

# FINANCIAL STATEMENTS 2019-20

SOUTH WEST HEALTHCARE ANNUAL REPORT 2019-20

## South West Healthcare

### BOARD MEMBER'S, ACCOUNTABLE OFFICER'S AND CHIEF FINANCE & ACCOUNTING OFFICER'S DECLARATION

The attached financial statements for South West Healthcare have been prepared in accordance with Direction 5.2 of the Standing Directions of the Assistant Treasurer under the *Financial Management Act 1994*, applicable Financial Reporting Directions, Australian Accounting Standards including Interpretations, and other mandatory professional reporting requirements.

We further state that, in our opinion, the information set out in the comprehensive operating statement, balance sheet, statement of changes in equity, cash flow statement and accompanying notes, presents fairly the financial transactions during the year ended 30 June 2020 and the financial position of South West Healthcare at 30 June 2020.

At the time of signing, we are not aware of any circumstance which would render any particulars included in the financial statements to be misleading or inaccurate.

We authorise the attached financial statements for issue on this day.



Mr Bill Brown  
Board Chair

Warrnambool

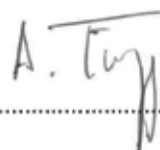
24 September 2020



Craig Fraser  
Chief Executive Officer

Warrnambool

24 September 2020



Andrew Trigg  
Chief Finance & Accounting Officer

Warrnambool

24 September 2020



Victorian Auditor-General's Office

## Independent Auditor's Report

### To the Board of South West Healthcare

<b>Opinion</b>	<p>I have audited the financial report of South West Healthcare (the health service) which comprises the:</p> <ul style="list-style-type: none"> <li>• balance sheet as at 30 June 2020</li> <li>• comprehensive operating statement for the year then ended</li> <li>• statement of changes in equity for the year then ended</li> <li>• cash flow statement for the year then ended</li> <li>• notes to the financial statements, including significant accounting policies</li> <li>• board member's, accountable officer's and chief finance &amp; accounting officer's declaration.</li> </ul> <p>In my opinion the financial report presents fairly, in all material respects, the financial position of the health service as at 30 June 2020 and their financial performance and cash flows for the year then ended in accordance with the financial reporting requirements of Part 7 of the <i>Financial Management Act 1994</i> and applicable Australian Accounting Standards.</p>
<b>Basis for Opinion</b>	<p>I have conducted my audit in accordance with the <i>Audit Act 1994</i> which incorporates the Australian Auditing Standards. I further describe my responsibilities under that Act and those standards in the <i>Auditor's Responsibilities for the Audit of the Financial Report</i> section of my report.</p> <p>My independence is established by the <i>Constitution Act 1975</i>. My staff and I are independent of the health service in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 <i>Code of Ethics for Professional Accountants</i> (the Code) that are relevant to my audit of the financial report in Victoria. My staff and I have also fulfilled our other ethical responsibilities in accordance with the Code.</p> <p>I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.</p>
<b>Board's responsibilities for the financial report</b>	<p>The Board of the health service is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and the <i>Financial Management Act 1994</i>, and for such internal control as the Board determines is necessary to enable the preparation and fair presentation of a financial report that is free from material misstatement, whether due to fraud or error.</p> <p>In preparing the financial report, the Board is responsible for assessing the health service's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is inappropriate to do so.</p>
<b>Other Information</b>	<p>The Board of the health service is responsible for the Other Information, which comprises the information in the health service's annual report for the year ended 30 June 2020, but does not include the financial report and my auditor's report thereon.</p> <p>My opinion on the financial report does not cover the Other Information and accordingly, I do not express any form of assurance conclusion on the Other Information. However, in connection with my audit of the financial report, my responsibility is to read the Other Information and in doing so, consider whether it is materially inconsistent with the financial report or the knowledge I obtained during the audit, or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude there is a material misstatement of the Other Information, I am required to report that fact. I have nothing to report in this regard.</p>

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**Auditor's responsibilities for the audit of the financial report**

As required by the *Audit Act 1994*, my responsibility is to express an opinion on the financial report based on the audit. My objectives for the audit are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial report, 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 my 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.
- 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 health service's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board
- conclude on the appropriateness of the Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the health service's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the health service to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

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MELBOURNE  
29 September 2020



Travis Derricott  
*as delegate for the Auditor-General of Victoria*

## COMPREHENSIVE OPERATING STATEMENT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020

	Note	2020 \$ '000	2019 \$ '000
<b>Income from Transactions</b>			
Operating Activities	2.1	212,239	198,541
Non-operating Activities	2.1	335	446
<b>Total Income from Transactions</b>		<b>212,574</b>	<b>198,987</b>
<b>Expenses from Transactions</b>			
Employee Expenses	3.1	150,858	141,840
Supplies and Consumables	3.1	26,903	26,880
Finance Costs	3.1	17	83
Depreciation and Amortisation	4.3	16,706	14,112
Other Operating Expenses	3.1	26,150	26,463
Other Non Operating Expenses	3.1	216	206
<b>Total Expenses from Transactions</b>		<b>220,850</b>	<b>209,584</b>
<b>Net Result from Transactions - Net Operating Balance</b>		<b>(8,276)</b>	<b>(10,597)</b>
<b>Other Economic Flows Included in Net Result</b>			
Net gain/(loss) on sale of non-financial assets	3.2	64	16
Net gain/(loss) on financial instruments at fair value	3.2	(18)	(10)
Other gain/(loss) from Other Economic Flows	3.2	(408)	(999)
<b>Total Other Economic Flows Included in Net Result</b>		<b>(362)</b>	<b>(993)</b>
<b>Net Result for the year</b>		<b>(8,638)</b>	<b>(11,590)</b>
<b>Other Comprehensive Income</b>			
<b>Items that will not be classified to Net Result</b>			
Changes in Property, Plant & Equipment Revaluation Surplus	4.2f	-	59,188
<b>Total Other Comprehensive Income</b>		<b>-</b>	<b>59,188</b>
<b>Comprehensive Result for the Year</b>		<b>(8,638)</b>	<b>47,598</b>

This Statement should be read in conjunction with the accompanying notes.

## BALANCE SHEET AS AT 30 JUNE 2020

	Note	2020 \$ '000	2019 \$ '000
<b>Current Assets</b>			
Cash and Cash Equivalents	6.2	26,740	19,458
Receivables	5.1	4,488	5,534
Other Financial Assets	4.1	-	1,000
Inventories		1,746	1,730
Non financial physical assets held for sale	5.4	-	322
Prepayments and Other assets		239	118
<b>Total Current Assets</b>		<b>33,213</b>	<b>28,162</b>
<b>Non-Current Assets</b>			
Receivables	5.1	7,206	6,494
Property, Plant and Equipment	4.2	231,296	242,272
<b>Total Non-Current Assets</b>		<b>238,502</b>	<b>248,766</b>
<b>TOTAL ASSETS</b>		<b>271,715</b>	<b>276,928</b>
<b>Current Liabilities</b>			
Payables	5.2	16,964	15,640
Borrowings	6.1	304	275
Provisions	3.4	29,662	27,734
Other Current liabilities	5.3	2,673	2,889
<b>Total Current Liabilities</b>		<b>49,603</b>	<b>46,538</b>
<b>Non-Current Liabilities</b>			
Borrowings	6.1	610	589
Provisions	3.4	3,900	3,564
<b>Total Non-Current Liabilities</b>		<b>4,510</b>	<b>4,153</b>
<b>TOTAL LIABILITIES</b>		<b>54,113</b>	<b>50,691</b>
<b>NET ASSETS</b>		<b>217,602</b>	<b>226,237</b>
<b>EQUITY</b>			
Property, Plant and Equipment Revaluation Surplus	4.2f	115,901	115,901
Restricted Specific Purpose Reserve		22	22
Contributed Capital		77,339	76,744
Accumulated Surpluses		24,340	33,570
<b>TOTAL EQUITY</b>		<b>217,602</b>	<b>226,237</b>

This Statement should be read in conjunction with the accompanying notes.

## CASHFLOW STATEMENT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020

	Note	2020 \$ '000	2019 \$ '000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Operating grants from government		188,109	171,589
Capital grants from State government		3,647	2,149
Patient and resident fees received		5,035	5,414
Private practice fees received		1,705	1,788
GST received from ATO		4,594	4,622
Interest received		335	446
Other receipts		13,933	14,770
<b>Total Receipts</b>		<b>217,358</b>	<b>200,778</b>
Employee Expenses Paid		(139,417)	(124,996)
Non Salary Labour Costs		(11,285)	(12,368)
Payments for Supplies and Consumables		(28,077)	(25,266)
Finance Costs		(17)	(83)
Cash outflow for leases		(72)	-
Other Payments		(27,862)	(31,823)
<b>Total Payments</b>		<b>(206,730)</b>	<b>(194,536)</b>
<b>NET CASH FLOW FROM / (USED IN) OPERATING ACTIVITIES</b>	8.1	<b>10,628</b>	<b>6,242</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Capital donations received		828	352
Proceeds from Investments		1,000	6,100
Purchase of Non-Financial Assets		(5,697)	(3,536)
Proceeds from disposal of Non-Financial Assets		403	89
<b>NET CASH FLOW FROM /(USED IN) INVESTING ACTIVITIES</b>		<b>(3,466)</b>	<b>3,005</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from Government Equity		595	-
Repayment of Borrowings		(260)	-
Proceeds from Borrowings		-	346
Repayment of Accommodation Deposits		(2,012)	(170)
Receipt of Accommodation Deposits and Monies in Trust		1,797	577
<b>NET CASH FLOW FROM /(USED IN) FINANCING ACTIVITIES</b>		<b>120</b>	<b>753</b>
<b>NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS HELD</b>		<b>7,282</b>	<b>10,000</b>
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR		19,458	9,458
<b>CASH AND CASH EQUIVALENTS AT END OF OF FINANCIAL YEAR</b>	6.2	<b>26,740</b>	<b>19,458</b>

This Statement should be read in conjunction with the accompanying notes.

## STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020

	Note	Property, Plant and Equipment Revaluation Surplus \$ '000	Restricted Specific Purpose Surplus Reserve \$ '000	Contributed Capital \$ '000	Accumulated Surpluses/ (Deficits) \$ '000	Total \$ '000
<b>Balance at 1 July 2018</b>		56,713	22	76,744	45,160	178,639
Net result for the year		-	-	-	(11,590)	(11,590)
Other comprehensive income for the year		59,188	-	-	-	59,188
<b>Balance at 30 June 2019</b>		<b>115,901</b>	<b>22</b>	<b>76,744</b>	<b>33,570</b>	<b>226,237</b>
Effect of adoption of AASB 15, 16 and 1058	8.10				(592)	(592)
<b>Restated balance at 30 June 2019</b>		<b>115,901</b>	<b>22</b>	<b>76,744</b>	<b>32,978</b>	<b>225,645</b>
Net result for the year		-	-	-	(8,638)	(8,638)
Contribution by owners		-	-	595	-	595
<b>Balance at 30 June 2020</b>		<b>115,901</b>	<b>22</b>	<b>77,339</b>	<b>24,340</b>	<b>217,602</b>



# BASIS OF PREPARATION

These financial statements are in Australian dollars and the historical cost convention is used unless a different measurement basis is specifically disclosed in the note associated with the item measured on a different basis.

The accrual basis of accounting has been applied in preparing these financial statements, whereby assets, liabilities, equity, income and expenses are recognised in the reporting period to which they relate, regardless of when cash is received or paid.

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## NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These annual financial statements represent the audited general purpose financial statements for South West Healthcare (ABN 41 189 754 233) for the year ended 30 June 2020. The report provides users with information about South West Healthcare's stewardship of resources entrusted to it.

### (A) STATEMENT OF COMPLIANCE

These financial statements are general purpose financial statements which have been prepared in accordance with the Financial Management Act 1994 and applicable AASBs, which include interpretations issued by the Australian Accounting Standards Board (AASB). They are presented in a manner consistent with the requirements of AASB 101 *Presentation of Financial Statements*.

The financial statements also comply with relevant Financial Reporting Directions (FRDs) issued by the Department of Treasury and Finance, and relevant Standing Directions (SDs) authorised by the Assistant Treasurer.

South West Healthcare is a not-for profit entity and therefore applies the additional AUS paragraphs applicable to "not-for-profit" Health Services under the AASBs.

### (B) REPORTING ENTITY

The financial statements include all the controlled activities of South West Healthcare.

Its principal address is:

Ryot Street

Warrnambool, Victoria 3280

A description of the nature of South West Healthcare operations and its principal activities is included in the report of operations, which does not form part of these financial statements.

### (C) BASIS OF ACCOUNTING PREPARATION AND MEASUREMENT

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The accounting policies have been applied in preparing the financial statements for the year ended 30 June 2020, and the comparative information presented in these financial statements for the year ended 30 June 2019.

The financial statements are prepared on a going concern basis (refer note 8.9 Economic Dependency).

These financial statements are presented in Australian Dollars, the functional and presentation currency of South West Healthcare.

All amounts shown in the financial statements have been rounded to the nearest thousand dollars, unless otherwise stated. Minor discrepancies in tables between totals and sum of components are due to rounding.

## NOTE 1 : SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (C) BASIS OF ACCOUNTING PREPARATION AND MEASUREMENT (CONTINUED)

South West Healthcare operates on a fund accounting basis and maintains three funds: Operating, Specific Purpose and Capital Funds.

The financial statements, except for cash flow information, have been prepared using the accrual basis of accounting. Under the accrual basis, items are recognised as assets, liabilities, equity, income or expenses when they satisfy the definitions and recognition criteria for those items, that is, they are recognised in the reporting period to which they relate, regardless of when cash is received or paid.

Judgements, estimates and assumptions are required to be made about the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are reviewed on an ongoing basis. The estimates and associated assumptions are based on professional judgements derived from historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Revisions to accounting estimates are recognised in the period in which the estimate is revised and also in future periods that are affected by the revision. Judgements and assumptions made by management in the application of AASBs that have significant effects on the financial statements and estimates relate to:

- The fair value of land, buildings and plant and equipment (refer to Note 4.2 Property, Plant and Equipment);
- Defined benefit superannuation expense (refer to Note 3.5 Superannuation); and
- Employee benefit provisions are based on likely tenure of existing staff, patterns of leave claims, future salary movements and future discount rates (refer to Note 3.4 Employee Benefits in the Balance Sheet);

A state of emergency was declared in Victoria on 16 March 2020 due to the global coronavirus pandemic, known as COVID-19. A state of disaster was subsequently declared on 2 August 2020.

To contain the spread of the virus and to prioritise the health and safety of our communities various restrictions have been announced and implemented by the state government, which in turn has impacted the manner in which businesses operate, including South West Healthcare.

In response, South West Healthcare placed restrictions on non-essential visitors, implemented reduced visitor hours, deferred elective surgery and reduced activity, performed COVID-19 testing and implemented work from home arrangements where appropriate.

For further details refer to Note 2.1 Funding delivery of our services.

#### **Goods and Services Tax (GST)**

Income, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the Australian Taxation Office (ATO). In this case the GST payable is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the ATO is included with other receivables or payables in the Balance Sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the ATO, are presented as operating cash flow.

Commitments and contingent assets and liabilities are presented on a gross basis.

### (D) INTERSEGMENT TRANSACTIONS

Transactions between segments within South West Healthcare have been eliminated to reflect the extent of South West Healthcare's operations as a group.

## NOTE 1 : SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (E) JOINTLY CONTROLLED OPERATION

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

In respect of any interest in joint operations, South West Healthcare recognises in the financial statements:

- its assets, including its share of any assets held jointly;
- any liabilities including its share of liabilities that it had incurred;
- its revenue from the sale of its share of the output from the joint operation;
- its share of the revenue from the sale of the output by the operation; and
- its expenses, including its share of any expenses incurred jointly.

South West Healthcare is a Member of the Southwest Alliance of Rural Health Joint Venture and retains joint control over the arrangement, which it has classified as a joint operation (refer to Note 8.8 Jointly Controlled Operations)

### (F) EQUITY CONTRIBUTED CAPITAL

Consistent with the requirements of AASB 1004 Contributions, contributions by owners (that is, contributed capital and its repayment) are treated as equity transactions and, therefore, do not form part of the income and expenses of South West Healthcare.

Transfers of net assets arising from administrative restructurings are treated as distributions to or contributions by owners. Transfers of net liabilities arising from administrative restructurings are treated as distributions to owners.

Other transfers that are in the nature of contributions or distributions or that have been designated as contributed capital are also treated as contributed capital.

#### **Specific Restricted Purpose Surplus**

The Specific Restricted Purpose Surplus is established where South West Healthcare has possession or title to the funds but has no discretion to amend or vary the restriction and/or condition underlying the funds received.

### (G) COMPARATIVES

Where appropriate, the comparative figures have been restated to align with the presentation in the current year. Figures have been restated at Notes 2.1.

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## NOTE 2: FUNDING DELIVERY OF OUR SERVICES

South West Healthcare's overall objective is to provide quality health services that support and enhance the wellbeing of all Victorians. South West Healthcare is predominantly funded by accrual based grant funding for the provision of outputs. South West Healthcare also receives income from the supply of services.

#### **Structure**

2.1 Income from Transactions

**NOTE 2.1: INCOME FROM TRANSACTIONS****(A) INCOME FROM TRANSACTIONS**

	<b>2020</b>	<b>2019</b>
	<b>\$ '000</b>	<b>\$ '000</b>
Government grants (State) - Operating (1)	169,814	156,631
Government grants (Commonwealth) - Operating	15,615	14,655
Government grants (State) - Capital	3,485	2,519
Other Capital Purpose Income	1,265	783
Indirect Contributions by Department of Health and Human Services	1,066	2,032
Patient and Resident Fees	4,892	5,237
Commercial activities (2)	7,078	7,618
Assets received free of charge or for nominal consideration	334	-
Other Revenue from Operating Activities (including non-capital donations)	8,690	9,066
<b>Total Income from Operating Activities</b>	<b>212,239</b>	<b>198,541</b>
Interest	335	446
<b>Total Income from Non-Operating Activities</b>	<b>335</b>	<b>446</b>
<b>Total Income from Transactions</b>	<b>212,574</b>	<b>198,987</b>

1. Government Grant (State) – Operating includes \$12.62m funding received to compensate for COVID-19 impact on health service operations.

2. Commercial activities represent business activities which health service enter into to support their operations.

**Impact of COVID-19 on revenue and income**

As indicated at Note 1, South West Healthcare's response to the pandemic included the deferral of elective surgeries and reduced activity. This resulted in South West Healthcare incurring lost revenue as well as direct and indirect COVID-19 costs. The Department of Health and Human Services provided funding which was spent due to COVID-19 impacts on South West Healthcare. South West Healthcare also received personal protective equipment free of charge under the state supply arrangement.

**Revenue Recognition**

Income is recognised in accordance with either:

- contributions by owners, in accordance with AASB 1004;
- income for not-for-profit entities, in accordance with AASB 1058;
- revenue or a contract liability arising from a contract with a customer, in accordance with AASB 15;
- a lease liability in accordance with AASB 16;
- a financial instrument, in accordance with AASB 9; or
- a provision, in accordance with AASB 137 Provisions, Contingent Liabilities and Contingent Assets.

**Government Grants**

Income from grants to construct the Portland Community Mental Health Facility is recognised when (or as) South West Healthcare satisfies its obligations under the transfer. This aligns with South West Healthcare's obligation to construct the asset. The progressive percentage costs incurred is used to recognise income because this most closely reflects the construction's progress as costs are incurred as the works are done.

Income from grants that are enforceable and with sufficiently specific performance obligations are accounted for under AASB 15 as revenue from contracts with customers, with revenue recognised as these performance obligations are met.

## NOTE 2.1: INCOME FROM TRANSACTIONS (CONTINUED)

### (A) INCOME FROM TRANSACTIONS (CONTINUED)

Income from grants without any sufficiently specific performance obligations, or that are not enforceable, is recognised when South West Healthcare has an unconditional right to receive the cash which usually coincides with receipt of cash. On initial recognition of the asset, South West Healthcare recognises any related contributions by owners, increases in liabilities, decreases in assets, and revenue ('related amounts') in accordance with other Australian Accounting Standards. Related amounts may take the form of:

- a) contributions by owners, in accordance with AASB 1004;
- b) revenue or a contract liability arising from a contract with a customer, in accordance with AASB 15;
- c) a lease liability in accordance with AASB 16;
- d) a financial instrument, in accordance with AASB 9; or
- e) a provision, in accordance with AASB 137 Provisions, Contingent Liabilities and Contingent Assets.

As a result of the transitional impacts of adopting AASB 15 and AASB 1058, a portion of the grant revenue has been deferred. If the grant income is accounted for in accordance with AASB 15, the deferred grant revenue has been recognised in contract liabilities whereas grant revenue in relation to the construction of capital assets which the health service controls has been recognised in accordance with AASB 1058 and recognised as deferred grant revenue (refer note 5.2).

If the grant revenue was accounted for under the previous accounting standard AASB 1004 in 2019-20, the total grant revenue received would have been recognised in full.

### Performance obligations

The types of government grants recognised under AASB15 Revenue from Contracts with Customers includes:

- Activity Based Funding (ABF) paid as WIES casemix
- other one-off grants if funding conditions contain enforceable and sufficiently specific performance obligations.

The performance obligations for ABF are the number and mix of patients admitted to hospital (casemix) in accordance with levels of activity agreed to with the Department of Health and Human Services (DHHS) in the annual Statement of Priorities (SoP). Revenue is recognised when a patient is discharged and in accordance with the WIES activity for each separation. The performance obligations have been selected as they align with funding conditions set out in the Policy and funding guidelines issued by the DHHS.

For other grants with performance obligations South West Healthcare exercises judgement over whether the performance obligations have been met, on a grant by grant basis.

### Previous accounting policy for 30 June 2019

Grant income arises from transactions in which a party provides goods or assets (or extinguishes a liability) to South West Healthcare without receiving approximately equal value in return. While grants may result in the provision of some goods or services to the transferring party, they do not provide a claim to receive benefits directly of approximately equal value (and are termed 'non-reciprocal' transfers). Receipt and sacrifice of approximately equal value may occur, but only by coincidence.

Some grants are reciprocal in nature (i.e. equal value is given back by the recipient of the grant to the provider). South West Healthcare recognises income when it has satisfied its performance obligations under the terms of the grant.

For non-reciprocal grants, South West Healthcare recognises revenue when the grant is received.

Grants can be received as general purpose grants, which refers to grants which are not subject to conditions regarding their use. Alternatively, they may be received as specific purpose grants, which are paid for a particular purpose and/or have conditions attached regarding their use.

### Patient and Resident Fees

The performance obligations related to patient fees for the provision of inpatient, district nursing and allied health. For WIES funding, revenue is recognised when a patient is discharged and in accordance with the WIES count for each separation. Revenue for district nursing and allied health services is recognised when the service has been provided to the patient. The performance obligations have been selected as they align with

## NOTE 2.1: INCOME FROM TRANSACTIONS (CONTINUED)

### (A) INCOME FROM TRANSACTIONS (CONTINUED)

the funding conditions as set out in the Policy and Funding Guidelines issued by the Department of Health and Human Services.

Resident fees are recognised as revenue over time as South West Healthcare provides accommodation. This is calculated on a daily basis and invoiced monthly.

#### Private Practice Fees

The performance obligations related to private practice fees such as medical services for paediatric, orthopaedic and women's health services are recognised at the completion of the consultation with the patient. These performance obligations have been selected as they align with the terms and conditions agreed with the private provider. Private practice fees include recoupments from the private practice for the use of hospital facilities. Where there is judgement around whether a performance obligation is met, South West Healthcare exercises judgement over whether performance obligations related to the services provided.

#### Commercial activities

Revenue from commercial activities includes items such as car park income, provision of meals to external users, medical supplies shop, cafés and recoveries for salaries and wages is recognised when the goods or services have been provided.

Performance obligations related to commercial activities are complete provision of the activities listed above and are generally transactional. These performance obligations have been selected as they align with the terms and conditions per the contract with the provider of the commercial activities.

### (B) FAIR VALUE OF ASSETS AND SERVICES RECEIVED FREE OF CHARGE OR FOR NOMINAL CONSIDERATION

	2020	2019
	\$ '000	\$ '000
Cash donations and gifts	828	352
Assets received free of charge under State supply arrangements	334	0
Total fair value of assets and services received free of charge or for nominal consideration	1162	352

In order to meet the State of Victoria's health network supply needs during the COVID-19 pandemic, arrangements were put in place to centralise the purchasing of essential personal protective equipment and essential capital items such as ventilators.

The general principles of the State Supply Arrangement were that Health Purchasing Victoria sourced, secured and agreed terms for the purchase of the products, funded by the department, while Monash Health and the department took delivery, and distributed the products to health services as resources provided free of charge.

Contributions of resources provided free of charge or for nominal consideration are recognised at their fair value when the recipient obtains control over the resources, irrespective of whether restrictions or conditions are imposed over the use of the contributions.

The exception to this would be when the resource is received from another government department (or agency) as a consequence of a restructuring of administrative arrangements, in which case such a transfer will be recognised at its carrying value in the transferring department or agency as a capital contribution transfer.

#### Voluntary Services

Contributions in the form of services are only recognised when a fair value can be reliably determined, and the services would not have been purchased if not donated. South West Healthcare did receive volunteer services which assisted in the non clinical support of service delivery but does not depend on volunteer services.

#### Non-cash contributions from the Department of Health and Human Services

The Department of Health and Human Services makes some payments on behalf of health services as follows:

- The Victorian Managed Insurance Authority non-medical indemnity insurance payments are recognised as revenue following advice from the Department of Health and Human Services

## NOTE 2.1: INCOME FROM TRANSACTIONS (CONTINUED)

### (B) FAIR VALUE OF ASSETS AND SERVICES RECEIVED FREE OF CHARGE OR FOR NOMINAL CONSIDERATION (CONTINUED)

- Long Service Leave (LSL) revenue is recognised upon finalisation of movements in LSL liability in line with the long service leave funding arrangements set out in the relevant Department of Health and Human Services Hospital Circular
- Public Private Partnership (PPP) lease and service payments are paid directly to the PPP consortium. Revenue and the matching expense are recognised in accordance with the nature and timing of the monthly or quarterly service payments made by the Department of Health and Human Services.
- Fair value of assets and services received free of charge or for nominal consideration
- Resources received free of charge or for nominal consideration are recognised at their fair value when the transferee obtains control over them, irrespective of whether restrictions or conditions are imposed over the use of the contributions, unless received from another Health Service or agency as a consequence of a restructuring of administrative arrangements. In the latter case, such transfer will be recognised at carrying amount. Contributions in the form of services are only recognised when a fair value can be reliably determined and the service would have been purchased if not received as a donation.

### Performance obligations and revenue recognition policies

Revenue is measured based on the consideration specified in the contract with the customer. South West Healthcare recognises revenue when it transfers control of a good or service to the customer i.e. revenue is recognised when, or as, the performance obligations for the sale of goods and services to the customer are satisfied.

- Customers obtain control of the supplies and consumables at a point in time when the goods are delivered to and have been accepted at their premises.
- Income from the sale of goods are recognised when the goods are delivered and have been accepted by the customer at their premises
- Revenue from the rendering of services is recognised at a point in time when the performance obligation is satisfied when the service is completed; and over time when the customer simultaneously receives and consumes the services as it is provided.

For contracts that permit the customer to return an item, revenue is recognised to the extent it is highly probable that a significant cumulative reversal will not occur. Therefore, the amount of revenue recognised is adjusted for the expected returns, which are estimated based on the historical data. In these circumstances, a refund liability and a right to recover returned goods asset are recognised. The right to recover the returned goods asset is measured at the former carrying amount of the inventory less any expected costs to recover goods. The refund liability is included in other payables (Note 5.3) and the right to recover returned goods is included in inventory. South West Healthcare reviews its estimate of expected returns at each reporting date and updates the amount of the asset and liability accordingly. As the sales are made with a short credit term, there is no financing element present. There has been no change in the recognition of revenue from the sale of goods as a result of the adoption of AASB 15.

Consideration received in advance of recognising the associated revenue from the customer is recorded as a contract liability (Note 5.2 (b)).

### (C) OTHER INCOME

	2020 \$ '000	2019 \$ '000
Other interest	335	446
<b>Total other income</b>	<b>335</b>	<b>446</b>

Other income is recognised as revenue when received. Other income includes recoveries for salaries and wages and external services provided, and donations and bequests. If donations are for a specific purpose, they may be appropriated to a surplus, such as the specific restricted purpose surplus.

### Interest Income

Interest revenue is recognised on a time proportionate basis that takes into account the effective yield of the financial asset, which allocates interest over the relevant period.

## NOTE 3: THE COST OF DELIVERING SERVICES

This section provides an account of the expenses incurred by South West Healthcare in delivering services and outputs. In Section 2, the funds that enable the provision of services were disclosed and in this note the cost associated with provision of services are recorded.

### Structure

- 3.1 Expenses from Transactions
- 3.2 Other Economic Flows
- 3.3 Analysis of expense and revenue by internally managed and restricted specific purpose funds
- 3.4 Employee benefits in the Balance Sheet
- 3.5 Superannuation

### NOTE 3.1: EXPENSES FROM TRANSACTIONS

	2020 \$ '000	2019 \$ '000
Salaries and Wages	116,588	107,239
On-costs	14,790	14,181
Agency Expenses	7,107	6,836
Fee for Service Medical Officer Expenses	11,285	12,400
Workcover Premium	1,088	1,184
<b>Total Employee Expenses</b>	<b>150,858</b>	<b>141,840</b>
Drug Supplies	11,538	10,801
Medical & Surgical Supplies (including Prosthesis)	8,261	9,480
Diagnostic and Radiology Supplies	5,367	4,894
Other Supplies and Consumables	1,737	1,705
<b>Total Supplies and Consumables</b>	<b>26,903</b>	<b>26,880</b>
Finance Costs	17	83
<b>Total Finance Costs</b>	<b>17</b>	<b>83</b>
Fuel, Light, Power and Water	2,160	2,239
Repairs and Maintenance	1,973	1,740
Maintenance Contracts	1,297	1,104
Medical Indemnity Insurance	2,549	2,513
Other Administration Expenses	18,171	18,867
<b>Total Other Operating Expenses</b>	<b>26,150</b>	<b>26,463</b>
Expenditure for Capital Purposes	216	206
Depreciation and Amortisation (refer note 4.3)	16,706	14,112
<b>Total Other Non-Operating Expenses</b>	<b>16,922</b>	<b>14,318</b>
<b>Total Expenses from Transactions</b>	<b>220,850</b>	<b>209,584</b>

Expenses are recognised as they are incurred and reported in the financial year to which they relate.



## NOTE 3.1: EXPENSES FROM TRANSACTIONS (CONTINUED)

### Impact of COVID-19 on expenses

As indicated at Note 1, South West Healthcare's daily activities were impacted by the pandemic. This resulted in direct and indirect costs being incurred during the second half of the year across most expense types.

### Employee Expenses

Employee expenses include:

- Salaries and wages (including fringe benefits tax, leave entitlements, termination payments);
- On-costs;
- Agency expenses;
- Fee for service medical officer expenses;
- Work cover premium.

### Supplies and consumables

Supplies and consumables - Supplies and services costs which are recognised as an expense in the reporting period in which they are incurred. The carrying amounts of any inventories held for distribution are expensed when distributed.

### Finance costs

Finance costs include:

- interest on bank overdrafts and short-term and long-term borrowings (Interest expense is recognised in the period in which it is incurred);
- amortisation of discounts or premiums relating to borrowings;
- amortisation of ancillary costs incurred in connection with the arrangement of borrowings; and
- finance charges in respect of finance leases which are recognised in accordance with AASB 16 Leases.

### Other operating expenses

Other operating expenses generally represent the day-to-day running costs incurred in normal operations and include:

- Fuel, light and power
- Repairs and maintenance
- Other administrative expenses
- Expenditure for capital purposes (represents expenditure related to the purchase of assets that are below the capitalisation threshold of \$1,000.)

The Department of Health and Human Services also makes certain payments on behalf of South West Healthcare. These amounts have been brought to account as grants in determining the operating result for the year by recording them as revenue and also recording the related expense.

### Non-operating expenses

Other non-operating expenses generally represent expenditure for outside the normal operations such as depreciation and amortisation, and assets and services provided free of charge or for nominal consideration.

### Operating lease payments

Operating lease payments up until 30 June 2019 (including contingent rentals) were recognised on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern of the benefits derived from the use of the leased asset.

From 1 July 2019, the following lease payments are recognised on a straight-line basis:

- Short-term leases – leases with a term less than 12 months; and

**NOTE 3.1: EXPENSES FROM TRANSACTIONS (CONTINUED)**

- Low value leases – leases with the underlying asset's fair value (when new, regardless of the age of the asset being leased) is no more than \$10,000.

Variable lease payments not included in the measurement of the lease liability (i.e. variable lease payments that do not depend on an index or a rate, initially measured using the index or rate as at the commencement date). These payments are recognised in the period in which the event or condition that triggers those payments occur.

**NOTE 3.2: OTHER ECONOMIC FLOWS INCLUDED IN OPERATING RESULT**

	2020 \$ '000	2019 \$ '000
<u>Net gain/(loss) on sale of non-financial assets</u>		
Net gain on disposal of property plant and equipment	64	16
<b>Total net gain/(loss) on non-financial assets</b>	<b>64</b>	<b>16</b>
<u>Net gain/(loss) on financial instruments at fair value</u>		
<u>Net gain/(loss) on financial instruments</u>		
Allowance for Impairment losses for contractual receivables	(18)	(10)
<b>Total net gain/(loss) on financial instruments at fair value</b>	<b>(18)</b>	<b>(10)</b>
<u>Other gains/(losses) from other economic flows</u>		
Net gain/(loss) arising from revaluation of long service liability	(408)	(999)
<b>Total other gains/(losses) from other economic flows</b>	<b>(408)</b>	<b>(999)</b>
<b>Total other gains/(losses) from economic flows</b>	<b>(362)</b>	<b>(993)</b>

**Net Gain / (Loss) on Non-Financial Assets**

Net gain / (loss) on non-financial assets and liabilities includes realised and unrealised gains and losses as follows:

- Revaluation gain/ (losses) of non-financial physical assets (Refer to Note 4.2 Property, Plant and Equipment)
- Net gain/(loss) on disposal of Non-Financial Assets
- Any gain or loss on the disposal of non-financial assets is recognised at the date of disposal.

**Net gain/ (loss) on financial instruments**

Net gain/ (loss) on financial instruments includes:

- realised and unrealised gains and losses from revaluations of financial instruments at fair value;
- impairment and reversal of impairment for financial instruments at amortised cost refer to Note 4.1 Other financial assets; and
- disposals of financial assets and derecognition of financial liabilities

**Other gains/(losses) from other economic flows**

Other gains/(losses) include:

- the revaluation of the present value of the long service leave liability due to changes in the bond rate movements, inflation rate movements and the impact of changes in probability factors; and
- transfer of amounts from the reserves to accumulated surplus or net result due to disposal or derecognition or reclassification.

### NOTE 3.3: ANALYSIS OF EXPENSE AND REVENUE BY INTERNALLY MANAGED AND RESTRICTED SPECIFIC PURPOSE FUNDS

	2020 \$ '000	2019 \$ '000	2020 \$ '000	2019 \$ '000
	Expense		Revenue	
<b>Commercial Activities</b>				
Private Practice Fees	2,221	2,029	1,893	2,041
Linen Service	1,727	1,773	1,954	2,018
Food Services	1,244	1,285	1,356	1,490
Retail Services	937	1,020	1,086	1,204
Other Activities	651	699	789	865
<b>TOTAL</b>	<b>6,780</b>	<b>6,806</b>	<b>7,078</b>	<b>7,618</b>

### NOTE 3.4: EMPLOYEE BENEFITS IN THE BALANCE SHEET

	2020 \$ '000	2019 \$ '000
<b>Current Provisions</b>		
Employee Benefits (i)		
Annual Leave		
- unconditional and expected to be settled wholly within 12 months (ii)	9,640	9,112
- unconditional and expected to be settled wholly after 12 months (iii)	412	244
Long Service Leave		
- unconditional and expected to be settled wholly within 12 months (ii)	2,324	2,184
- unconditional and expected to be settled wholly after 12 months (iii)	13,706	12,879
Accrued Days Off		
- unconditional and expected to be settled wholly within 12 months (ii)	284	233
	<b>26,366</b>	<b>24,652</b>
<b>Provisions related to Employee Benefit On-Costs</b>		
- unconditional and expected to be settled wholly within 12 months (ii)	1,292	1,199
- unconditional and expected to be settled wholly after 12 months (iii)	2,004	1,883
	<b>3,296</b>	<b>3,082</b>
<b>Total Current Provisions</b>	<b>29,662</b>	<b>27,734</b>
<b>Non-Current Provisions</b>		
Conditional Long Service Leave Entitlements	3,467	3,168
Provisions related to Employee Benefit On-Costs	433	396
<b>Total Non-Current Provisions</b>	<b>3,900</b>	<b>3,564</b>
<b>Total Provisions</b>	<b>33,562</b>	<b>31,298</b>

Notes:

- (i) Provisions for employee benefits consist of amounts for annual leave and long service leave accrued by employees, not including on-costs.
- (ii) The amounts disclosed are nominal amounts
- (iii) The amounts disclosed are discounted to present values

**NOTE 3.4: EMPLOYEE BENEFITS IN THE BALANCE SHEET (CONTINUED)****(A) EMPLOYEE BENEFITS AND RELATED ON-COSTS**

	<b>2020</b>	<b>2019</b>
	<b>\$ '000</b>	<b>\$ '000</b>
<b>Current Employee Benefits and Related On-Costs</b>		
Unconditional LSL Entitlement	18,033	16,945
Annual Leave Entitlements	11,309	10,527
Accrued Days Off	320	262
	<b>29,662</b>	<b>27,734</b>
<b>Non-Current Employee Benefits and related on-costs</b>		
Conditional Long Service Leave Entitlements (iii)	3,900	3,564
<b>Total Employee Benefits and Related Oncosts</b>	<b>33,562</b>	<b>31,298</b>

**(B) MOVEMENT IN ONCOST PROVISIONS**

	<b>2020</b>	<b>2019</b>
	<b>\$ '000</b>	<b>\$ '000</b>
<b>Balance at start of year</b>	3,478	3,409
Additional provisions recognised	506	165
Unwinding of discount and effect of changes in the discount rate	51	125
Reduction due to transfer out	(306)	(221)
<b>Balance at end of year</b>	<b>3,729</b>	<b>3,478</b>

**Employee Benefit Recognition**

Provision is made for benefits accruing to employees in respect of wages and salaries, accrued days off, annual leave and long service leave for services rendered to the reporting date as an expense during the period the services are delivered.

**Provisions**

Provisions are recognised when South West Healthcare 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 liability 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.

**Annual Leave and Accrued Days Off**

Liabilities for annual leave and accrued days off are all recognised in the provision for employee benefits as 'current liabilities', because the health service does not have an unconditional right to defer settlements of these liabilities.

Depending on the expectation of the timing of settlement, liabilities for wages and salaries, annual leave and accrued days off are measured at:

- Nominal value – if the health service expects to wholly settle within 12 months; or
- Present value – if the health service does not expect to wholly settle within 12 months.

**Long Service Leave (LSL)**

The liability for long service leave (LSL) is recognised in the provision for employee benefits.

Unconditional LSL is disclosed in the notes to the financial statements as a current liability, even where the health service does not expect to settle the liability within 12 months because it will not have the unconditional right to defer the settlement of the entitlement should an employee take leave within 12 months. An unconditional right arises after a qualifying period.

**NOTE 3.4: EMPLOYEE BENEFITS IN THE BALANCE SHEET (CONTINUED)****(B) MOVEMENT IN ONCOST PROVISIONS (CONTINUED)**

The components of this current LSL liability are measured at:

- Nominal value – if South West Healthcare expects to wholly settle within 12 months; or
- Present value – if South West Healthcare does not expect to wholly settle within 12 months.

Conditional LSL is disclosed as a non-current liability. Any gain or loss following revaluation of the present value of non-current LSL liability is recognised as a transaction, except to the extent that a gain or loss arises due to changes in estimations e.g. bond rate movements, inflation rate movements and changes in probability factors which are then recognised as other economic flows.

**Termination benefits**

Termination benefits are payable when employment is terminated before the normal retirement date or when an employee decides to accept an offer of benefits in exchange for the termination of employment.

**On-Costs related to employee benefits**

Provision for on-costs such as workers compensation and superannuation are recognised separately from provisions for employee benefits.

**NOTE 3.5: SUPERANNUATION**

Fund	Paid Contributions for the year		Outstanding Contributions at Year End		
	2020	2019	2020	2019	
	\$ '000	\$ '000	\$ '000	\$ '000	
<b>Defined Benefit Plans: (i)</b>	First State Super	274	291	35	23
	State Super Fund	133	132	-	-
<b>Defined Contribution Plans:</b>	First State Super	7,360	6,475	799	540
	HESTA	2,677	2,445	326	210
	Other	949	520	151	53
	<b>Total</b>	<b>11,393</b>	<b>9,863</b>	<b>1,311</b>	<b>826</b>

(i) The basis for determining the level of contributions is determined by the various actuaries of the defined benefit superannuation plans.

Employees of the Health Service are entitled to receive superannuation benefits and the Health Service contributes to both defined benefit and defined contribution plans. The defined benefit plan(s) provides benefits based on years of service and final average salary.

**Defined benefit superannuation plans**

The amount charged to the comprehensive operating statement in respect of defined benefit superannuation plans represents the contributions made by the Health Service to the superannuation plans in respect of the services of current Health Service staff during reporting period. Superannuation contributions are made to the plans based on the relevant rules of each plan and are based upon actuarial advice.

South West Healthcare does not recognise any defined benefit liability in respect of the plans because the hospital has no legal or constructive obligation to pay future benefits relating to its employees; its only obligation is to pay superannuation contributions as they fall due. The Department of Treasury and Finance discloses the State's defined benefits liabilities in its disclosure for administered items.

However superannuation contributions paid or payable for the reporting period are included as part of employee benefits in the comprehensive operating statement of the Health Service.

The name, details and amounts that have been expensed in relation to the major employee superannuation funds and contributions made by South West Healthcare are disclosed above.

## NOTE 3.5: SUPERANNUATION (CONTINUED)

### Defined contribution superannuation plans

In relation to defined contribution (i.e. accumulation) superannuation plans, the associated expense is simply the employer contributions that are paid or payable in respect of employees who are members of these plans during the reporting period. Contributions to defined defined contribution superannuation plans are expensed when incurred.

## NOTE 4: KEY ASSETS TO SUPPORT SERVICE DELIVERY

South West Healthcare controls infrastructure and other investments that are utilised in fulfilling its objectives and conducting its activities. They represent the key resources that have been entrusted to the hospital to be utilised for delivery of those outputs.

### Structure

- 4.1 Other financial assets
- 4.2 Property, plant & equipment
- 4.3 Depreciation and amortisation

### NOTE 4.1: INVESTMENTS AND OTHER FINANCIAL ASSETS

	2020	2019
	\$ '000	\$ '000
<b>CURRENT</b>		
<i>Financial Assets at Amortised Cost</i>		
Term Deposits > 3 months	0	1,000
<b>TOTAL CURRENT INVESTMENTS AND OTHER FINANCIAL ASSETS</b>	<u>0</u>	<u>1,000</u>
<b>Represented by:</b>		
Health Service Funds	0	1,000
<b>TOTAL</b>	<u><u>0</u></u>	<u><u>1,000</u></u>

### Investment Recognition

Investments are recognised and derecognised on trade date where purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market

## NOTE 4.1: INVESTMENTS AND OTHER FINANCIAL ASSETS (CONTINUED)

concerned, and are initially measured at fair value, net of transaction costs.

Investments are classified as financial assets at amortised cost.

South West Healthcare classifies its other financial assets between current and non-current assets based on the Board's intention at balance date with respect to the timing of disposal of each asset. The Health Service assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

South West Healthcare investments must comply with Standing Direction 3.7.2 - Treasury and Investment Risk Management, including central banking system.

All financial assets, except those measured at fair value through the Comprehensive Operating Statement are subject to annual review for impairment.

### **Derecognition of financial assets**

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Health Service retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- the Health Service has transferred its rights to receive cash flows from the asset and either:
  - (a) has transferred substantially all the risks and rewards of the asset; or
  - (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Health Service has neither transferred nor retained substantially all the risks and rewards or transferred control, the asset is recognised to the extent of the Health Service's continuing involvement in the asset.

### **Impairment of Financial Assets**

At the end of each reporting period, the Health Service assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. All financial instrument assets, except those measured at fair value through the Comprehensive Income Statement, are subject to annual review for impairment.

Where the fair value of an investment in an equity instrument at balance date has reduced by 20 percent or more than its cost price or where its fair value has been less than its cost price for a period of 12 or more months, the financial asset is treated as impaired.

## NOTE 4.2: PROPERTY, PLANT AND EQUIPMENT

## (A) GROSS CARRYING AMOUNT AND ACCUMULATED DEPRECIATION

	2020 \$ '000	2019 \$ '000
<b>Land</b>		
- Land at Fair Value	12,234	12,234
- Land at Cost	1,119	-
- Land Improvements at fair value	1,390	1,390
Less Accumulated Depreciation	(40)	-
<b>Total Land</b>	<b>14,703</b>	<b>13,624</b>
<b>Buildings</b>		
- Buildings Under Construction at Cost	1,910	1,085
- Buildings at Fair Value	216,075	216,075
Less Accumulated Depreciation	(13,371)	0
	202,704	216,075
- Buildings at Cost	1,286	0
Less Accumulated Depreciation	(96)	0
	1,190	0
- Buildings - Leasehold Improvements at fair Value	342	342
Less Accumulated Depreciation	(337)	(158)
	5	184
<b>Total Buildings</b>	<b>205,809</b>	<b>217,344</b>
<b>Plant and Equipment</b>		
- Plant and Equipment at Fair Value	9,338	9,096
Less Accumulated Depreciation	(7,714)	(7,282)
<b>Total Plant and Equipment</b>	<b>1,624</b>	<b>1,814</b>
<b>Medical Equipment</b>		
- Medical Equipment at Fair Value	17,436	16,150
Less Accumulated Depreciation	(12,779)	(11,791)
<b>Total Medical Equipment</b>	<b>4,657</b>	<b>4,359</b>
<b>Computers &amp; Communications</b>		
- Computers & Communications at fair value	8,020	7,645
Less Accumulated Depreciation	(6,332)	(5,576)
<b>Total Computers &amp; Communications</b>	<b>1,688</b>	<b>2,069</b>
<b>Furniture and Fittings</b>		
-Furniture and Fittings at Fair Value	4,073	4,066
Less Accumulated Depreciation	(3,927)	(3,868)
<b>Total Furniture and Fittings</b>	<b>146</b>	<b>198</b>
<b>Motor Vehicles</b>		
- Motor Vehicles at Fair Value	3,147	3,175
Less Accumulated Depreciation	(1,629)	(1,197)
<b>Total Motor Vehicles</b>	<b>1,518</b>	<b>1,978</b>
<b>Leased Assets</b>		
- Information Technology	4,461	4,248
Less Accumulated Depreciation	(3,626)	(3,362)
	835	886
- Buildings Right of Use	379	-
Less Accumulated Depreciation	(63)	-
	316	-
<b>Total Leased Assets</b>	<b>1,151</b>	<b>886</b>
<b>TOTAL</b>	<b>231,296</b>	<b>242,272</b>



## NOTE 4.2: PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

## (B) RECONCILIATIONS OF THE CARRYING AMOUNTS OF EACH CLASS OF ASSET

	Note	Land	Buildings & Buildings under construction	Plant & Equipment	Medical Equipment	Computers & Comms	Furniture & Fittings	Motor Vehicles	Leased Assets	Total
		\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000
<b>Balance at 1 July 2018</b>		9,317	172,217	2,075	4,293	1,645	1,304	2,324	556	193,731
Additions		0	1,415	179	1,120	193	41	170	742	3,860
Disposals		0	0	0	(1)	(1)	0	(72)		(73)
Net Transfers between classes		(150)	(172)			857	(857)			0
Transfer to Held for Sale		4,457	54,731	0			0	0		59,188
Revaluation Increments		0	(10,847)	(440)	(1,054)	(625)	(290)	(444)	(412)	(14,112)
Depreciation (Refer note 4.3)										
<b>Balance at 1 July 2019</b>		13,624	217,344	1,814	4,359	2,069	198	1,978	886	242,272
Recognition of right-of-use assets on initial application of AASB 16	8.10									
<b>Adjusted balance at 1 July 2019</b>		13,624	217,344	1,814	4,359	2,069	198	1,978	1,265	242,651
Additions		1,119	2,111	243	1,300	375	7	0	213	5,368
Disposals		0	0	0	0	0	0	(17)		(17)
Depreciation (Refer note 4.3)		(40)	(13,646)	(433)	(1,002)	(756)	(59)	(443)	(327)	(16,706)
<b>Balance at 30 June 2020</b>		14,703	205,809	1,624	4,657	1,688	146	1,518	1,151	231,296

**NOTE 4.2: PROPERTY, PLANT AND EQUIPMENT (CONTINUED)****(B) RECONCILIATIONS OF THE CARRYING AMOUNTS OF EACH CLASS OF ASSET (CONTINUED)****Land and buildings carried at valuation**

A full revaluation of South West Healthcare's land and buildings was performed by the Valuer-General of Victoria (VGV) in May 2019 in accordance with the requirements of Financial Reporting Direction (FRD) 103H Non-Financial Physical Assets. The valuation, which conforms to Australian Valuation Standards, was determined by reference to the amounts for which assets could be exchanged between knowledgeable willing parties in an arm's length transaction. The effective date of the valuation for both land and buildings was 30 June 2019.

In compliance with FRD 103H, in the year ended 30 June 2020, management conducted an annual assessment of the fair value of land and buildings. To facilitate this, management obtained from the Department of Treasury and Finance the VGV indices for the financial year ended 30 June 2020.

The VGV indices, which are based on data to March 2020, indicate an average increase of 2% across all land parcels and a 3% increase in buildings.

Management regards the VGV indices to be a reliable and relevant data set to form the basis of their estimates. Whilst these indices are applicable at 30 June 2020, the fair value of land and buildings will continue to be subjected to the impacts of COVID-19 in future accounting periods.

As the accumulative movement was less than 10% for land and buildings no managerial revaluation was required.

The land and building balances are considered to be sensitive to market conditions. To trigger a managerial revaluation a decrease in the land indice of 10% and a decrease in the building indice of 10% would be required.

**(C) FAIR VALUE MEASUREMENT HIERARCHY FOR ASSETS**

	Carrying amount as at 30 June 2020	Fair value measurement at end of reporting period using:		
		Level 1 (i)	Level 2 (i)	Level 3 (i)
	\$ '000	\$ '000	\$ '000	\$ '000
<b>Land at fair value</b>				
Specialised land	14,703	-	-	14,703
Total of land at fair value	14,703	-	-	14,703
<b>Buildings at fair value</b>				
Specialised buildings	203,899	-	-	203,899
Total of building at fair value	203,899	-	-	203,899
<b>Plant and equipment at fair value</b>				
Plant equipment and vehicles at fair value				
- Plant and equipment	1,624	-	-	1,624
- Medical Equipment	4,657	-	-	4,657
- Computers & Communications	1,688	-	-	1,688
- Furniture and Fittings	146	-	-	146
- Motor Vehicles	1,518	-	1,518	-
<b>Total of plant, equipment and vehicles at fair value</b>	9,633	-	1,518	8,115
<b>TOTAL</b>	228,235	-	1,518	226,717

**NOTE 4.2: PROPERTY, PLANT AND EQUIPMENT (CONTINUED)****(C) FAIR VALUE MEASUREMENT HIERARCHY FOR ASSETS (CONTINUED)**

	Carrying amount as at 30 June 2019 \$ '000	Fair value measurement at end of reporting period using:		
		Level 1 (i) \$ '000	Level 2 (i) \$ '000	Level 3 (i) \$ '000
<b>Land at fair value</b>				
Specialised land	13,624	-	-	13,624
Total of land at fair value	13,624	-	-	13,624
<b>Buildings at fair value</b>				
Specialised buildings	216,259	-	-	216,259
Total of building at fair value	216,259	-	-	216,259
<b>Plant and equipment at fair value</b>				
Plant equipment and vehicles at fair value				
- Plant and equipment	1,814	-	-	1,814
- Medical Equipment	4,359	-	-	4,359
- Computers & Communications	2,069	-	-	2,069
- Furniture and Fittings	198	-	-	198
- Motor Vehicles	1,978	-	1,978	-
<b>Total of plant, equipment and vehicles at fair value</b>	10,418	-	1,978	8,440
<b>TOTAL</b>	240,301	-	1,978	238,323

**Note**

(i) Classified in accordance with the fair value hierarchy. There have been no transfers between levels during the period. There have been no transfers between levels during the period.

**(D) RECONCILIATION OF LEVEL 3 FAIR VALUE**

	Land \$ '000	Buildings \$ '000	Plant and Equipment \$ '000	Medical Equipment \$ '000	Computers & Comms \$ '000	Furniture & Fittings \$ '000
<b>30-Jun-20</b>						
<b>Balance at 1 July 2019</b>	13,624	216,259	1,814	4,359	2,069	198
<b>Purchases (sales) &amp; reclassifications</b>	1,119	1,286	243	1,300	375	7
- Transfer to held for sale	-	-	-	-	-	-
- Net Transfers between classes	-	-	-	-	-	-
Gains or losses recognised in net result						
- Depreciation	(40)	(13,646)	(433)	(1,002)	(756)	(59)
<b>Subtotal</b>	14,703	203,899	1,624	4,657	1,688	146
Items recognised in other comprehensive income						
- Revaluation	-	-	-	-	-	-
<b>Subtotal</b>	-	-	-	-	-	-
<b>Balance at 30 June 2020</b>	14,703	203,899	1,624	4,657	1,688	146

## NOTE 4.2: PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

## (D) RECONCILIATION OF LEVEL 3 FAIR VALUE (CONTINUED)

	Land \$ '000	Buildings \$ '000	Plant and Equipment \$ '000	Medical Equipment \$ '000	Computers & Comms \$ '000	Furniture & Fittings \$ '000
<b>30-Jun-19</b>						
<b>Balance at 1 July 2018</b>	9,317	171,143	2,075	4,293	1,645	1,304
<b>Purchases (sales) &amp; reclassifications</b>	-	1,404	179	1,120	192	41
- Transfer to held for sale	(150)	(172)	-	-	-	-
- Net Transfers between classes	-	-	-	-	857	(857)
Gains or losses recognised in net result						
- Depreciation	-	(10,847)	(440)	(1,054)	(625)	(290)
<b>Subtotal</b>	<b>9,167</b>	<b>161,528</b>	<b>1,814</b>	<b>4,359</b>	<b>2,069</b>	<b>198</b>
Items recognised in other comprehensive income						
- Revaluation	4,457	54,731	-	-	-	-
<b>Subtotal</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Balance at 30 June 2019</b>	<b>13,624</b>	<b>216,259</b>	<b>1,814</b>	<b>4,359</b>	<b>2,069</b>	<b>198</b>

## (E) FAIR VALUE DETERMINATION

Asset Class	Examples of types assets	Expected fair value level	Likely valuation approach	Significant inputs (Level 3 only)
Specialised land (Crown/Freehold)	- Land subject to restriction as to use and/or sale - Land in areas where there is not an active market	Level 3	Market approach	Community Service Obligations Adjustments (a)
Specialised Buildings	Specialised buildings with limited alternative uses and/or substantial customisation eg. Hospitals	Level 3	Current replacement cost	- Cost per square metre - Useful life
Vehicles	If there is an active resale market available	Level 2	Market approach	n.a.
Plant and equipment Medical Equipment Computers & Communications Furniture and Fittings	Specialised items with limited alternative uses and/or substantial customisation	Level 3	Current replacement cost approach	- Cost per unit - Useful life
Non- specialised land	Freehold land with no restrictions on use	Level 3	Market approach	n.a.
Non-specialised buildings	Residential buildings without substantial customization or restrictions of use	Level 3	Market approach	n.a.

(a) A community Service Obligation (CSO) of 20% to 30% was applied to the health services specialised land Classified in accordance with the fair value hierarchy.

**NOTE 4.2: PROPERTY, PLANT AND EQUIPMENT (CONTINUED)****(F) PROPERTY, PLANT AND EQUIPMENT REVALUATION SURPLUS**

	2020	2019
<b>Property, Plant and Equipment</b>		
<b>Revaluation Surplus</b>	<b>\$ '000</b>	<b>\$ '000</b>
Balance at the beginning of the reporting period	115,901	56,713
Revaluation Increment		
- Land	-	4,457
- Buildings	-	54,731
<b>Balance at the end of the reporting period*</b>	<u>115,901</u>	<u>115,901</u>
<b>*Represented by:</b>		
- Land	9,342	9,342
- Buildings	106,559	106,559
<b>Total</b>	<u>115,901</u>	<u>115,901</u>

**Initial Recognition**

Items of property, plant and equipment are measured initially at cost and subsequently revalued at fair value less accumulated depreciation and impairment loss. Where an asset is acquired for no or nominal cost, the cost is its fair value at the date of acquisition. Assets transferred as part of a merger/machinery of government change are transferred at their carrying amounts.

The cost of constructed non-financial physical assets includes the cost of all materials used in construction, direct labour on the project and an appropriate proportion of variable and fixed overheads. The cost of a leasehold improvement is capitalised as an asset and depreciated over the shorter of the remaining term of the lease or the estimated useful life of the improvements.

Theoretical opportunities that may be available in relation to the asset(s) are not taken into account until it is virtually certain that any restrictions will no longer apply. Therefore, unless otherwise disclosed, the current use of these non-financial physical assets will be their highest and best uses.

Land and buildings are recognised initially at cost and subsequently measured at fair value less accumulated depreciation and accumulated impairment loss.

**Right-of-use asset acquired by lessees (Under AASB 16 – Leases from 1 July 2019) – Initial measurement**

South West Healthcare recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost which comprises the initial

amount of the lease liability adjusted for:

- any lease payments made at or before the commencement date; plus
- any initial direct costs incurred; and
- an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentive received.

**Right-of-use asset – Subsequent measurement**

South West Healthcare depreciates the right-of-use assets on a straight line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful life of the right-of-use assets are determined on the same basis as property, plant and equipment, other than where the lease term is lower than the otherwise assigned useful life. The right-of-use assets are also subject to revaluation as required by FRD 103I [pending] however as at 30 June 2020 right-of-use assets have not been revalued.

In addition, the right-of-use asset is periodically reduced by impairment losses, if any and adjusted for certain remeasurements of the lease liability.

## NOTE 4.2: PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

### (F) PROPERTY, PLANT AND EQUIPMENT REVALUATION SURPLUS (CONTINUED)

#### Revaluations of Non-current Physical Assets

Non-Current physical assets are measured at fair value and are revalued in accordance with FRD 103H Non-current physical assets. This revaluation process normally occurs every five years, based upon the asset's Government Purpose Classification but may occur more frequently if fair value assessments indicate material changes in values. Independent valuers are used to conduct these scheduled revaluations and any interim revaluations are determined in accordance with the requirements of the FRDs. Revaluation increments or decrements arise from differences between an asset's carrying value and fair value.

Revaluation increments are recognised in 'Other Comprehensive Income' and are credited directly to the asset revaluation surplus except that, to the extent that an increment reverses a revaluation decrement in respect of that same class of asset previously recognised as an expense in net result, the increment is recognised as income in the net result.

Revaluation decrements are recognised in 'Other Comprehensive Income' to the extent that a credit balance exists in the asset revaluation surplus in respect of the same class of property, plant and equipment.

Revaluation increases and revaluation decreases relating to individual assets within an asset class are offset against one another within that class but are not offset in respect of assets in different classes.

Revaluation surplus is not transferred to accumulated funds on de-recognition of the relevant asset, except where an asset is transferred via contributed capital.

#### Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

For the purpose of fair value disclosures, South West Healthcare has determined classes of assets on the basis of the nature, characteristics and risks of the asset and the level of fair value hierarchy as explained above.

In addition, South West Healthcare determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Valuer-General Victoria (VGV) is South West Healthcare independent valuation agency.

The estimates and underlying assumptions are reviewed on an ongoing basis.

#### Valuation hierarchy

In determining fair values a number of inputs are used. To increase consistency and comparability in the financial statements, these inputs are categorised into three levels, also known as the fair value hierarchy. The levels are as follows:

- Level 1 - quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 - valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 - valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

#### Identifying unobservable inputs (level 3) fair value measurements

Level 3 fair value inputs are unobservable valuation inputs for an asset or liability. These inputs require significant judgement and assumptions in deriving fair value for both financial and non-financial assets.

Unobservable inputs shall be used to measure fair value to the extent that relevant observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, i.e., an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability. Therefore, unobservable inputs shall reflect the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk.

## NOTE 4.2: PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

### (F) PROPERTY, PLANT AND EQUIPMENT REVALUATION SURPLUS (CONTINUED)

#### Consideration of highest and best use (HBU) for non-financial physical assets

Judgements about highest and best use must take into account the characteristics of the assets concerned, including restrictions on the use and disposal of assets arising from the asset's physical nature and any applicable legislative/contractual arrangements.

In accordance with paragraph AASB 13.29 Health Services can assume the current use of a non-financial physical asset is its HBU unless market or other factors suggest that a different use by market participants would maximise the value of the asset.

#### Specialised land and specialised buildings

Specialised land includes Crown Land which is measured at fair value with regard to the property's highest and best use after due consideration is made for any legal or physical restrictions imposed on the asset, public announcements or commitments made in relation to the intended use of the asset. Theoretical opportunities that may be available in relation to the assets are not taken into account until it is virtually certain that any restrictions will no longer apply. Therefore, unless otherwise disclosed, the current use of these non-financial physical assets will be their highest and best use.

During the reporting period, the Health Service held Crown Land. The nature of this asset means that there are certain limitations and restrictions imposed on its use and/or disposal that may impact their fair value.

The market approach is also used for specialised land and specialised buildings although is adjusted for the community service obligation (CSO) to reflect the specialised nature of the assets being valued. Specialised assets contain significant, unobservable adjustments; therefore these assets are classified as Level 3 under the market based direct comparison approach.

The CSO adjustment is a reflection of the valuer's assessment of the impact of restrictions associated with an asset to the extent that is also equally applicable to market participants. This approach is in light of the highest and best use consideration required for fair value measurement, and takes into account the use of the asset that is physically possible, legally permissible and financially feasible. As adjustments of CSO are considered as significant unobservable inputs, specialised land would be classified as Level 3 assets.

For South West Healthcare, the depreciated replacement cost method is used for the majority of specialised buildings, adjusting for the associated depreciation. As depreciation adjustments are considered as significant and unobservable inputs in nature, specialised buildings are classified as Level 3 for fair value measurements.

An independent valuation of the Health Service's specialised land and specialised buildings was performed by the Valuer-General Victoria. The valuation was performed using the market approach adjusted for CSO. The effective date of the valuation is 30 June 2019.

#### Vehicles

The Health Service acquires new vehicles and at times disposes of them before completion of their economic life.

The process of acquisition, use and disposal in the market is managed by the Health Service who set relevant depreciation rates during use to reflect the consumption of the vehicles. As a result, the fair value of vehicles does not differ materially from the carrying value (depreciated cost).

#### Plant and equipment

Plant and equipment (including medical equipment, computers and communication equipment and furniture and fittings) are held at carrying amount (depreciated cost). When plant and equipment is specialised in use, such that it is rarely sold other than as part of a going concern, the depreciated replacement cost is used to estimate the fair value. Unless there is market evidence that current replacement costs are significantly different from the original acquisition cost, it is considered unlikely that depreciated replacement cost will be materially different from the existing carrying value.

There were no changes in valuation techniques throughout the period to 30 June 2020.

For all assets measured at fair value, the current use is considered the highest and best use.

## NOTE 4.3: DEPRECIATION AND AMORTISATION

	2020 \$ '000	2019 \$ '000
<b>Depreciation</b>		
Buildings	13,686	10,847
Plant & Equipment	433	440
Medical Equipment	1,002	1,054
Computers & Communications	756	625
Furniture & Fittings	59	290
Motor Vehicles	443	444
Leased Assets	327	412
<b>Total Depreciation</b>	<b>16,706</b>	<b>14,112</b>

### Depreciation

All infrastructure assets, buildings, plant and equipment and other non-financial physical assets that have finite useful lives are depreciated (i.e. excludes land assets held for sale, and investment properties). Depreciation is generally calculated on a straight-line basis at rates that allocate the asset's value, less any estimated residual value over its estimated useful life (refer AASB 116 Property, Plant and Equipment).

Right-of use assets are depreciated over the shorter of the asset's useful life and the lease term. Where South West Healthcare obtains ownership of the underlying leased asset or if the cost of the right-of-use asset reflects that the entity will exercise a purchase option, the entity depreciates the right-of-use asset over its useful life.

The following table indicates the expected useful lives of non current assets on which the depreciation charges are based.

	2020	2019
Buildings		
- Structure Shell Building Fabric	6 to 52 Years	Up to 42 Years
- Site Engineering Services and Central Plant	4 to 47 years	Up to 30 years
Central Plant		
- Fit Out	1 to 47 years	Up to 30 years
- Trunk Reticulated Building Systems	2 to 47 years	Up to 30 years
Plant and Equipment	Up to 20 years	Up to 20 years
Medical Equipment	Up to 15 years	Up to 15 years
Computers and Communication	Up to 5 years	Up to 5 years
Furniture and Fittings	Up to 20 years	Up to 20 years
Motor Vehicles	Up to 10 years	Up to 10 years
Leasehold Improvements	Up to 10 years	Up to 10 years
Land Improvements	10 years	-

As part of the buildings valuation, building values were separated into components and each component assessed for its useful life which is represented above.

The change in remaining useful life for Buildings and central plant, was a result of revaluation of land and buildings completed in 2019. The Valuer is required to reassess the estimated useful life based on the current building conditions. The change in remaining useful life has resulted in an increase in depreciation expense of \$4.699M for buildings.



## NOTE 5: OTHER ASSETS AND LIABILITIES

This section sets out those assets and liabilities that arose from the health service's operations.

### Structure

- 5.1 Receivables
- 5.2 Payables
- 5.3 Other liabilities
- 5.4 Non Financial Physical Assets Classified as Held for Sale

### NOTE 5.1: RECEIVABLES

	2020	2019
	\$ '000	\$ '000
<b>CURRENT</b>		
<b>Contractual</b>		
Patient Fees and Resident Debtors	493	634
Trade Debtors	2,395	3,141
Receivables - South West Alliance of Rural Health	937	935
Accrued Revenue	14	88
Less Allowance for impairment losses of contractual receivables	(62)	(44)
	<u>3,777</u>	<u>4,754</u>
<b>Statutory</b>		
GST Receivable - Health Service	401	251
Accrued Grants - Department of Health & Human Services	310	529
	<u>711</u>	<u>780</u>
<b>TOTAL CURRENT RECEIVABLES</b>	<u>4,488</u>	<u>5,534</u>
<b>NON CURRENT</b>		
<b>Statutory</b>		
Long Service Leave - Department of Health and Human Services	7,206	6,494
<b>TOTAL NON-CURRENT RECEIVABLES</b>	<u>7,206</u>	<u>6,494</u>
<b>TOTAL RECEIVABLES</b>	<u>11,694</u>	<u>12,028</u>
<b>(a) Movement in the allowance for impairment losses of contractual receivables</b>		
Balance at beginning of the year	44	34
Increase/(decrease) in allowance recognised in net result	18	10
<b>Balance at end of year</b>	<u>62</u>	<u>44</u>

## NOTE 5.1: RECEIVABLES (CONTINUED)

### Receivables recognition

Receivables consist of:

- Contractual receivables, which consists of debtors in relation to goods and services and accrued investment income. These receivables are classified as financial instruments and categorised as 'financial assets at amortised costs'. They are initially recognised at fair value plus any directly attributable transaction costs. The Health Service holds the contractual receivables with the objective to collect the contractual cash flows and therefore subsequently measured at amortised cost using the effective interest method, less any impairment.
- Statutory receivables, which predominantly includes amounts owing from the Victorian Government and Goods and Services Tax (GST) input tax credits recoverable. Statutory receivables do not arise from contracts and are recognised and measured similarly to contractual receivables (except for impairment), but are not classified as financial instruments for disclosure purposes. The Health Service applies AASB 9 for initial measurement of the statutory receivables and as a result statutory receivables are initially recognised at fair value plus any directly attributable transaction cost.

Trade debtors are carried at nominal amounts due and are due for settlement within 30 days from the date of recognition.

In assessing impairment of statutory (non-contractual) financial assets, which are not financial instruments, professional judgement is applied in assessing materiality using estimates, averages and other computational methods in accordance with AASB 136 Impairment of Assets.

The Health Service is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. Trade receivables consist of a large number of customers in various geographical areas. Based on historical information about customer default rates, management consider the credit quality of trade receivables that are not past due or impaired to be good.

## NOTE 5.2: PAYABLES & CONTRACT LIABILITIES

	Notes	2020 \$ '000	2019 \$ '000
<b>CURRENT</b>			
<b>Contractual</b>			
Trade Creditors (i)		1,203	4,406
Accrued Salaries & Wages		3,326	5,578
Accrued Expenses		6,007	4,913
Payables - South West Alliance of Rural Health		1,372	646
Amounts Payable to governments and agencies		608	-
Deferred revenue in advance	5.2 (a)	609	-
Contract liabilities- Income in Advance	5.2 (b)	3,148	-
Income in Advance - South West Alliance of Rural Health	5.2 (b)	691	97
<b>TOTAL PAYABLES</b>		<b>16,964</b>	<b>15,640</b>

(i) The normal credit terms for accounts payable are usually nett 30 days.

Payables consist of:

- contractual payables, classified as financial instruments and measured at amortised cost. Accounts payable represent liabilities for goods and services provided to South West Healthcare prior to the end of the financial year that are unpaid; and
- statutory payables, that are recognised and measured similarly to contractual payables, but are not classified as financial instruments and not included in the category of financial liabilities at amortised cost, because they do not arise from contracts.

### Maturity analysis of payables

Please refer to Note 7.1(b) for the maturity analysis of payables.

**NOTE 5.2: PAYABLES & CONTRACT LIABILITIES (CONTINUED)****(A) DEFERRED CAPITAL GRANT REVENUE**

	<b>2020</b>	<b>2019</b>
	<b>\$ '000</b>	<b>\$ '000</b>
Grant consideration for capital works recognised that was included in the deferred grant liability balance (adjusted for AASB 1058) at the beginning of the year	447	-
Grant consideration for capital works received during the year	670	-
Grant revenue for capital works recognised consistent with capital works undertaken during the year	(508)	-
<b>Closing balance of deferred grant consideration received for capital works</b>	<b>609</b>	<b>-</b>

Grant consideration was received from Department of Health & Human Services for the Portland Community Mental Health Service Project. Grant revenue is recognised progressively as the asset is constructed, since this is the time when South West Healthcare satisfies its obligations under the transfer by controlling the asset as and when it is constructed. The progressive percentage costs incurred is used to recognise income because this most closely reflects the progress to completion as costs are incurred as the works are done. (see note 2.1) As a result, South West Healthcare has deferred recognition of a portion of the grant consideration received as a liability for the outstanding obligations.

**(B) CONTRACT LIABILITIES**

	<b>2020</b>	<b>2019</b>
	<b>\$ '000</b>	<b>\$ '000</b>
Opening balance brought forward from 30 June adjusted for AASB 15	145	-
Grant Consideration received	3,694	-
	<b>3,839</b>	<b>-</b>

Contract liabilities include grant consideration received from the State Government in support of COVID 19, consideration received in advance from customers in respect of regional grants and share of SWARH income in advance. Income is recognised once the goods and services are delivered provided.

**NOTE 5.3: OTHER LIABILITIES**

	<b>2020</b>	<b>2019</b>
	<b>\$ '000</b>	<b>\$ '000</b>
<b>CURRENT</b>		
Monies Held in Trust*		
- Patient Monies Held in Trust*	97	95
- Accommodation Bonds (Refundable Entrance Fees)*	2,208	2,794
Other monies held in trust	368	-
<b>TOTAL CURRENT</b>	<b>2,673</b>	<b>2,889</b>
<b>* Total Monies Held in Trust</b>		
<b>Represented by the following assets:</b>		
Cash Assets (refer to Note 6.2)	2,673	2,889
<b>TOTAL OTHER LIABILITIES</b>	<b>2,673</b>	<b>2,889</b>

**Refundable Accommodation Deposit ("RAD")/Accommodation Bond liabilities**

RADs/accommodation bonds are non-interest-bearing deposits made by some aged care residents to the Group upon admission. These deposits are liabilities which fall due and payable when the resident leaves the home. As there is no unconditional right to defer payment for 12 months, these liabilities are recorded as current liabilities.

RAD/accommodation bond liabilities are recorded at an amount equal to the proceeds received, net of retention and any other amounts deducted from the RAD/accommodation bond in accordance with the Aged Care Act 1997.

## NOTE 5.4: PHYSICAL ASSETS CLASSIFIED AS HELD FOR SALE

### (A) NON-FINANCIAL PHYSICAL ASSETS CLASSIFIED AS HELD FOR SALE

	2020	2019
	\$'000	\$'000
Freehold land & buildings (i)	-	322
<b>TOTAL PHYSICAL ASSETS CLASSIFIED AS HELD FOR SALE</b>	<b>-</b>	<b>322</b>

(i) The Health Service intends to dispose of freehold land/buildings it no longer utilises in the next 3 months.

Non-financial physical assets classified as held for sale are treated as current and are measured at the lower of carrying amount and fair value less costs of disposal, and are not subject to depreciation or amortisation.

Non-financial physical assets are treated as current and are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable, the asset's sale is expected to be completed within 12 months from the date of classification, and the asset's sale is available for immediate use in the current condition.

Non-financial physical assets classified as held for sale are treated as current and are measured at the lower of carrying amount and fair value less costs of disposal, and are not subject to depreciation or amortisation.

### (B) FAIR VALUE MEASUREMENT OF PHYSICAL ASSETS HELD FOR SALE

	Carrying amount	Fair value measurement at end of reporting period using:			
		2020	Level 1	Level 2	Level 3
		\$'000	\$'000	\$'000	\$'000
Freehold land/ buildings held for sale	-	-	-	-	
<b>TOTAL NON-FINANCIAL PHYSICAL ASSETS CLASSIFIED AS HELD FOR SALE</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	

	Carrying amount	Fair value measurement at end of reporting period using:			
		2019	Level 1	Level 2	Level 3
		\$'000	\$'000	\$'000	\$'000
Freehold land/ buildings held for sale	322	-	-	322	
<b>TOTAL NON-FINANCIAL PHYSICAL ASSETS CLASSIFIED AS HELD FOR SALE</b>	<b>322</b>	<b>-</b>	<b>-</b>	<b>322</b>	

Classified in accordance with the fair value hierarchy

Refer to note 4.2 ( e ) for the valuation technique applied to non-specialised land/buildings

## NOTE 6: HOW WE FINANCE OUR OPERATIONS

This section provides information on the sources of finance utilised by the health service during its operations, along with interest expenses (the cost of borrowings) and other information related to financing activities of the health service.

This section includes disclosures of balances that are financial instruments (such as borrowings and cash balances). Note: 7.1 provides additional, specific financial instrument disclosures.

### Structure

- 6.1 Borrowings
- 6.2 Cash and cash equivalents
- 6.3 Commitments for expenditure

### NOTE 6.1: BORROWINGS

	2020 \$ '000	2019 \$ '000
<b>Current Borrowings</b>		
Finance Lease Liability - South West Alliance of Rural Health (iii)	141	205
Department of Health Loan (i)	92	70
Lease liability (ii)	71	0
<b>Total Current Borrowings</b>	<b>304</b>	<b>275</b>
<b>Non Current Borrowings</b>		
Finance Lease Liability - South West Alliance of Rural Health (iii)	188	313
Department of Health Loan (i)	183	276
Lease liability (ii)	239	0
<b>Total Non-Current Borrowings</b>	<b>610</b>	<b>589</b>
<b>Total Borrowings</b>	<b>914</b>	<b>864</b>

(i) These are unsecured loans which bear no interest

(ii) Secured by the assets leased. Leases are effectively secured as the rights to the leased assets revert to the lessor in the event of default.

(iii) Finance leases are held by South West Alliance of Rural Health and are secured by the rights to the leased assets being held by the lessor.

### Maturity analysis of borrowings

Please refer to Note 7.1(b) for the maturity analysis of borrowings.

### Defaults and breaches

During the current and prior year, there were no defaults and breaches of any of the loans.

### Lease Liabilities

Repayments in relation to leases are payable as follows:

**NOTE 6.1: BORROWINGS (CONTINUED)**

	Minimum future lease payments	
	2000	2019
	\$'000	\$'000
Not later than one year	212	205
Later than 1 year and not later than 5 years	432	317
Later than 5 years		
<b>Minimum lease payments</b>	<b>644</b>	<b>522</b>
Less future finance charges	(5)	(4)
<b>TOTAL</b>	<b>639</b>	<b>518</b>

	Present value of minimum future lease payments	
	2000	2019
	\$'000	\$'000
Current borrowings - lease liability	212	205
Non-current borrowings - lease liability	427	313
<b>TOTAL</b>	<b>639</b>	<b>518</b>

**Included in the financial statements as:**

Current borrowings - lease liability  
 Non-current borrowings - lease liability

**TOTAL**

The weighted average interest rate implicit in the finance lease is 0.8% (2019: none were held).

**Leases**

A lease is a right to use an asset for an agreed period of time in exchange for payment. All leases are recognised on the balance sheet, with the exception of low value leases (less than \$10,000 AUD) and short term leases of less than 12 months.

**South West Healthcare's leasing activities**

South West Healthcare has entered into lease related to buildings for provision of services.

For any new contracts entered into on or after 1 July 2019, South West Healthcare considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition South West Healthcare assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to South West Healthcare and for which the supplier does not have substantive substitution rights;
- South West Healthcare has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract and South West Healthcare has the right to direct the use of the identified asset throughout the period of use; and
- South West Healthcare has the right to take decisions in respect of 'how and for what purpose' the asset is used throughout the period of use.

This policy is applied to contracts entered into, or changed, on or after 1 July 2019.

**Separation of lease and non-lease components**

At inception or on reassessment of a contract that contains a lease component, the lessee is required to separate out and account separately for non-lease components within a lease contract and exclude these amounts when determining the lease liability and right-of-use asset amount.

**Recognition and measurement of leases as a lessee (under AASB 16 from 1 July 2019)****Lease Liability – initial measurement**

The lease liability is initially measured at the present value of the lease payments unpaid at the commencement date, discounted using the interest rate implicit in the lease if that rate is readily determinable or South West Healthcare's incremental borrowing rate.

## NOTE 6.1: BORROWINGS (CONTINUED)

### Lease

- fixed payments (including in-substance fixed payments) less any lease incentive receivable;
- variable payments based on an index or rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- payments arising from purchase and termination options reasonably certain to be exercised.

### Lease Liability – subsequent measurement

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right of use asset is already reduced to zero.

### Short-term leases and leases of low value assets

South West Healthcare has elected to account for short-term leases and leases of low value assets using the practical expedients. Instead of recognising a right of use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight line basis over the lease term.

### Presentation of right-of-use assets and lease liabilities

South West Healthcare presents right-of-use assets as 'property plant equipment' unless they meet the definition of investment property, in which case they are disclosed as 'investment property' in the balance sheet. Lease liabilities are presented as 'borrowings' in the balance sheet.

### Recognition and measurement of leases (under AASB 117 until 30 June 2019)

In the comparative period, leases of property, plant and equipment were classified as either finance lease or operating leases.

South West Healthcare determined whether an arrangement was or contained a lease based on the substance of the arrangement and required an assessment of whether fulfilment of the arrangement is dependent on the use of the specific asset(s); and the arrangement conveyed a right to use the asset(s).

Leases of property, plant and equipment where South West Healthcare as a lessee had substantially all of the risks and rewards of ownership were classified as finance leases. Finance leases were initially recognised as assets and liabilities at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payment, each determined at the inception of the lease. The leased asset is accounted for as a non-financial physical asset and depreciated over the shorter of the estimated useful life of the asset or the term of the lease. Minimum finance lease payments were apportioned between the reduction of the outstanding lease liability and the periodic finance expense, which is calculated using the interest rate implicit in the lease and charged directly to the consolidated comprehensive operating statement.

Contingent rentals associated with finance leases were recognised as an expense in the period in which they are incurred.

Assets held under other leases were classified as operating leases and were not recognised in South West Healthcare's balance sheet. Operating lease payments were recognised as an operating expense in the Statement of Comprehensive Income on a straight-line basis over the lease term.

The impact of initialising applying AASB 15 Revenue from Contracts with Customers and AASB 1058 Income of not-for-profit entities to South West Healthcare's grant revenue is described in Note 8.10. Under application of the modified retrospective transition method chosen in applying AASB 15 and AASB 1058 for the first time, comparative information has not been restated to reflect the new requirements. The adoption of AASB 15 and AASB 1058 did have an impact on Other Comprehensive Income and the Statement of Cash flows for the financial year.

Operating lease payments up until 30 June 2019 (including contingent rentals) are recognised on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern of the benefits derived from the use of the leased asset.

## NOTE 6.1: BORROWINGS (CONTINUED)

From 1 July 2019, the following lease payments are recognised on a straight-line basis:

- Short-term leases – leases with a term less than 12 months; and
- Low value leases – leases with the underlying asset's fair value (when new, regardless of the age of the asset being leased) is no more than \$10,000.

Variable lease payments not included in the measurement of the lease liability (i.e. variable lease payments that do not depend on an index or a rate, initially measured using the index or rate as at the commencement date). These payments are recognised in the period in which the event or condition that triggers those payments occur.

### Borrowings

All borrowings are initially recognised at fair value of the consideration received, less directly attributable transaction costs. The measurement basis subsequent to initial recognition depends on whether South West Healthcare has categorised its liability as either 'financial liabilities designated at fair value through profit or loss', or financial liabilities at 'amortised cost'.

Subsequent to initial recognition, interest bearing borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in the net result over the period of the borrowing using the effective interest method. Non-interest bearing borrowings are measured at 'fair value through profit or loss'.

## NOTE 6.2: CASH AND CASH EQUIVALENTS

	2020 \$ '000	2019 \$ '000
Cash on hand (excluding monies held in trust)	9	9
Cash at Bank (excluding monies held in trust)	24,046	16,524
Deposits at Call (excluding monies held in trust)	12	36
Cash at Bank (monies held in trust)	2,673	2,889
	<hr/>	<hr/>
<b>TOTAL CASH AND CASH EQUIVALENTS</b>	<b>26,740</b>	<b>19,458</b>

Cash and cash equivalents recognised on the balance sheet comprise cash on hand and in banks, deposits at call and highly liquid investments (with an original maturity date of three months or less), which are held for the purpose of meeting short term cash commitments rather than for investment purposes, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value.

For cash flow statement presentation purposes, cash and cash equivalents include bank overdrafts, which are included as liabilities on the balance sheet. The cash flow statement includes monies held in trust.



## NOTE 6.3: COMMITMENTS FOR EXPENDITURE

### (A) COMMITMENTS PAYABLE

	2020 \$ '000	2019 \$ '000
<b>Capital expenditure commitments payable</b>		
Less than 1 year	1,507	1,113
<b>Total Capital expenditure commitments</b>	<b>1,507</b>	<b>1,113</b>
<b>Other operating Commitments</b>		
Share of SWARH Maintenance, Software Agreement & Network Obligations		
Less than 1 year	1,108	1,395
Longer than 1 year but not longer than 5 years	122	1,342
<b>Total Non-cancellable Lease Commitments</b>	<b>1,230</b>	<b>2,737</b>
<b>Total Commitments (inclusive of GST)</b>	<b>2,737</b>	<b>3,850</b>
Less GST recoverable from the Australian Tax Office	249	350
<b>Total Commitments (exclusive of GST)</b>	<b>2,488</b>	<b>3,500</b>

### Commitments

Commitments for future expenditure include operating and capital commitments arising from contracts. These commitments are disclosed at their nominal value and are inclusive of the GST payable. In addition, where it is considered appropriate and provides additional relevant information to users, the net present values of significant projects are stated. These future expenditures cease to be disclosed as commitments once the related liabilities are recognised on the Balance Sheet.

## NOTE 7: RISKS, CONTINGENCIES & VALUATION UNCERTAINTIES

The health service is exposed to risk from its activities and outside factors. In addition, it is often necessary to make judgements and estimates associated with recognition and measurement of items in the financial statements. This section sets out financial instrument specific information, (including exposures to financial risks) as well as those items that are contingent in nature or require a higher level of judgement to be applied, which for the health service is related mainly to fair value determination.

### Structure

- 7.1 Financial instruments
- 7.2 Contingent assets and contingent liabilities

### NOTE 7.1: FINANCIAL INSTRUMENTS

#### Financial Risk Management Objectives and Policies

Financial instruments arise out of contractual agreements that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Due to the nature of South West Healthcare's activities, certain financial assets and financial liabilities arise under statute rather than a contract. Such financial assets and financial liabilities do not meet the definition of financial instruments in AASB 132 *Financial Instruments: Presentation*.

#### (A) CATEGORISATION OF FINANCIAL INSTRUMENTS

	Financial		Total
	Financial Assets at Amortised Cost \$ '000	Liabilities at Amortised Cost \$ '000	
<b>2020</b>			
<b>Contractual Financial Assets</b>			
Cash and cash equivalents	26,740	-	26,740
Receivables			
- Trade Debtors	2,395	-	2,395
- Other Receivables	1,368	-	1,368
Investments and Other Financial Assets			
- Term Deposits	-	-	-
<b>Total Financial Assets (i)</b>	<b>30,503</b>	<b>-</b>	<b>30,503</b>
<b>Financial Liabilities</b>			
Payables	-	12,516	12,516
Borrowings	-	604	604
Other Financial Liabilities			
- Accommodation Bonds	-	2,208	2,208
- Other	-	465	465
<b>Total Financial Liabilities (i)</b>	<b>-</b>	<b>15,793</b>	<b>15,793</b>

**NOTE 7.1: FINANCIAL INSTRUMENTS (CONTINUED)****(A) CATEGORISATION OF FINANCIAL INSTRUMENTS (CONTINUED)**

<b>2019</b>	<b>Financial Assets at Amortised Cost \$ '000</b>	<b>Financial liabilities at amortised cost \$ '000</b>	<b>Total \$ '000</b>
<b>Contractual Financial Assets</b>			
Cash and cash equivalents	19,458	-	19,458
Receivables			
- Trade Debtors	3,141	-	3,141
- Other Receivables	1,613	-	1,613
Investments and Other Financial Assets			
- Term Deposits	1,000	-	1,000
<b>Total Financial Assets (i)</b>	<b>25,212</b>	<b>-</b>	<b>25,212</b>
<b>Financial Liabilities</b>			
Payables	-	15,640	15,640
Borrowings	-	864	864
Other Financial Liabilities			
- Accommodation Bonds	-	2,794	2,794
- Other	-	95	95
<b>Total Financial Liabilities (i)</b>	<b>-</b>	<b>19,393</b>	<b>19,393</b>

(i) The carrying amount excludes statutory receivables (i.e. GST Receivable and DHHS Receivable) and statutory payables (i.e. Revenue in advance and DHHS payable).

From 1 July 2018, the Health Service applies AASB 9 and classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms.

**Categories of financial assets under AASB9****Financial assets at amortised cost**

Financial assets are measured at amortised costs if both of the following criteria are met and the assets are not designated as fair value through net result:

- the assets are held by the Health Service to collect the contractual cash flows, and
- the assets' contractual terms give rise to cash flows that are solely payments of principal and interests.

These assets are initially recognised at fair value plus any directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method less any impairment.

The Department recognises the following assets in this category:

- cash and deposits;
- receivables (excluding statutory receivables); and
- term deposits.

**Financial liabilities at amortised cost** are initially recognised on the date they are originated.

They are initially measured at fair value plus any directly attributable transaction costs.

Subsequent to initial recognition, these financial instruments are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit and loss over the period of the interest bearing liability, using the effective interest rate method. South West Healthcare recognises the following liabilities in this category:

- payables (excluding statutory payables); and
- borrowings (including finance lease liabilities).

## NOTE 7.1: FINANCIAL INSTRUMENTS (CONTINUED)

### (A) CATEGORISATION OF FINANCIAL INSTRUMENTS (CONTINUED)

**Derecognition of financial assets:** A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the asset have expired or, South West Healthcare retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or South West Healthcare has transferred its rights to receive cash flows from the asset and either:

- has transferred substantially all the risks and rewards of the asset; or
- has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

Where South West Healthcare has neither transferred nor retained substantially all the risks and rewards or transferred control, the asset is recognised involvement to the extent of South West Healthcare's continuing involvement in the asset.

**Derecognition of financial liabilities:** A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised as an 'other economic flow' in the comprehensive operating statement.

**Reclassification of financial instruments:** Subsequent to initial recognition reclassification of financial liabilities is not permitted. Financial assets are required to be reclassified between fair value through net result, fair value through other comprehensive income and amortised cost when and only when South West Healthcare's business model for managing its financial assets has changes such that its previous model would no longer apply.

#### **Impairment of financial assets**

At the end of each reporting period, the Health Service assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. All financial instrument assets, except those measured at fair value through profit or loss, are subject to annual review for impairment.

The allowance is the difference between the financial asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. In assessing impairment of statutory (non-contractual) financial assets, which are not financial instruments, professional judgement is applied in assessing materiality using estimates, averages and other computational methods in accordance with *AASB 136 Impairment of Assets*.

**NOTE 7.1: FINANCIAL INSTRUMENTS (CONTINUED)****(B) MATURITY ANALYSIS OF FINANCIAL LIABILITIES AS AT 30 JUNE**

The following table discloses the contractual maturity analysis for the Health Service's financial liabilities. For interest rates applicable to each class of liability refer to individual notes to the financial statements.

Note	Total Carrying Amount	Nominal Amount	Maturity Dates			
			Less than 1 Month	1 - 3 Months	3 Months - 1 Year	1 - 5 Years
	\$	\$	\$	\$	\$	\$
<b>2020</b>						
<b>Financial Liabilities</b>						
<i>At amortised cost</i>						
Payables (i)	5.2	16,964	16,964	0	0	0
Borrowings	6.1	604	604	20	60	371
Other Financial Liabilities						
- Accommodation Deposits	5.3	2,208	2,208	0	0	0
- Other	5.3	465	465	0	465	0
<b>Total Financial Liabilities</b>		<b>20,241</b>	<b>20,241</b>	<b>16,984</b>	<b>525</b>	<b>2,367</b>
<b>2019</b>						
<b>Financial Liabilities</b>						
<i>At amortised cost</i>						
Payables (i)	5.2	15,640	15,640	0	0	0
Borrowings	6.1	864	864	24	69	589
Other Financial Liabilities						
- Accommodation Deposits	5.3	2,794	2,794	0	0	0
- Other	5.3	95	95	0	95	0
<b>Total Financial Liabilities</b>		<b>19,393</b>	<b>19,393</b>	<b>15,664</b>	<b>164</b>	<b>2,976</b>

(i) Maturity analysis of financial liabilities excludes the types of statutory financial liabilities (i.e. GST payable).

**(C) CONTRACTUAL RECEIVABLES AT AMORTISED COSTS**

	30-Jun-19	Less Current than 1 month	1-3 months	3 months - 1 year	1-5 years	Total
Expected loss rate		0%	0%	5%	8%	2%
Gross carrying amount of contractual receivables		3,291	761	247	376	4,754
<b>Loss allowance</b>		<b>0</b>	<b>0</b>	<b>13</b>	<b>30</b>	<b>44</b>

	30-Jun-20	Less Current than 1 month	1-3 months	3 months - 1 year	1-5 years	Total
Expected loss rate		0%	0%	5%	5%	35%
Gross carrying amount of contractual receivables		2,526	697	376	121	3,825
<b>Loss allowance</b>		<b>0</b>	<b>0</b>	<b>19</b>	<b>6</b>	<b>62</b>

**Impairment of financial assets under AASB 9 Financial Instruments**

South West Healthcare records the allowance for expected credit loss for the relevant financial instruments, in accordance with AASB 9 *Financial Instruments* 'Expected Credit Loss' approach. Subject to AASB 9 *Financial Instruments*, impairment assessment includes South West Healthcare's contractual receivables, statutory receivables and its investment in debt instruments.

Equity instruments are not subject to impairment under AASB 9 *Financial Instruments*. Other financial assets mandatorily measured or designated at fair value through net result are not subject to impairment assessment under AASB 9 *Financial Instruments*. While cash and cash equivalents are also subject to the impairment requirements of AASB 9 *Financial Instruments*, any identified impairment loss would be immaterial.

## NOTE 7.1: FINANCIAL INSTRUMENTS (CONTINUED)

### (C) CONTRACTUAL RECEIVABLES AT AMORTISED COSTS (CONTINUED)

#### Contractual receivables at amortised cost

South West Healthcare applies AASB 9 Financial Instruments simplified approach for all contractual receivables to measure expected credit losses using a lifetime expected loss allowance based on the assumptions about risk of default and expected loss rates. South West Healthcare has grouped contractual receivables on shared credit risk characteristics and days past due and select the expected credit loss rate based on South West Healthcare's past history, existing market conditions, as well as forward-looking estimates at the end of the financial year.

On this basis, South West Healthcare determines the opening loss allowance and the closing loss allowance at end of the financial year as disclosed above.

#### Reconciliation of the movement in the loss allowance for contractual receivables

	2020 \$ 000's	2019 \$ 000's
<b>Balance at the beginning of the year</b>	44	34
Opening retained earnings adjustment on adoption of AASB 9	0	0
<b>Opening Loss Allowance</b>	44	34
Modification of contractual cash flows on financial assets	0	0
Increase in provision recognised in the net result	18	10
<b>Balance at end of the year</b>	62	44

Credit loss allowance is classified as other economic flows in the net result. Contractual receivables are written off when there is no reasonable expectation of recovery and impairment losses are classified as a transaction expense. Subsequent recoveries of amounts previously written off are credited against the same line item.

In prior years, a provision for doubtful debts is recognised when there is objective evidence that the debts may not be collected and bad debts are written off when identified. A provision is made for estimated irrecoverable amounts from the sale of goods when there is objective evidence that an individual receivable is impaired. Bad debts considered as written off by mutual consent.

#### Statutory receivables and debt investments at amortised cost

The Health Service's non-contractual receivables arising from statutory requirements are not financial instruments. However, they are nevertheless recognised and measured in accordance with AASB 9 requirements as if those receivables are financial instruments.

The Health Service also has investments in:

- Term Deposits in Australian approved deposit institutions

Both the statutory receivables and investments in debt instruments are considered to have low credit risk, taking into account the counterparty's credit rating, risk of default and capacity to meet contractual cash flow obligations in the near term. As the result, the loss allowance recognised for these financial assets during the period was limited to 12 months expected losses.

## NOTE 7.2: CONTINGENT ASSETS AND CONTINGENT LIABILITIES

There are no known contingent assets or contingent liabilities for South West Healthcare at the date of this report. (Nil 2019)

## NOTE 8: OTHER DISCLOSURES

This section includes additional material disclosures required by accounting standards or otherwise, for the understanding of this financial report.

### Structure

- 8.1 Reconciliation of Net Result for the Year to Net Cash Flow from Operating Activities
- 8.2 Responsible persons disclosure
- 8.3 Remuneration of Executive Officers
- 8.4 Related Parties
- 8.5 Remuneration of auditors
- 8.6 AASBs issued that are not yet effective
- 8.7 Events occurring after the balance sheet date
- 8.8 Jointly Controlled Operations
- 8.9 Economic Dependency
- 8.10 Changes in Accounting Policy and revision of estimates

### NOTE 8.1: RECONCILIATION OF NET RESULT FOR THE YEAR TO NET CASH INFLOW / (OUTFLOW) FROM OPERATING ACTIVITIES

	2020 \$ '000	2019 \$ '000
<b>NET RESULT FOR THE YEAR</b>	(8,638)	(11,590)
<b>Less Capital Donations</b>	(828)	(352)
<b>Non-cash movements</b>		
Non Cash Revenue		
- Assets received from Department of Health & Human Services (DHHS)	-	(370)
Depreciation	16,706	14,112
Allowance for impairment losses of contractual receivables	18	10
<b>Movements included in investing and financing activities</b>		
Net (gain)/loss from disposal of non financial physical assets	(64)	(16)
Less cash inflow/outflow from investing and financing activities	260	-
<b>Movements in assets and liabilities</b>		
Change in Operating Assets & Liabilities		
(Increase)/Decrease in Receivables	1,026	1,344
(Increase)/Decrease in Other Assets	95	(1,335)
Increase/(Decrease) in Payables	(7,305)	892
Increase/(Decrease) in Provisions	(557)	3,274
Increase/(Decrease) in Other Liabilities	9,931	120
Change in Inventories	(16)	153
<b>NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES</b>	<b>10,628</b>	<b>6,242</b>

## NOTE 8.2: RESPONSIBLE PERSON DISCLOSURES

In accordance with the Ministerial Directions issued by the Assistant Treasurer under the Financial Management Act 1994, the following disclosures are made regarding responsible persons for the reporting period.

	Period
<b>Responsible Ministers:</b>	
The Honourable Jenny Mikakos, Minister for Health and Minister for Ambulance Services	01/07/2019 - 30/06/2020
The Honourable Martin Foley, Minister for Mental Health	01/07/2019 - 30/06/2020
The Honourable Luke Donnellan, Minister for Child Protection, Minister for Disability, Ageing and Carers	01/07/2019 - 30/06/2020
<b>Governing Boards</b>	
Mrs. N. Allen	01/07/2019 - 30/06/2020
Mr G.Toogood	01/07/2019 - 30/06/2020
Mr. B.Brown	01/07/2019 - 30/06/2020
Mr. R.Montgomery	01/07/2019 - 30/06/2020
Mrs. J.Waterhouse	01/07/2019 - 30/06/2020
Mrs. B.Northeast	01/07/2019 - 30/06/2020
Ms. K. Gaston	01/07/2019 - 30/06/2020
Ms. A. Patchett	01/07/2019 - 30/06/2020
Mr A. Gillan	01/07/2019 - 30/06/2020
<b>Accountable Officers</b>	
Mr C.Fraser	01/07/2019 - 30/06/2020

### Remuneration of Responsible Persons

The number of Responsible Persons are shown in their relevant income bands:

Income Band	2020	2019
	No:	No:
\$0 - \$9,999	0	2
\$10,000 - \$19,999	7	7
\$20,000 - \$29,999	2	0
\$300,000 - \$309,999	0	1
\$330,000 - \$339,999	1	0
<b>Total Numbers</b>	10	10
	<b>2020</b>	<b>2019</b>
	<b>\$ '000</b>	<b>\$ '000</b>
<b>Total remuneration received or due and receivable by Responsible Persons from the reporting entity amounted to:</b>	<b>482</b>	<b>411</b>

Amounts relating to Responsible Ministers are reported within the Department of Parliamentary Services' Financial Report.

## NOTE 8.3: REMUNERATION OF EXECUTIVES

### Remuneration of executives

The number of executive officers, other than Ministers and Accountable Officers, and their total remuneration during the reporting period are shown in the table below. Total annualised employee equivalent provides a measure of full time equivalent executive officers over the reporting period.

Remuneration comprises employee benefits in all forms of consideration paid, payable or provided in exchange for services rendered, and is disclosed in the following categories.

**Short-term employee** benefits include amounts such as wages, salaries, annual leave or sick leave that are usually paid or payable on a regular basis, as well as non-monetary benefits such as allowances and free or subsidised goods or services.

**Post-employment** benefits include pensions and other retirement benefits paid or payable on a discrete basis when employment has ceased.

**Other long-term** benefits include long service leave, other long-service benefit or deferred compensation.

**Termination benefits** include termination of employment payments, such as severance packages.



## NOTE 8.3: REMUNERATION OF EXECUTIVES (CONTINUED)

### Remuneration of executive officers

	Total Remuneration	
	2020	2019
	\$ '000	\$ '000
Short-term employee benefits	1,539	1,178
Post-employment benefits	128	117
Other long-term benefits	10	32
<b>Total Remuneration</b>	<b>1,677</b>	<b>1,327</b>
<b>Total Number of executives (i)</b>	<b>8</b>	<b>7</b>
<b>Total annualised employee equivalent (AEE) (ii)</b>	<b>7.00</b>	<b>6.50</b>

#### Notes:

(i) The total number of executive officers includes persons who meet the definition of Key Management Personnel (KMP) of the entity under AASB 124 Related Party Disclosures and are also reported within the related parties note disclosure (Note 8.4).

(ii) Annualised employee equivalent is based on the time fraction worked over the reporting period. This is calculated as the total number of days the employee is engaged to work during the week by the total number of full-time working days per week (this is generally five full working days per week).

## NOTE 8.4: RELATED PARTIES

The Health Service is a wholly owned and controlled entity of the State of Victoria. Related parties of the hospital include:

- all key management personnel and their close family members;
- all cabinet ministers and their close family members;
- Jointly Controlled Operation - A member of the Southwest Alliance of Rural Health; and
- all hospitals and public sector entities that are controlled and consolidated into the whole of state consolidated financial statements.

KMP's are those people with the authority and responsibility for planning, directing and controlling the activities of South West Healthcare, directly or indirectly.

The Board of Directors, Accountable Officer and the Executive Directors of South West Healthcare are deemed to be KMPs.

Entity	Key Management Personnel	Position Title	Period
South West Healthcare	Mr. B.Brown	Chair of the Board	01/07/2019 - 30/06/2020
South West Healthcare	Mrs. N. Allen	Board Member	01/07/2019 - 30/06/2020
South West Healthcare	Mr G.Toogood	Board Member	01/07/2019 - 30/06/2020
South West Healthcare	Mr. R.Montgomery	Board Member	01/07/2019 - 30/06/2020
South West Healthcare	Mrs. J.Waterhouse	Board Member	01/07/2019 - 30/06/2020
South West Healthcare	Mrs. B.Northeast	Board Member	01/07/2019 - 30/06/2020
South West Healthcare	Ms. K. Gaston	Board Member	01/07/2019 - 30/06/2020
South West Healthcare	Ms. A. Patchett	Board Member	01/07/2019 - 30/06/2020
South West Healthcare	Mr A. Gillan	Board Member	01/07/2019 - 30/06/2020
South West Healthcare	Mr C.Fraser	Chief Executive Officer	01/07/2019 - 30/06/2020
South West Healthcare	Mr. A.Trigg	Chief Operating Officer	01/07/2019 - 30/06/2020
South West Healthcare	Dr. N. Van Zyl	Executive Director Medical Services	01/07/2019 - 25/05/2020
South West Healthcare	Ms. J.Clift	Executive Director Nursing & Midwifery	01/07/2019 - 21/7/2019
South West Healthcare	Mr. J.Brennan	Executive Director Service Development	01/07/2019 - 30/06/2020
South West Healthcare	Ms .K.Cook	Executive Director Mental Health Services	01/07/2019 - 30/06/2020
South West Healthcare	Ms. K.Anderson	Executive Director Primary and Community Services	01/07/2019 - 30/06/2020
South West Healthcare	Ms. L. Viljoen	Executive Director People and Culture	01/07/2019 - 30/06/2020
South West Healthcare	Ms. G. Stevenson	Executive Director Nursing & Midwifery	26/08/2019 - 30/06/2020

## NOTE 8.4: RELATED PARTIES (CONTINUED)

The compensation detailed below excludes the salaries and benefits the Portfolio Ministers receive. The Minister's remuneration and allowances is set by the Parliamentary Salaries and Superannuation Act 1968, and is reported within the Department of Parliamentary Services' Financial Report.

	2020	2019
COMPENSATION	\$ '000	\$ '000
Short term employee benefits	1,974	1,547
Post-employment benefits	166	151
Other long-term benefits	19	41
<b>Total</b>	<b>2,159</b>	<b>1,739</b>

(i) Total remuneration paid to KMPs employed as a contractor during the reporting period through accounts payable has been reported under short-term employee benefits.

(ii) KMPs are also reported in Note 8.2 Responsible Persons or Note 8.3 Remuneration of Executives.

### Significant transactions with government-related entities

	2020	2019
Transactions	\$ '000	\$ '000
Department of Health & Human Services	171,907	154,878
Indirect Contributions (DHHS)	1,066	2,032
Contributed Capital	595	-
Repayment of Funding - Interest free loan	69	-
<b>Total</b>	<b>173,637</b>	<b>156,910</b>

### Balances Outstanding

	2020	2019
Funding Outstanding	\$ '000	\$ '000
Department of Health & Human Services LSL Debtor	7,206	6,494
Interest free loan balance	277	346

Expenses incurred by the Health Service in delivering services and outputs are in accordance with Health Purchasing Victoria requirements. Goods and services including procurement, diagnostics, patient meals and multi-site operational support are provided by other Victorian Health Service Providers on commercial terms.

Professional medical indemnity insurance and other insurance products are obtained from a Victorian Public Financial Corporation.

The Standing Directions of the Assistant Treasurer require the Health Service to hold cash (in excess of working capital) in accordance with the State's centralised banking arrangements. All borrowings are required to be sourced from Treasury Corporation Victorian unless an exemption has been approved by the Minister for Health and Human Services and the Treasurer.

### Transactions with key management personnel and other related parties

Given the breadth and depth of State government activities, related parties transact with the Victorian public sector in a manner consistent with other members of the public e.g. stamp duty and other government fees and charges. Further employment of processes within the Victorian public sector occur on terms and conditions consistent with the Public Administration Act 2004 and Codes of Conduct and Standards issued by the Victorian Public Sector Commission. Procurement processes occur on terms and conditions consistent with the Victorian Government Procurement Board requirements.

Outside of normal citizen type transactions with the Department of Health and Human Services, all other related party transactions that involved KMPs and their close family members have been entered into on an arm's length basis. Transactions are disclosed when they are considered material to the users of the financial report in making and evaluation decisions about the allocation of scarce resources.

There were no related party transactions with Cabinet Ministers required to be disclosed in 2020.

## NOTE 8.4: RELATED PARTIES (CONTINUED)

Other Transactions of Responsible Persons and their Related Parties	2020 \$ '000	2019 \$ '000
Mr S.Callaghan is a director of Callaghan Motors which provides repairs, maintenance and purchase of motor vehicles on normal commercial terms and conditions.	-	21

## NOTE 8.5: REMUNERATION OF AUDITORS

Victorian Auditor-General's Office	2020 \$ '000	2019 \$ '000
Audit of financial statements	48	47
	48	47

## NOTE 8.6: AASBs ISSUED THAT ARE NOT YET EFFECTIVE

Certain new Australian accounting standards and interpretations have been published that are not mandatory for 30 June 2020 reporting period. DTF assesses the impact of an these new standards and advises the Health Service of their applicability and early adoption where applicable.

As at 30 June 2020, the following standards and interpretations had been issued by the AASB but were not yet effective. They become effective for the first financial statements for reporting periods commencing after the stated operative dates as detailed in the table below. South West Healthcare has not and does not intend to adopt these standards early.

Topic	Key requirements	Effective Date	Impact on Financial Statements
AASB 2018-7 Amendments to Australian Accounting Standards – Definition of Material	This Standard principally amends AASB 101 Presentation of Financial Statements and AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors. The amendments refine and clarify the definition of material in AASB 101 and its application by improving the wording and aligning the definition across AASB Standards and other publications. The amendments also include some supporting requirements in AASB 101 in the definition to give it more prominence and clarify the explanation accompanying the definition of material.	01-Jan-20	The assessment has indicated that there will be no significant impact for the public sector.
AASB 2020-1 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-Current	This Standard amends AASB 101 to clarify requirements for the presentation of liabilities in the statement of financial position as current or non-current. A liability is classified as non-current if an entity has the right at the end of the reporting period to defer settlement of the liability for at least 12 months after the reporting period. The meaning of settlement of a liability is also clarified.	1 January 2022. However, ED 301 has been issued with the intention to defer application to 1 January 2023.	The assessment has indicated that there will be no significant impact for the public sector.

In addition to the new standards and amendments above, the AASB has issued a list of other amending standards that are not effective for the 2019-20 reporting period (as listed below). In general, these amending standards include editorial and references changes that are expected to have insignificant impacts on public sector reporting.

- AASB 2018-6 *Amendments to Australian Accounting Standards – Definition of a Business.*
- AASB 2019-1 *Amendments to Australian Accounting Standards – References to the Conceptual Framework.*
- AASB 2019-3 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform.*
- AASB 2019-5 *Amendments to Australian Accounting Standards – Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia.*
- AASB 2019-4 *Amendments to Australian Accounting Standards – Disclosure in Special Purpose Financial Statements of Not-for-Profit Private Sector Entities on Compliance with Recognition and Measurement Requirements.*
- AASB 2020-2 *Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities.*
- AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities (Appendix C).*

## NOTE 8.7: EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

The COVID-19 pandemic has created unprecedented economic uncertainty. Actual economic events and conditions in the future may be materially different from those estimated by South West Healthcare at the reporting date. As responses by government continue to evolve, management recognises that it is difficult to reliably estimate with any degree of certainty the potential impact of the pandemic after the reporting date on South West Healthcare, its operations, its future results and financial position. The state of emergency in Victoria was extended on 13 September 2020 until 11 October 2020 and the state of disaster still in place.

No other matters or circumstances have arisen since the end of the financial year which significantly affected or may affect the operations of South West Healthcare, the results of the operations or the state of affairs of South West Healthcare in the future financial years.

## NOTE 8.8: JOINTLY CONTROLLED OPERATIONS AND ASSETS

Name of Entity	Ownership Interest	
	2020	2019
	%	%
Southwest Alliance of Rural Health	14.52	14.92

South West Healthcare's interest in assets employed in the above jointly controlled operations and assets is detailed below. The amounts are included in the financial statements and consolidated financial statements under their respective categories:

	2020	2019
	\$ '000	\$ '000
<b>Current Assets</b>		
Cash and Cash Equivalents	1,265	215
Receivables	937	935
Inventories	7	10
Prepayments	78	70
<b>Total Current Assets</b>	<b>2,287</b>	<b>1,230</b>
<b>Non Current Assets</b>		
Property, Plant and Equipment	838	887
DHS LSL Debtors	83	0
<b>Total Non Current Assets</b>	<b>921</b>	<b>887</b>
<b>Total Assets</b>	<b>3,208</b>	<b>2,117</b>
<b>Current Liabilities</b>		
Payables	1,371	646
Deferred Income	691	98
Provisions	249	255
Lease Liabilities	141	205
<b>Total Current Liabilities</b>	<b>2,452</b>	<b>1,204</b>
<b>Non Current Liabilities</b>		
Employee Provisions	47	37
Lease Liabilities	188	313
<b>Total Non Current Liabilities</b>	<b>235</b>	<b>350</b>
<b>Total Liabilities</b>	<b>2,687</b>	<b>1,554</b>
<b>Net Assets</b>	<b>521</b>	<b>563</b>

**NOTE 8.8: JOINTLY CONTROLLED OPERATIONS AND ASSETS (CONTINUED)**

South West Healthcare interest in revenues and expenses resulting from jointly controlled operations and assets is detailed below:

	<b>2020</b>	<b>2019</b>
	<b>\$ '000</b>	<b>\$ '000</b>
<b>Revenues</b>		
Operating Activities	2,825	3,460
Non Operating Activities	285	262
<b>Expenses</b>		
Employee Expenses	1,339	1,245
Maintenance Contracts and IT Support	1,223	728
Other Expenses	143	959
Finance Costs	15	83
Depreciation and Amortisation	264	423
<b>Total Operating Expenses</b>	<u>2,984</u>	<u>3,438</u>
<b>Other Economic Flows included in the result</b>		
Revaluation of Long Service Leave	<u>(23)</u>	<u>9</u>
<b>Net Result</b>	<u>103</u>	<u>293</u>

**Contingent Liabilities and Capital Commitments**

There are no known contingent assets or liabilities for South West Alliance of Rural Health as at the date of this report. The financial results included for SWARH are unaudited at the date of signing the financial statements.

**NOTE 8.9 ECONOMIC DEPENDENCY**

South West Healthcare is dependent on the Department of Health and Human Services for the majority of its revenue used to operate the entity. At the date of this report, the Board of Directors has no reason to believe the Department will not continue to support South West Healthcare.

## NOTE 8.10 CHANGES IN ACCOUNTING POLICY AND REVISION OF ESTIMATES

### Leases

This note explains the impact of the adoption of AASB 16 Leases on South West Healthcare's financial statements.

South West Healthcare has applied AASB 16 with a date of initial application of 1 July 2019. South West Healthcare has elected to apply AASB 16 using the modified retrospective approach, as per the transitional provisions of AASB 16 for all leases for which it is a lessee. The cumulative effect of initial application is recognised in retained earnings as at 1 July 2019. Accordingly, the comparative information presented is not restated and is reported under AASB 117 and related interpretations.

Previously, South West Healthcare determined at contract inception whether an arrangement is or contains a lease under AASB 117 and Interpretation 4 – 'Determining whether an arrangement contains a Lease'. Under AASB 16, South West Healthcare assesses whether a contract is or contains a lease based on the definition of a lease as explained in note 6.1.

On transition to AASB 16, South West Healthcare has elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied AASB 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under AASB 117 and Interpretation 4 were not reassessed for whether there is a lease. Therefore, the definition of a lease under AASB 16 was applied to contracts entered into or changed on or after 1 July 2019.

### Leases classified as operating leases under AASB 117

As a lessee, South West Healthcare previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to South West Healthcare. Under AASB 16, South West Healthcare recognises right-of-use assets and lease liabilities for all leases except where exemption is availed in respect of short-term and low value leases.

On adoption of AASB 16, South West Healthcare recognised lease liabilities in relation to leases which had previously been classified as operating leases under the principles of AASB 117 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using South West Healthcare's incremental borrowing rate as of 1 July 2019. On transition, right-of-use assets are measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 30 June 2019.

South West Healthcare has elected to apply the following practical expedients when applying AASB 16 to leases previously classified as operating leases under AASB 117:

- Applied a single discount rate to a portfolio of leases with similar characteristics;
- Adjusted the right-of-use assets by the amount of AASB 137 onerous contracts provision immediately before the date of initial application, as an alternative to an impairment review;
- Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term;
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application; and
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

For leases that were classified as finance leases under AASB 117, the carrying amount of the right-of-use asset and lease liability at 1 July 2019 are determined as the carrying amount of the lease asset and lease liability under AASB 117 immediately before that date.

### Leases as a Lessor

South West Healthcare is not required to make any adjustments on transition to AASB 16 for leases in which it acts as a lessor. South West Healthcare accounted for its leases in accordance with AASB 16 from the date of initial application.

## NOTE 8.10 CHANGES IN ACCOUNTING POLICY AND REVISION OF ESTIMATES (CONTINUED)

### Impacts on financial statements

On transition to AASB 16, South West Healthcare recognised \$379k of right-of-use assets and \$379k of lease liabilities.

When measuring lease liabilities, South West Healthcare discounted lease payments using its incremental borrowing rate at 1 July 2019. The weighted average rate applied is 0.8%.

### Revenue from Contracts with Customers

In accordance with FRD 121 requirements, South West Healthcare has applied the transitional provision of AASB 15, under modified retrospective method with the cumulative effect of initially applying this standard against the opening retained earnings at 1 July 2019. On transition to AASB15, South West Healthcare recognised \$447k of capital grant revenue as deferred and its share of SWARH deferred revenue of \$145k. Under this transition method, South West Healthcare applied this standard retrospectively only to contracts that are not 'completed contracts' at the date of initial application. South West Healthcare has not applied the fair value measurement requirements for right-of-use assets arising from leases with significantly below-market terms and conditions principally to enable the entity to further its objectives as allowed under temporary option under AASB 16 and as mandated by FRD 122.

Comparative information has not been restated.

Note 2.1.1 – Sales of goods and services includes details about the transitional application of AASB 15 and how the standard has been applied to revenue transactions.

### Income of Not-for-Profit Entities

In accordance with FRD 122 requirements, South West Healthcare has applied the transitional provision of AASB 1058, under modified retrospective method with the cumulative effect of initially applying this standard against the opening retained earnings at 1 July 2019. Under this transition method, South West Healthcare applied this standard retrospectively only to contracts and transactions that are not completed contracts at the date of initial application.

Comparative information has not been restated.

Note 2.1 (a) – Grants includes details about the transitional application of AASB 1058 and how the standard has been applied to revenue transactions. The adoption of AASB 1058 did not have an impact on Other comprehensive income and the Statement of Cash flows for the financial year.

## NOTE 8.10 CHANGES IN ACCOUNTING POLICY AND REVISION OF ESTIMATES (CONTINUED)

### Transition impact on financial statements

This note explains the impact of the adoption of the following new accounting standards for the first time, from 1 July 2019:

- AASB 15 Revenue from Contracts with Customers ;
- AASB 1058 Income of Not-for-Profit Entities ; and
- AASB 16 Leases.

Impact on Balance Sheet due to the adoption of AASB 15, AASB 1058 and AASB 16 is illustrated with the following reconciliation between the restated carrying amounts at 30 June 2019 and the balances reported under the new accounting standards (AASB 15 and AASB 16) at 1 July 2019:

Balance sheet	Notes	Before new	Impact of new	After new
		accounting standards Opening 1 July 2019	accounting standards - AASB 16, 15 & 1058	accounting standards Opening 1 July 2019
		\$'000	\$'000	\$'000
Property, Plant and Equipment		242,272	379	242,651
Total non-financial assets	4.2	242,272	379	242,651
Total Assets		276,928	379	277,307
Payables and Contract Liabilities	5.2	15,640	592	16,232
Borrowings	6.1	861	379	1,240
Total Liabilities		50,691	971	51,662
Accumulated surplus/(deficit)		33,570	(592)	32,978
Physical Revaluation Surplus		115,901	0	115,901
Other items in equity		76,766	0	76,766
Total Equity		226,237	(592)	225,645

## STATEMENT OF CHANGES IN EQUITY – CHANGES FOR AASB 1058 AND AASB 15 ADOPTION

For the financial year ended  
30 June 2020(\$ thousand)

	Property, Plant and Equipment Revaluation Surplus	Restricted Specific Purpose Surplus Reserve	Contributed Capital	Accumulated Surpluses/ (Deficits)	Total
	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000
<b>Balance at 1 July 2018</b>	56,713	22	76,744	45,160	178,639
Net result for the year	-	-	-	(11,590)	(11,590)
Other comprehensive income for the year	59,188	-	-	-	59,188
<b>Balance at 30 June 2019</b>	115,901	22	76,744	33,570	226,237
<b>Change in accounting policy (due to AASB 15, 1058)</b>				(592)	(592)
<b>Restated balance at 1 July 2019</b>	115,901	22	76,744	32,978	225,645
Net result for the year	-	-	-	(8,638)	(8,638)
Contribution by owners	-	-	595	-	595
<b>Balance at 30 June 2020</b>	115,901	22	77,339	24,340	217,602