |
|--|----------------|----------------|
| | \$ | \$ |

Achievement

Net surplus/(deficit) after depreciation expense, interest revenue and taxation expense.

(678,871) (558,095)

* The results achieved above are exclusive of Observatory Village transactions, vested assets and other non-operating items.

Target

Update the Company's business plan annually.

Achievement

The business plan was updated.

Target

Meet and observe performance targets and services standards required under the Ministry of Health contractual arrangements and Southern District Health Board.

Achievement

The hospital has met its requirements targets under the Ministry of Health contract and Southern District Health Board.

Target

Meet and observe adequate professional and technical standards in the delivery of Waitaki District Health Services and investigate, identify and implement appropriate measurement standards to ensure this is achieved.

Achievement

The company has met all professional and technical standards. The hospital continues to implement and operate both a quality assurance programme and an accreditation programme to ensure that these standards continue to be met in the future. Compliance is confirmed regularly by independent audits.

Target

Implement and maintain a Quality Assurance Programme to ensure adequate standards of care and services are maintained to the Company's patients.

Achievement

The Company continues to implement and operate both a quality assurance programme and an accreditation programme to ensure that these standards continue to be met in the future.

Waitaki District Health Services Limited Group

Notes to the Financial Statements

For the year ended 30 June 2017

Target

Undertake ongoing monitoring of the Quality Assurance Programme to ensure an adequate performance in provision of health care services and adherence to all the applicable statutory and industry imposed regulations by the Company.

Achievement

The Company has achieved 3 year certification under Health & Disability sector standards, Infection Control Standards, Restraint and Minimisation Standards. Achieving these standards has enabled certification until 2018.

Target

Establish, where appropriate, strategic alliances with business partners and community groups in order to achieve desired outcomes for health services.

Achievement

Ongoing community health forums have been held within the financial year. Forum participants include health related and other community organisations within the Waitaki District. GP forums and staff forums have also been held.

Target

Report regularly to Council and to the Community through the Waitaki District Health Forum on community health achievements and outcomes.

Achievement

Community health forum meetings have been held 3 times in the last year and minutes record the achievements in health service delivery. The hospital reports 6 monthly and annually to the Council.

Target

Maintain the Waitaki District Health Forum in accordance with a community approved protocol for the Forum's operation and objectives as a means of liaison and communication between the hospital and community related health groups.

Achievement

Held target level of forum meetings.

Target

Enhance and develop good community health services outcomes, particularly with regard to the elderly.

Achievement

Continuing strong focus on assessment, treatment and rehabilitation services for the elderly. Hospital Level Residential Care service for the elderly continues to be provided.

Waitaki District Health Services Limited Group

Notes to the Financial Statements

For the year ended 30 June 2017

Target

Work with all parties having a professional or business interest in health care in the Waitaki District to maintain and improve the range and quality of health care services in the District.

Achievement

GP and staff forums held on a day to day basis and as required. Working in partnership and maintaining a close link with other health organisations such as Asthma Society, Stroke Support, Diabetes Society, Cardiac Society, Cancer Society, Regional and Local Hospice and St Johns. Continually supporting medical and nursing backup for Kurow. Partnership programme with parent centre for antenatal classes. Participating with Civil Defence at Welfare Committee and EOC levels.

Target

Support as appropriate initiatives for health services involving the housing and care of the elderly

Achievement

The Waitaki District Health Services Trust has over the past year continued to support the development of the Observatory Hill Retirement Village and Elderly Care Facilities project/initiative, with construction now well underway towards completion target of mid 2017.

Independent Auditor's Report

To the readers of Waitaki District Health Services Limited Group's financial statements and performance information for the year ended 30 June 2017

The Auditor-General is the auditor of Waitaki District Health Services Limited Group (the Group). The Auditor-General has appointed me, Scott Tobin, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and the performance information of the Group, on his behalf.

Opinion

We have audited:

- the financial statements of the Group on pages 7 to 26, that comprise the statement of financial position as at 30 June 2017, the statement of comprehensive revenue and expense, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the performance information of the Group on pages 26 to 29.

In our opinion:

- the financial statements of the Group on pages 7 to 26:
 - present fairly, in all material respects:
 - its financial position as at 30 June 2017; and
 - its financial performance and cash flows for the year then ended; and
 - comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Standards Reduced Disclosure Regime.
- the performance information of the Group on pages 26 to 29 presents fairly, in all material respects, the Group's actual performance compared against the performance targets and other measures by which performance was judged in relation to the Group's objectives for the year ended 30 June 2017.

Our audit was completed on 29 September 2017. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the financial statements and the

performance information, we comment on other information, and we explain our independence.

Basis for opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Board of Directors for the financial statements and the performance information

The Board of Directors is responsible on behalf of the Group for preparing financial statements that are fairly presented and that comply with generally accepted accounting practice in New Zealand. The Board of Directors is also responsible for preparing the performance information for the Group.

The Board of Directors is responsible for such internal control as it determines is necessary to enable it to prepare financial statements and performance information that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and the performance information, the Board of Directors is responsible on behalf of the Group for assessing the Group's ability to continue as a going concern. The Board of Directors is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless the Board of Directors intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Board of Directors' responsibilities arise from the Local Government Act 2002.

Responsibilities of the auditor for the audit of the financial statements and the performance information

Our objectives are to obtain reasonable assurance about whether the financial statements and the performance information, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers taken on the basis of these financial statements and the performance information.

For the budget information reported in the financial statements and the performance information, our procedures were limited to checking that the information agreed to the Group's statement of intent.

We did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements and the performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- We evaluate the appropriateness of the reported performance information within the Group's framework for reporting its performance.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the performance information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtain sufficient appropriate audit evidence regarding the financial statements and the performance information of the entities or business activities within the Group to express an opinion on the consolidated financial statements and the consolidated performance information. We are responsible solely for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify in our audit.

Our responsibilities arise from the Public Audit Act 2001.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 4 and 5, but does not include the financial statements and the performance information, and our auditor's report thereon.

Our opinion on the financial statements and the performance information does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements and the performance information, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements and the performance information or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report the fact. We have nothing to report in this regard.

Independence

We are independent of the Group in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): Code of Ethics for Assurance Practitioners, issued by New Zealand Auditing and Assurance Standards Board.

Other than the audit, we have no relationship with, or interests in, the Group.



Scott Tobin
Audit New Zealand
On behalf of the Auditor-General
Dunedin, New Zealand