

FINANCIAL STATEMENTS 2017-18

South West Healthcare

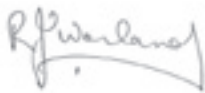
BOARD MEMBER'S, ACCOUNTABLE OFFICER'S AND CHIEF FINANCE & ACCOUNTING OFFICER'S DECLARATION

The attached financial statements for *South West Healthcare* have been prepared in accordance with Direction 5.2 of the Standing Directions of the Minister for Finance 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 2018 and the financial position of *South West Healthcare* at 30 June 2018.

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

We authorise the attached financial statements for issue on 23 August 2018.



.....
Mr Russell Worland
Board Member

Warrnambool

23 August 2018



.....
Craig Fraser
Chief Executive Officer

Warrnambool

23 August 2018



.....
Andrew Trigg
Chief Finance & Accounting
Officer

Warrnambool

23 August 2018



Independent Auditor's Report

To the Board of South West Healthcare

Opinion	<p>I have audited the financial report of South West Healthcare (the health service) which comprises the:</p> <ul style="list-style-type: none"> • balance sheet as at 30 June 2018 • comprehensive operating statement for the year then ended • statement of changes in equity for the year then ended • cash flow statement for the year then ended • notes to the financial statements, including significant accounting policies • board member's, accountable officer's and chief finance & accounting officer's declaration. <p>In my opinion the financial report presents fairly, in all material respects, the financial position of the health service as at 30 June 2018 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>
Basis for Opinion	<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>
Other Information	<p>The Board of the health service are responsible for the Other Information, which comprises the information in the health service's annual report for the year ended 30 June 2018, 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>
Board's responsibilities for the financial report	<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>

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.



Ron Mak
as delegate for the Auditor-General of Victoria

MELBOURNE
27 August 2018

COMPREHENSIVE OPERATING STATEMENT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

	Note	2018 \$'000	2017 \$'000
REVENUE FROM OPERATING ACTIVITIES	2.1	181,313	163,156
REVENUE FROM NON-OPERATING ACTIVITIES	2.1	379	373
Employee Benefits	3.1	(118,498)	(108,775)
Non Salary Labour Costs	3.1	(12,524)	(11,807)
Supplies & Consumables	3.1	(24,636)	(21,613)
Other Expenses	3.1	(12,409)	(10,100)
Administrative Expenses	3.1	(13,147)	(11,534)
NET RESULT BEFORE CAPITAL AND SPECIFIC ITEMS		478	(300)
Capital Purpose Income	2.1	3,514	9,049
Impairment of Non-financial Assets	3.1	-	(10)
Depreciation	4.2	(14,861)	(12,892)
Expenditure Using Capital Purpose Income	3.1	(152)	(164)
Finance Costs	3.3	(33)	(127)
NET RESULT AFTER CAPITAL & SPECIFIC ITEMS		(11,054)	(4,444)
OTHER ECONOMIC FLOWS INCLUDED IN NET RESULT			
Net Gain/(loss) on Non-financial Assets	7.2	(128)	60
Revaluation of Long Service Leave	3.4	115	185
TOTAL OTHER ECONOMIC FLOWS INCLUDED IN NET RESULT		(13)	245
NET RESULT FOR THE YEAR		(11,067)	(4,199)
COMPREHENSIVE RESULT		(11,067)	(4,199)

This Statement should be read in conjunction with the accompanying notes

BALANCE SHEET AS AT 30 JUNE 2018

	Note	2018 \$'000	2017 \$'000
ASSETS			
Current Assets			
Cash and Cash Equivalents	6.2	9,458	14,866
Receivables	5.1	6,028	7,704
Investments and Other Financial Assests	4.1	7,100	-
Inventories	5.2	1,886	1,756
Prepayments and Other Assets	5.4	45	3
Total Current Assets		24,517	24,329
Non Current Assets			
Receivables	5.1	4,582	3,460
Property, Plant & Equipment	4.2	193,731	204,696
Total Non Current Assets		198,313	208,156
TOTAL ASSETS		222,830	232,485
LIABILITIES			
Current Liabilities			
Payables	5.5	9,382	10,685
Borrowings	6.1	330	392
Provisions	3.4	28,738	26,078
Other Liabilities	5.3	2,482	2,682
Total Current Liabilities		40,932	39,837
Non Current Liabilities			
Borrowings	6.1	234	475
Provisions	3.4	3,025	2,467
Total Non Current Liabilities		3,259	2,942
TOTAL LIABILITIES		44,191	42,779
NET ASSETS		178,639	189,706
EQUITY			
Property, Plant & Equipment Revaluation Surplus	8.1a	56,713	56,713
Restricted Specific Purpose Surplus	8.1b	22	22
Contributed Capital	8.1b	76,744	76,744
Accumulated Surpluses / (Deficits)	8.1c	45,160	56,227
TOTAL EQUITY		178,639	189,706
Commitments	6.3		

This Statement should be read in conjunction with the accompanying notes

STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

	Note	Property, Plant & Equipment Revaluation Surplus \$'000	Restricted Specific Purpose Surplus \$'000	Contributed Capital \$'000	Accumulated Surpluses/ (Deficits) \$'000	Total \$'000
Balance at 1 July 2016		56,713	22	76,744	60,426	193,905
Net result for the year	8.1	-	-	-	(4,199)	(4,199)
Balance at 30 June 2017		56,713	22	76,744	56,227	189,706
Net result for the year	8.1	-	-	-	(11,067)	(11,067)
Balance at 30 June 2018		56,713	22	76,744	45,160	178,639

This Statement should be read in conjunction with the accompanying notes

CASH FLOW STATEMENT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

	Note	2018 \$'000	2017 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES		Inflows / (Outflows)	Inflows / (Outflows)
Operating Grants from Government		154,894	141,335
Capital Grants from Government		2,347	7,189
Patient and Resident Fees Received		5,236	4,780
Private Practice Fees Received		1,806	1,579
Donations and Bequests Received		762	560
GST Received from/ (paid to) ATO		4,303	4,158
Interest Received		379	430
Other Receipts		15,073	11,109
TOTAL RECEIPTS		184,800	171,140
Employee Expenses Paid		(115,077)	(107,100)
Non-Salary Labour Costs		(12,476)	(11,807)
Payments for Supplies and Consumables		(23,739)	(24,955)
Finance Costs			
Other Payments		(27,980)	(20,254)
TOTAL PAYMENTS		(179,272)	(164,116)
NET CASH INFLOW FROM / (USED IN) OPERATING ACTIVITIES	8.2	5,528	7,024
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of Investments		(7,100)	-
Purchase of Non-Financial Assets		(4,482)	(9,588)
Proceeds from Sale of Non-Financial Assets		485	775
NET CASH FLOW FROM / (USED IN) INVESTING ACTIVITIES		(11,097)	(8,813)
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS HELD		(5,569)	(1,789)
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR		11,384	13,173
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR	6.2	5,815	11,384

This Statement should be read in conjunction with the accompanying notes

BASIS OF PRESENTATION

The financial statements are prepared in accordance with Australian Accounting Standards and relevant FRDs.

These financial statements are presented 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 the preparation of 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.

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

Additions to net assets which have been designated as contributions by owners are recognised as contributed capital. Other transfers that are in the nature of contributions to or distributions by owners have also been designated as contributions by owners.

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

Transfer of net liabilities arising from administrative restructurings are treated as distribution to owners.

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 period ended 30 June 2018.

The purpose of the report is to provide users with information about the Health Services' 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 AASs, which include interpretations issued by the Australian Accounting Standards Board (AASB). They are presented in a manner consistent with the requirements of *AASB101 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 Minister for Finance.

The Health Service is a not-for profit entity and therefore applies the additional AUS paragraphs applicable to "not-for-profit" Health Services under the AAS's.

The annual financial statements were authorised for issue by the Board of South West Healthcare on 23/08/2018.

(B) REPORTING ENTITY

The financial statements includes 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's 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 & 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 set out below have been applied in preparing the financial statements for the year ended 30 June 2018, and the comparative information presented in these financial statements for the year ended 30 June 2017.

The financial statements are prepared on a going concern basis. (Refer to note 8.11 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 dollar, unless otherwise stated.

Minor discrepancies in tables between totals and sum of components are due to rounding.

The Health Service 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 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);
- > Superannuation expense (refer to Note 3.5 Superannuation);
- > 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).

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.

(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 8.9).

NOTE 2: FUNDING DELIVERY OF OUR SERVICES

South West Healthcare's overall objective is to deliver programs and services that support and enhance the wellbeing of all Victorians.

To enable the health service to fulfil its objective it receives income based on parliamentary appropriations. The health service also receives income from the supply of services.

STRUCTURE

2.1 Analysis of revenue by source

NOTE 2.1: ANALYSIS OF REVENUE BY SOURCE

	Admitted Patients 2018 \$'000	Non Admitted 2018 \$'000	EDS 2018 \$'000	Mental Health 2018 \$'000	RAC incl. Mental Health 2018 \$'000	Aged Care 2018 \$'000	Primary Health 2018 \$'000	Other 2018 \$'000	Total 2018 \$'000
Government Grants	95,212	14,474	15,172	20,787	2,520	2,340	1,690	6,513	158,708
Indirect Contributions by Department of Health and Human Services	1,242	-	-	-	-	-	-	-	1,242
Patient and Resident Fees	2,930	598	-	42	609	297	-	682	5,158
Commercial Activities	-	-	-	-	-	-	-	7,336	7,336
Other Revenue from Operating Activities	4,972	-	-	242	-	-	-	3,655	8,869
Total Revenue from Operating Activities	104,356	15,072	15,172	21,071	3,129	2,637	1,690	18,186	181,313
Interest	-	-	-	-	-	-	-	379	379
Total Revenue from Non Operating Activities	-	-	-	-	-	-	-	379	379
Capital Purpose Income (excluding Interest)	-	-	-	-	-	-	-	3,514	3,514
Total Capital Purpose Income	-	-	-	-	-	-	-	3,514	3,514
Total Revenue	104,356	15,072	15,172	21,071	3,129	2,637	1,690	22,079	185,206

	Admitted Patients 2017 \$'000	Non Admitted 2017 \$'000	EDS 2017 \$'000	Mental Health 2017 \$'000	RAC incl. Mental Health 2017 \$'000	Aged Care 2017 \$'000	Primary Health 2017 \$'000	Other 2017 \$'000	Total 2017 \$'000
Government Grants	86,761	14,169	12,919	18,292	2,386	2,370	1,611	4,572	143,080
Indirect Contributions by Department of Health and Human Services	561	-	-	-	-	-	-	-	561
Patient and Resident Fees	2,409	479	-	86	585	245	50	375	4,229
Commercial Activities	-	-	-	-	-	-	-	6,936	6,936
Other Revenues from Operating Activities	8,187	-	-	153	-	-	-	-	8,340
Total Revenue from Operating Activities	97,918	14,648	12,919	18,531	2,971	2,615	1,661	11,883	163,146
Interest	-	-	-	-	-	-	-	373	373
Other Non-Operating Revenue	-	-	-	-	-	-	-	10	10
Total Revenue from Non Operating Activities	-	-	-	-	-	-	-	383	383
Capital Purpose Income (excluding Interest)	-	-	-	-	-	-	-	9,049	9,049
Total Capital Purpose Income	-	-	-	-	-	-	-	9,049	9,049
Total Revenue	97,918	14,648	12,919	18,531	2,971	2,615	1,661	21,315	172,578

NOTE 2.1: ANALYSIS OF REVENUE BY SOURCE (CONTINUED)

Revenue Recognition

Income is recognised in accordance with AASB 118 Revenue and is recognised as to the extent that it is probable that the economic benefits will flow to South West Healthcare and the income can be reliably measured at fair value.

Unearned income at reporting date is reported as income received in advance.

Amounts disclosed as revenue are, where applicable, net of returns, allowances and duties and taxes.

Government Grants and other transfers of income (other than contributions by owners)

In accordance with AASB 1004 *Contributions*, government grants and other transfers of income (other than contributions by owners) are recognised as income when the Health Service gains control of the underlying assets irrespective of whether conditions are imposed on the Health Service's use of the contributions.

Contributions are deferred as income in advance when the Health Service has a present obligation to repay them and the present obligation can be reliably measured.

Indirect Contributions from the Department of Health and Human Services

- > Insurance is recognised as revenue following advice from the Department of Health and Human Services.
- > Long Service Leave (LSL) - Revenue is recognised upon finalisation of movements in LSL liability in line with the arrangements set out in the Metropolitan Health and Aged Care Services Division Hospital Circular 04/2017.

Patient and Resident Fees

Patient fees are recognised as revenue at the time invoices are raised.

Private Practice Fees

Private Practice fees are recognised as revenue at the time invoices are raised.

Revenue from Commercial Activities

Revenue from commercial activities such as provision of meals to external users are recognised on an accrual basis.

Donations and Other Bequests

Donations and bequests are recognised as revenue when received. If donations are for a special purpose, they may be appropriated to a surplus, such as specific restricted purpose surplus.

Other Revenue from Operating Activities

Other income includes non property rental, salaries and wages recoveries, clinical placement revenue, equipment hire fees and recoveries from other health agencies.

Interest Revenue

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

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 value. Contributions in the form of services are only recognised when a fair value can be reliably determined and the services would have been purchased if not received as a donation.

CATEGORY GROUPS

South West Healthcare has used the following category groups for reporting purposes for the current and previous financial years.

- > **Admitted Patient Services (Admitted Patients)** comprises all acute and subacute admitted patients services, where services are delivered in public hospitals.
- > **Non Admitted Services** comprises acute and subacute non admitted services, where services are delivered in public hospitals clinics and provide models of integrated community care, which significantly reduces the demand for hospital beds and supports the transition from hospital to home in a safe and timely manner.
- > **Emergency Department Services (EDs)** comprises all emergency department services.
- > **Mental Health Services** comprises all specialised mental health services providing a range of inpatient, community based residential, rehabilitation and ambulatory services which treat and support people with a mental illness and their families and carers. These services aim to identify mental illness early, and seek to reduce its impact through providing timely acute care services and appropriate longer-term accommodation and support for those living with a mental illness.
- > **Residential Aged Care including Mental Health (RAC incl. Mental Health)** referred to in the past as psychogeriatric residential services, comprises those Commonwealth-licensed residential aged care services in receipt of supplementary funding from the department under the mental health program. It excludes all other residential services funded under the mental health program, such as mental health funded community care units and secure extended care units.
- > **Aged Care** comprises a range of in home, specialist geriatric, residential care and community based programs and support services, such as Home and Community Care (HACC) that are targeted to older people, people with a disability, and their carers.
- > **Primary, Community and Dental Health** comprises a range of home based, community based, community, primary health and dental services including health promotion and counselling, physiotherapy, speech therapy, podiatry and occupational therapy and a range of dental health services.
- > **Other Services not reported elsewhere (Other)** comprises services not separately classified above, including: Public Health Services including laboratory testing, blood borne viruses / sexually transmitted infections clinical services, Kooris liaison officers, immunisation and screening services, drugs services including drug withdrawal, counselling and the needle and syringe program, Disability services including aids and equipment and flexible support packages to people with a disability, Community Care programs including sexual assault support, early parenting services, parenting assessment and skills development, Health and Community Initiatives also falls in this category group.

NOTE 3: THE COST OF DELIVERING SERVICES

This section provides an account of the expenses incurred by the hospital 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 Analysis of expenses by source
- 3.2 Analysis of expense and revenue by internally managed and restricted specific purpose funds
- 3.3 Finance Costs
- 3.4 Employee Benefits in the Balance Sheet
- 3.5 Superannuation

NOTE 3.1: ANALYSIS OF EXPENSES BY SOURCE

	Admitted Patients 2018 \$'000	Non Admitted 2018 \$'000	EDS 2018 \$'000	Mental Health 2018 \$'000	RAC incl. Mental Health 2018 \$'000	Aged Care 2018 \$'000	Primary Health 2018 \$'000	Other 2018 \$'000	Total 2018 \$'000
Employee Expenses	61,991	9,627	9,665	18,062	3,330	1,723	1,151	12,949	118,498
Other Operating Expenses									
Non Salary Labour Costs	12,524	-	-	-	-	-	-	-	12,524
Supplies and Consumables	14,767	2,312	2,321	639	271	414	278	3,634	24,636
Other Expenses	15,081	2,282	2,283	1,999	190	405	258	3,057	25,555
Total Expenditure from Operating Activities	104,363	14,221	14,269	20,700	3,791	2,542	1,687	19,640	181,213
Finance Costs (refer note 3.3)	-	-	-	-	-	-	-	33	33
Other Non-Operating Expenses									
Expenditure for Capital Purposes	-	-	-	-	-	-	-	152	152
Impairment of Non-Financial Assets	-	-	-	-	-	-	-	-	-
Depreciation (refer note 4.3)	-	-	-	-	-	-	-	14,861	14,861
Total Other Expenses	-	-	-	-	-	-	-	15,046	15,046
Total Expenses	104,363	14,221	14,269	20,700	3,791	2,542	1,687	34,686	196,259

	Admitted Patients 2017 \$'000	Non Admitted 2017 \$'000	EDS 2017 \$'000	Mental Health 2017 \$'000	RAC incl. Mental Health 2017 \$'000	Aged Care 2017 \$'000	Primary Health 2017 \$'000	Other 2017 \$'000	Total 2017 \$'000
Employee Expenses	56,770	9,487	8,428	16,808	3,176	1,739	1,146	11,220	108,774
Other Operating Expenses									
Non Salary Labour Costs	11,800	-	-	7	-	-	-	-	11,807
Supplies and Consumables	12,955	2,194	1,950	634	255	403	267	2,955	21,613
Other Expenses	12,883	2,107	1,861	1,345	182	383	241	2,633	21,635
Total Expenditure from Operating Activities	94,408	13,788	12,239	18,794	3,613	2,525	1,654	16,808	163,829
Finance Costs (refer note 3.3)	-	-	-	-	-	-	-	127	127
Other Non-Operating Expenses									
Expenditure for Capital Purposes	-	-	-	-	-	-	-	164	164
Impairment of Non-Financial Assets	-	-	-	-	-	-	-	10	10
Depreciation (refer note 4.3)	-	-	-	-	-	-	-	12,892	12,892
Total Other Expenses	-	-	-	-	-	-	-	13,193	13,193
Total Expenses	94,408	13,788	12,239	18,794	3,613	2,525	1,654	30,001	177,022

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

NOTE 3.1: ANALYSIS OF EXPENSE BY SOURCE (CONTINUED)

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

Employee expenses

Employee expenses include:

- > Salaries and wages;
- > Fringe benefits tax;
- > Leave entitlements;
- > Termination payments;
- > Work cover premiums; and
- > Superannuation expenses.

Grants and Other Transfers

These include transactions such as: grants, subsidies and personal benefit payments made in cash to individuals.

Other operating expenses

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

- > Supplies and Consumables - Supplies and service 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 expenses when distributed.
- > Fair value of assets, services and resources provided free of charge or for nominal consideration - Contributions of resources provided free of charge or for nominal consideration are recognised at their fair value when the transferee obtains control over them.
- > Borrowing Costs of Qualifying Assets - In accordance with the paragraphs of AASB 123 Borrowing Costs applicable to not-for-profit public sector entities, South West Healthcare continues to recognise borrowing costs immediately as an expense, to the extent that they are directly attributable to the acquisition, construction or production of a qualifying asset.

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 gains/(losses) of non-financial physical assets (refer Note 4.2 Property plant and equipment)
- > Net gain/(loss) on disposal of non-financial assets

Any gain or loss on 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 Investments and other financial assets; and
- > Disposals of financial assets and derecognition of financial liabilities.

Other Gains / (losses) from Other Economic Flows

Other gains/(losses) include:

- a. 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
- b. transfer of amounts from the reserves to accumulated surplus or net result due to disposal or derecognition or reclassification.

Derecognition of Financial Liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

NOTE 3.2: COMMERCIAL ACTIVITIES**Analysis of Expense and Revenue by Internally Managed and Restricted Specific Purpose Funds**

	Expenses		Revenue	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Commercial Activities				
Private Practice Fees	1,819	1,735	1,902	1,847
Linen Service	1,709	1,503	2,004	1,861
Food Services	1,314	1,278	1,451	1,356
Retail Services	913	875	1,063	1,101
Other Activities	738	641	916	771
Total	6,493	6,032	7,336	6,936

NOTE 3.3: FINANCE COSTS

	2018 \$'000	2017 \$'000
Finance Charges on Finance Leases	33	127
TOTAL FINANCE COSTS	33	127

Finance costs are recognised as expenses in the period in which they are incurred.

Finance costs include:

> finance charges in respect of finance leases recognised in accordance with AASB 117 Leases.

NOTE 3.4: EMPLOYEE BENEFITS IN THE BALANCE SHEET

	2018 \$'000	2017 \$'000
Current Provisions		
Employee Benefits (i)		
Annual Leave		
- unconditional and expected to be settled wholly within 12 months (ii)	7,903	7,244
- unconditional and expected to be settled wholly after 12 months (iii)	220	288
Long Service Leave		
- unconditional and expected to be settled wholly within 12 months (ii)	2,147	2,006
- unconditional and expected to be settled wholly after 12 months (iii)	9,983	9,326
Other - Salaries & Wages Accrued & ADO's		
- unconditional and expected to be settled within 12 months (ii)	5,412	4,472
	25,665	23,336
Provisions related to employee benefit on-costs		
- unconditional and expected to be settled wholly within 12 months (ii)	1,557	1,325
- unconditional and expected to be settled wholly after 12 months (iii)	1,516	1,417
	3,073	2,742
Total Current Provisions	28,738	26,078
Non-Current Provisions		
Employee Benefits (i)	2,690	2,193
Provisions related to employee benefit on-costs	336	274
Total Non-Current Provisions	3,026	2,467
Total Provisions	31,764	28,545

NOTE 3.4: EMPLOYEE BENEFITS IN THE BALANCE SHEET (CONTINUED)

	2018 \$'000	2017 \$'000
Current Employee Benefits and Related On-Costs		
Unconditional LSL Entitlement	13,645	12,749
Annual Leave Entitlements	9,384	8,473
Accrued Wages and Salaries	5,473	4,638
Accrued Days Off	236	218
Non-Current Employee Benefits and Related On-Costs		
Conditional Long Service Leave Entitlements (iii)	3,026	2,467
Total Employee Benefits and Related On-Costs	31,764	28,545

	2018 \$'000	2017 \$'000
Movements in Provisions		
Movement in Long Service Leave:		
Balance at start of year	15,216	14,648
Provision made during the year		
- Revaluations	(115)	(185)
- Expense Recognising Employee Service	3,455	2,657
Settlement made during the year	(1,930)	(1,904)
Balance at end of year	16,626	15,216

(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

Employee Benefit Recognition

Provision is made for benefits accruing to employees in respect of wages and salaries, 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 the Health Service has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows, using a discount rate that reflects the time value of money and risks specific to the provision.

Employee Benefits

This provision arises for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave for services rendered to the reporting date.

Salaries and Wages, Annual Leave and Accrued Days Off

Liabilities for wages and salaries, including non-monetary benefits, annual leave, and 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 are measured at:

- > Undiscounted 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)

Liability for 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.

The components of this current LSL liability are measured at:

- > Undiscounted value – if the health service expects to wholly settle within 12 months; and
- > Present value – if the health service does not expect to settle a component of this current liability within 12 months.

Conditional LSL is disclosed as a non-current liability. There is an unconditional right to defer the settlement of the entitlement until the employee has completed the requisite years of service. This non-current LSL liability is measured at present value.

Any gain or loss followed 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 flow.

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 Expense

Provision for on-costs, such as payroll tax, workers compensation and superannuation are recognised separately to provisions for employee benefits.

NOTE 3.5: SUPERANNUATION

	Paid Contributions for the Year		Outstanding Contributions at Year End	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Defined Benefit Plans:				
First State Super (Health Super)	295	336	23	26
State Super Fund	117	113	10	8
Defined Contribution Plans:				
First State Super (Health Super)	6,130	5,970	488	491
Hesta Super fund	2,144	1,956	178	166
Other	262	132	30	14
Total	8,948	8,507	729	705

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 Contribution Superannuation Plans

In relation to defined contributions (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 contribution superannuation plans are expensed when incurred.

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 the

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 plan(s) because the entity 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 of 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 expense in relation to the major employee superannuation funds and contributions made by the Health Services are as follows:

The name and details of the major employee superannuation funds and contributions made by South West Healthcare are disclosed above.

NOTE 4: KEY ASSETS TO SUPPORT SERVICE DELIVERY

The hospital 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 Investments & other financial assests
- 4.2 Property, plant & equipment
- 4.3 Depreciation and amortisation

NOTE 4.1: INVESTMENTS & OTHER FINANCIAL ASSETS

	2018 \$'000	2017 \$'000
CURRENT		
Investments		
Loans & Receivables		
<i>Term Deposit</i>		
Aust. Dollar Term Deposits > 3 Months	7,100	-
Total Current Other Financial Assests	7,100	-
TOTAL INVESTMENTS & OTHER FINANCIAL ASSESTS	7,100	-
Represented by:		
Health Service Funds	7,100	-
TOTAL	7,100	-

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

Investments are classified as loans and receivable assets.

South West Healthcare classifies its other financial assets between current and non-current assets based on the Board of Management'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's investments must comply with Standing Direction 3.7.2 - Treasury and Investment Risk Management.

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.

NOTE 4.2: PROPERTY, PLANT AND EQUIPMENT

(a) Gross carrying amount and accumulated depreciation	2018 \$'000	2017 \$'000
Land		
- Land at Fair Value		
Freehold Land	9,317	9,317
Total Land	9,317	9,317
Buildings		
- Buildings at Fair Value	210,649	205,190
Less Accumulated Depreciation	39,731	28,787
	170,918	176,403
- Buildings Under Construction at Cost	1,074	5,163
	1,074	5,163
- Buildings - Leasehold Improvements at Fair Value	342	355
Less Accumulated Depreciation	117	-
	225	355
Total Buildings	172,217	181,921
Plant and Equipment		
- Plant and Equipment at Fair Value	8,927	8,722
Less Accumulated Depreciation	6,864	6,364
Total Plant and Equipment	2,063	2,358
Medical Equipment		
- Medical Equipment at Fair Value	15,030	14,238
Less Accumulated Depreciation	10,736	9,503
Total Medical Equipment	4,294	4,735
Computers & Communications		
- Computers & Communications at Fair Value	8,737	7,973
Less Accumulated Depreciation	7,092	6,321
Total Computers & Communications	1,645	1,652
Furniture and Fittings		
- Furniture and Fittings at Fair Value	4,025	3,863
Less Accumulated Depreciation	2,711	2,466
Total Furniture and Fittings	1,314	1,397
Motor Vehicles		
- Motor Vehicles at Fair Value	3,182	3,131
Less Accumulated Depreciation	857	647
Total Motor Vehicles	2,325	2,484
Leased Assets		
- Leased Assets at Cost (South West Alliance of Rural Health)	556	830
Less Accumulated Depreciation	-	-
Total Leased Assets	556	830
TOTAL	193,731	204,694

NOTE 4.2: PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Land	Buildings & Buildings under construct.	Plant & Equip.	Medical Equip.	Computers & Comms.	Furniture & Fittings	Motor Vehicles	Leased Assets	Total
(b) Reconciliations of the carrying amounts of each class of asset	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2016	9,329	184,860	2,685	4,430	1,717	1,550	2,200	971	207,742
Additions	-	6,687	196	1,325	510	123	1,314	404	10,559
Disposals	(12)	-	-	-	(27)	-	(676)	-	(715)
Depreciation	-	(9,626)	(523)	(1,020)	(548)	(276)	(354)	(545)	(12,892)
Balance at 30 June 2017	9,317	181,921	2,358	4,735	1,652	1,397	2,484	830	204,694
Additions	-	1,359	201	833	879	163	932	144	4,511
Disposals	-	-	-	-	(3)	-	(610)	-	(613)
Depreciation	-	(11,063)	(484)	(1,275)	(883)	(256)	(482)	(418)	(14,861)
Balance at 30 June 2018	9,317	172,217	2,075	4,293	1,645	1,304	2,324	556	193,731

Land and buildings carried at valuation

An independent valuation of the Health Service's property, plant and equipment was performed by the Valuer-General Victoria to determine the fair value land and buildings. 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 valuation was based on independent assessments. The effective date of the independent valuation was 30 June 2014.

In compliance with FRD 103F, in the year ended 30 June 2018, South West Healthcare's management conducted an annual assessment of the fair value of land and buildings and leased buildings. To facilitate this, management obtained from the Department of Treasury and Finance the Valuer General Victoria indices for the financial year ended 30 June 2018. There was no material financial impact on change in the fair value of land and buildings.

NOTE 4.2: PROPERTY, PLANT & EQUIPMENT (CONTINUED)

(c) Fair value measurement hierarchy for assets as at 30 June 2018	Carrying Amount as at 30 June 2018 \$'000	Fair value measurement at end of reporting period using:		
		Level 1 (i) \$'000	Level 2 (i) \$'000	Level 3 (i) \$'000
Land at Fair Value				
Specialised land	9,317	-	-	9,317
Total of Land at Fair Value	9,317	-	-	9,317
Buildings at Fair Value				
Specialised Buildings	172,217	-	-	172,217
Total of Building at Fair Value	172,217	-	-	172,217
Plant and Equipment at Fair Value				
Plant, Equipment and Vehicles at Fair Value				
- Plant and Equipment	2,075	-	-	2,075
- Medical Equipment	4,293	-	-	4,293
- Computers and Communications	1,645	-	-	1,645
- Furniture and Fittings	1,304	-	-	1,304
- Motor Vehicles	2,324	-	-	2,324
Total of plant, equipment and vehicles at fair value	11,641	-	-	11,641
Leased Assets at Fair Value				
Leased Assets at Fair Value	556	-	-	556
Total Leased Assets at Fair Value	556	-	-	556
TOTAL	193,731			193,731

	Carrying Amount as at 30 June 2017 \$'000	Fair value measurement at end of reporting period using:		
		Level 1 (i) \$'000	Level 2 (i) \$'000	Level 3 (i) \$'000
Land at Fair Value				
Specialised land	9,317	-	-	9,317
Total of Land at Fair Value	9,317	-	-	9,317
Buildings at Fair Value				
Specialised Buildings	181,921	-	-	181,921
Total of Building at Fair Value	181,921	-	-	181,921
Plant and Equipment at Fair Value				
Plant, Equipment and Vehicles at Fair Value				
- Plant and equipment	2,358	-	-	2,358
- Medical equipment	4,735	-	-	4,735
- Computers and Communications	1,652	-	-	1,652
- Furniture and Fittings	1,397	-	-	1,397
- Motor Vehicles	2,484	-	-	2,484
Total of plant, equipment and vehicles at fair value	12,626	-	-	12,626
Leased Assets at Fair Value				
Leased Assets at Fair Value	830	-	-	830
Total Leased Assets at Fair Value	830	-	-	830
TOTAL	204,694			204,694

(i) Classified in accordance with the fair value hierarchy, see Note 1

(ii) Vehicles are categorised to level 3 assets if the depreciated replacement cost is used in estimating the fair value.

There have been no transfers between levels during the period.

NOTE 4.2: PROPERTY, PLANT & EQUIPMENT (CONTINUED)**(d) Reconciliation of Level 3 fair value as at 30 June 2018**

	Land	Buildings & Buildings Under Const.	Plant & Equip.	Medical Equip.	Computures & Comm.	Furniture & Fittings	Motor Vehicles	Leased Assets	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Opening Balance	9,317	181,921	2,358	4,735	1,652	1,397	2,484	830	204,694
Purchases / (Sales) & Reclassifications Transfers in (out) of Level 3	-	1,359	201	833	876	163	322	144	3,898
Gain or losses recognised in net result									
- Depreciation	-	(11,063)	(484)	(1,275)	(883)	(256)	(482)	(418)	(14,861)
Subtotal	9,317	172,217	2,075	4,293	1,645	1,304	2,324	556	193,731
Items recognised in other comprehensive income									
- Revaluation	-	-	-	-	-	-	-	-	-
Subtotal	-	-	-	-	-	-	-	-	-
Closing Balance	9,317	172,217	2,075	4,293	1,645	1,304	2,324	556	193,731

There have been no transfers between levels during the period.

Reconciliation of Level 3 fair value as at 30 June 2017

	Land	Buildings & Buildings Under Const.	Plant & Equip.	Medical Equip.	Computures & Comm.	Furniture & Fittings	Motor Vehicles	Leased Assets	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Opening Balance	9,329	184,860	2,685	4,430	1,717	1,550	2,200	971	207,742
Purchases / (Sales) & Reclassifications	(12)	6,687	196	1,325	483	123	638	404	9,844
Gain or losses recognised in net result									
- Depreciation	-	(9,626)	(523)	(1,020)	(548)	(276)	(354)	(545)	(12,892)
- Impairment loss	-	-	-	-	-	-	-	-	-
Subtotal	9,317	181,921	2,358	4,735	1,652	1,397	2,484	830	204,694
Items recognised in other comprehensive income									
- Revaluation	-	-	-	-	-	-	-	-	-
Subtotal	-	-	-	-	-	-	-	-	-
Closing Balance	9,317	181,921	2,358	4,735	1,652	1,397	2,484	830	204,694

There have been no transfers between levels during the period.

There were no changes in valuation techniques throughout the period to 30 June 2018.

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

NOTE 4.2: (E) PROPERTY, PLANT & EQUIPMENT (Fair Value Determination)

Asset Class	Example of Types of Assets	Expected Fair Value Level	Likely Valuation Approach	Significant Inputs (Level 3 Only)
Specialised land (Crown/Freehold)	- Land subject to restriction as at Level 3 and/or sale - Land in areas where there is not an active market	Level 3	Market approach	Community Service Obligation (CSO)
Specialised Buildings	Specialised buildings with limited Level 3 Depreciated replacement- Cost per square metre	Level 3	Depreciated replacement cost	Cost per square metre Useful life
Vehicles	If there is no active resale market Level 3	Level 3	Market approach	Cost per unit
Plant & Equipment, Furniture & Fittings	Specialised items with limited Level 3 alternative uses and/or substantial customisation	Level 3	Depreciated replacement cost approach	Cost per unit Useful life

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 initial cost for non-financial physical assets under finance lease (refer to Note 6.1) is measured at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease.

Crown land 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 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.

Subsequent Measurement

Consistent with AASB 13 Fair Value Measurement, South West Healthcare determines the policies and procedures for both recurring property, plant and equipment fair value measurements, in accordance with the requirements of AASB 13 and the relevant FRDs.

All property, plant and equipment for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy.

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 the fair value hierarchy as explained above.

For the purpose of fair value disclosures, the Health Service has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

In addition, the Health Service determines whether transfers have occurred between levels in the hierarchy by re-assessing 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's independent valuation agency.

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

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.

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.

Therefore, an assessment of the HBU will be required when the indicators are triggered within a reporting period, which suggest the market participants would have perceived an alternative use of an asset that can generate maximum value. Once identified, *Health Services* are required to engage with VGV or other independent valuers for formal HBU assessment.

These indicators, as a minimum, include:

External factors:

- > Changed acts, regulations, local law or such instrument which affects or may affect the use or development of the asset;
- > Changes in planning scheme, including zones, reservations, overlays that would affect or remove the restrictions imposed on the asset's use from its past use;
- > Evidence that suggest the current use of an asset is no longer core to requirements to deliver a Health Service's service obligation;
- > Evidence that suggests that the asset might be sold or demolished at reaching the late stage of an asset's life cycle.

Valuation hierarchy

Health Services need to use valuation techniques that are appropriate for the circumstances and where there is sufficient data available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy.

NOTE 4.2: PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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.

Assumptions about risk include the inherent risk in a particular valuation technique used to measure fair value (such as a pricing risk model) and the risk inherent in the inputs to the valuation technique. A measurement that does not include an adjustment for risk would not represent a fair value measurement if market participants would include one when pricing the asset or liability i.e., it might be necessary to include a risk adjustment when there is significant measurement uncertainty. For example, when there has been a significant decrease in the volume or level of activity when compared with normal market activity for the asset or liability or similar assets or liabilities, and the Health Service has determined that the transaction price or quoted price does not represent fair value.

A Health Service shall develop unobservable inputs using the best information available in the circumstances, which might include the Health Service's own data. In developing unobservable inputs, a Health Service may begin with its own data, but it shall adjust this data if reasonably available information indicates that other market participants would use different data or there is something particular to the Health Service that is not available to other market participants. A Health Service need not undertake exhaustive efforts to obtain information about other market participant assumptions. However, a Health Service shall take into account all information about market participant assumptions that is reasonably available. Unobservable inputs developed in the manner described above are considered market participant assumptions and meet the object of a fair value measurement.

Specialised land and specialised buildings

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 the health services, 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 2014.

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 is held at carrying value (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 2018.

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

Revaluations of non-current physical assets

Non-Current physical assets are measured at fair value and are revalued in accordance with FRD 103F *Non-current physical assets*. This revaluation process normally occurs at least 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 the 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 derecognition of the relevant asset.

In accordance with FRD 103F South West Healthcare's non-current physical assets were assessed to determine whether revaluation of the non-current physical assets was required.

NOTE 4.3: DEPRECIATION

Depreciation	2018 \$'000	2017 \$'000
Buildings	11,063	9,626
Plant & Equipment	484	522
Medical Equipment	1,275	1,020
Computers & Communications	883	551
Furniture and Fittings	256	276
Motor Vehicles	482	354
Leased Assets	418	543
Total Depreciation	14,861	12,892

All infrastructure assets, buildings, plant and equipment and other non-financial physical assets that have finite useful lives are depreciated. Depreciation begins when the asset is available for use, which is when it is in the location and condition necessary for it to be capable of operating in a manner intended by management.

Depreciation is generally calculated on a straight line basis, at a rate that allocates the asset value, less any estimated residual value over its estimated useful life. Estimates of the remaining useful lives and depreciation method for all assets are reviewed at least annually and adjustments made as appropriate. This depreciation charge is not funded by the Department of Health and Human Services.

Assets with a cost in excess of \$1,000 are capitalised and depreciation has been provided on depreciable assets so as to allocate their cost or valuation over their estimated useful lives.

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

	2018	2017
Buildings		
> Structure Shell Building Fabric	Up to 42 years	Up to 42 years
> Site Engineering Services and Central Plant	Up to 30 years	Up to 30 years
Central Plant		
> Fit Out	Up to 30 years	Up to 30 years
> Trunk Reticulated Building Systems	Up to 30 years	Up to 30 years
Plant & Equipment	Up to 30 years	Up to 30 years
Medical Equipment	Up to 20 years	Up to 20 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 13 years	Up to 13 years
Leasehold Improvements	Up to 10 years	Up to 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.

NOTE 5: OTHER ASSETS AND LIABILITIES

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

STRUCTURE

- 5.1 Receivables
- 5.2 Inventories
- 5.3 Other Liabilities
- 5.4 Prepayment and Other Non-Financial Assets
- 5.5 Payables

NOTE 5.1: RECEIVABLES

	2018 \$'000	2017 \$'000
CURRENT		
Contractual		
Patient Fees	682	542
Trade Debtors	3,220	3,108
South West Alliance of Rural Health	300	2,733
Accrued Investment Income	45	19
Less Allowance for Doubtful Debts	(34)	(40)
	4,213	6,362
Statutory		
GST Receivable	287	376
Accrued Government Grants	1,528	966
	1,815	1,342
Total Current Receivables	6,028	7,704
NON CURRENT		
Statutory		
Long Service Leave - Department of Health / Department of Health and Human Services	4,582	3,460
Total Non-Current Receivables	4,582	3,460
Total Receivables	10,610	11,164
(a) Movement in the Allowance for doubtful debts		
Balance at beginning of year	40	38
Amounts written off during the year	(14)	(18)
Amounts recovered during the year	8	20
Balance at end of year	34	40

Receivables consist of:

- > Contractual receivables, which includes mainly debtors in relation to goods and services, patient fees, accrued investment income, and finance lease receivables; and
- > Statutory receivables, which includes predominantly amounts owing from the Victorian Government and Goods and Services Tax ("GST") input tax credits recoverable.

Receivables that are contractual are classified as financial instruments and categorised as loans and receivables. Statutory receivables are recognised and measured similarly to contractual receivables (except for impairment), but are not classified as financial instruments because they do not arise from a contract.

Receivables are recognised initially at fair value and subsequently measured at amortised cost, using the effective interest rate method, less any accumulated impairment.

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

Collectability of debts is reviewed on an ongoing basis, and debts which are known to be uncollectible are written off.

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.

NOTE 5.2: INVENTORIES

	2018 \$'000	2017 \$'000
Pharmaceuticals at cost	790	640
General Supplies at cost	487	446
Healthcare Shop Supplies at cost	143	136
Bulk Linen Stock - Linen Service at cost	37	98
Linen in Use at Net Realisable Value	416	436
South West Alliance of Rural Health	13	-
Total Inventories	1,886	1,756

Inventories include goods and other property held either for sale, consumption or for distribution at no or nominal cost in the ordinary course of business operations. It excludes depreciable assets.

Inventories acquired for no cost or nominal considerations are measured at current replacement cost at the date of acquisition.

The bases used in assessing loss of service potential for inventories held for distribution include current replacement cost and technical or functional obsolescence. Technical obsolescence occurs when an item still functions for some or all of the tasks it was originally acquired to do, but no longer matches existing technologies. Functional obsolescence occurs when an item no longer functions the way it did when it was first acquired.

Cost for all other inventory is measured on the basis of weighted average cost.

NOTE 5.3: OTHER LIABILITIES

	2018 \$'000	2017 \$'000
Current		
Monies Held in Trust*		
– Patient Trust	69	71
– Accommodation Bonds (Refundable Entrance Fees)	2,413	2,611
Total Other Liabilities	2,482	2,682
Total Monies Held in Trust*		
Represented by the following assets:		
Cash Assets (refer to Note 6.2)	2,482	2,682
Total	2,482	2,682

NOTE 5.4: PREPAYMENT AND OTHER NON-FINANCIAL ASSETS

	2018 \$'000	2017 \$'000
Current		
Prepayments	45	3
Total Other Assests	45	3

Other non-financial assets include prepayments which represent payments in advance of receipt of goods or services or that part of expenditure made in one accounting period covering a term extending beyond that period.

NOTE 5.5: PAYABLES

	2018 \$'000	2017 \$'000
CURRENT		
Contractual		
Trade Creditors	3,932	3,144
Accrued Expenses	4,248	3,939
Creditors – South West Alliance of Rural Health	825	2,965
Amounts payable to governments and agencies	255	472
Income in Advance- South West Alliance of Rural Health	122	165
TOTAL PAYABLES	9,382	10,685

Payables consist of:

- > contractual payables which consist predominantly of accounts payable representing liabilities for goods and services provided to the Health Service prior to the end of the financial year that are unpaid, and arise when the Health Service becomes obliged to make future payments in respect of the purchase of those goods and services. The normal credit terms for accounts payable are usually Nett 30 days.

Note 5.5 (a): 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.

	Total Carrying Amount	Nominal Amount	Maturity Dates			
			Less than 1 month	1–3 months	3 months – 1 year	1–5 years
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
2018						
Financial Liabilities						
<i>At amortised cost</i>						
Payables	9,382	9,382	9,382	-	-	-
Borrowings	564	564	-	-	330	234
Other Financial Liabilities (i)						
– Accommodation Bonds	2,413	2,413	2,413	-	-	-
– Monies in Trust	69	69	69	-	-	-
Total Financial Liabilities	12,428	12,428	11,864		330	234
2017						
Financial Liabilities						
<i>At amortised cost</i>						
Payables	10,685	10,685	10,685	-	-	-
Borrowings	867	867	-	-	392	475
Other Financial Liabilities (i)						
– Accommodation Bonds	2,611	2,611	2,611	-	-	-
– Monies in Trust	71	71	71	-	-	-
Total Financial Liabilities	14,234	14,234	13,367		392	475

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

NOTE 6: HOW WE FINANCE OUR OPERATIONS

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

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

	2018 \$'000	2017 \$'000
CURRENT		
Australian Dollar Borrowings		
– Finance Lease Liability (South West Alliance of Rural Health)	330	392
	392	346
NON CURRENT		
Australian Dollar Borrowings		
– Finance Lease Liability (South West Alliance of Rural Health)	234	475
Total Non Current	234	475
TOTAL BORROWINGS	564	867

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

(a) Maturity analysis of borrowings

Please refer to Note 5.5 (a) for the ageing analysis of borrowings.

(b) Defaults and breaches

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

NOTE 6.1: BORROWINGS (CONTINUED)

Finance leases

Entity as lessee

Finance leases are recognised as assets and liabilities at amounts equal to the fair value of the lease property or, if lower, the present value of the minimum lease payment, each determined at the inception of the lease. The lease asset is accounted for as a non-financial physical asset and is depreciated over the shorter of the estimated useful life of the asset or the term of the lease.

Minimum lease payments are apportioned between 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 comprehensive operating statement.

NOTE 6.2: CASH AND CASH EQUIVALENTS

For the purposes of the Cash Flow Statement, cash assets includes cash on hand and in banks, and short-term deposits which are readily convertible to cash on hand, and are subject to an insignificant risk of change in value, net of outstanding bank overdrafts.

	2018 \$'000	2017 \$'000
Cash on Hand	9	9
Cash at Bank	4,449	6,357
Deposits at Call	5,000	8,500
TOTAL CASH AND CASH EQUIVALENTS	9,458	14,866
Represented by:		
Cash for Health Service Operations (as per Cash Flow Statement)	5,815	11,384
Cash at Bank South West Alliance of Rural Health	1,140	778
Cash for Monies Held in Trust		
– Endowment Fund	22	22
– Deposits at Call	2,481	2,682
TOTAL CASH AND CASH EQUIVALENTS	9,458	14,866

Cash and cash equivalents recognised on the balance sheet comprise cash on hand and cash at bank, deposits at call and highly liquid investments (with an original maturity 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 with an 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.

NOTE 6.3: COMMITMENTS FOR EXPENDITURE

	2018 \$'000	2017 \$'000
(a) Commitments Payable		
Capital Expenditure Commitments		
Plant & Equipment	564	136
Total Capital Expenditure Commitments	564	136
Lease Commitments		
Finance Leases		
Commitments in relation to finance leases are payable as follows:		
Current	854	423
Non-Current	606	499
	1,460	922
Total Lease Commitments	1,460	922
Operating Leases		
Commitments in relation to finance leases are payable as follows:		
Current	139	137
Non-Current	463	453
	602	590
Total Lease Commitments	2,626	1,648
Total Commitments (exclusive of GST)	2,626	1,648
(b) Commitments Payable		
Nominal Values		
Capital expenditure commitments payable		
Less than 1 year	620	150
Total Capital expenditure commitments	620	150
Lease commitments payable		
Less than 1 year	1,092	616
Longer than 1 year but not longer than 5 years	1,176	1,047
Total lease commitments	2,268	1,663
Total Commitments (inclusive of GST)	2,889	1,813
Less GST recoverable from the Australian Tax Office	263	165
Total Commitments (exclusive of GST)	2,626	1,648

Commitments for future expenditure include operating and capital commitments arising from contracts. These commitments are disclosed by way of a note at their nominal value and are inclusive of the goods and services tax ("GST") payable. In addition, where it is considered appropriate and provides additional relevant information to users, the net present values of significant individual 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 hospital 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 hospital is related mainly to fair value determination.

STRUCTURE 7.1 Financial instruments	7.2 Contingent assets and contingent liabilities
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NOTE 7.1: FINANCIAL INSTRUMENTS**(a) 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*.

Categorisation of financial instruments	Contractual financial assets - loans and receivables \$'000	Contractual financial liabilities at amortised cost \$'000	Total \$'000
2018			
Contractual Financial Assets			
Cash and cash equivalents	9,458	-	9,458
Receivables			
– Trade debtors	3,220	-	3,220
– Other receivables	994	-	994
– Investments & Financial Assets - Term Deposits	7,100	-	7,100
Total Financial Assets (i)	20,772	-	20,772
Financial Liabilities			
Payables	-	9,382	9,382
Borrowings	-	564	564
Other Financial Liabilities			
– Accommodation bonds	-	2,413	2,413
– Other	-	69	69
Total Financial Liabilities (ii)	-	12,428	12,428

Categorisation of financial instruments	Contractual financial assets - loans and receivables \$'000	Contractual financial liabilities at amortised cost \$'000	Total \$'000
2017			
Contractual Financial Assets			
Cash and cash equivalents	14,866	-	14,866
Receivables			
– Trade debtors	3,108	-	3,108
– Other receivables	3,254	-	3,254
Total Financial Assets (i)	21,228	-	21,228
Financial Liabilities			
Payables	-	10,685	10,685
Borrowings	-	867	867
Other Financial Liabilities			
– Accommodation bonds	-	2,611	2,611
– Other	-	71	71
Total Financial Liabilities (ii)	-	14,234	14,234

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

NOTE 7.1: FINANCIAL INSTRUMENTS (CONTINUED)

	Interest Income (Expense) 2018 \$'000	Interest Income (Expense) 2017 \$'000
(b) Net holding gain/(loss) on financial instruments by category		
Financial Assets		
Cash and Cash Equivalents (i)	379	373
Total Financial Assets	379	373
Financial Liabilities		
At amortised cost (ii)	33	127
Total Financial Liabilities	33	127

(i) For cash and cash equivalents, loans or receivables and available-for-sale financial assets, the net gain or loss is calculated by taking the movement in the fair value of the asset, interest revenue, plus or minus foreign exchange gains or losses arising from revaluation of the financial assets, and minus any impairment recognised in the net result;

(ii) For financial liabilities measure at amortised cost, the net gain or loss is calculated by taking the interest expense, plus or minus foreign exchange gains or losses arising from the revaluation of financial liabilities measured at amortised cost.

CATEGORIES OF FINANCIAL INSTRUMENTS**Loans and receivables**

Loans and receivables are financial instrument assets with fixed and determinable payments that are not quoted on an active market. These assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial measurement, loans and receivables are measured at amortised cost using the effective interest method, less any impairment.

Loans and receivables category includes cash and deposits (refer to Note 6.1), term deposits with maturity greater than three months, trade receivables, loans and other receivables, but not statutory receivables.

Financial Liabilities at amortised cost

Financial instrument liabilities 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.

Financial instrument liabilities measured at amortised cost include all of the Health Service's contractual payables, deposits held and advances received, and interest-bearing arrangements other than those designated at fair value through profit or loss.

NOTE 7.2: CONTINGENT ASSETS AND CONTINGENT LIABILITIES

Contingent assets and contingent liabilities are not recognised in the Balance Sheet, but are disclosed by way of note and, if quantifiable, are measured at nominal value. Contingent assets and contingent liabilities are presented inclusive of GST receivable or payable respectively.

There are no known other contingent assets or liabilities for South West Healthcare at the date of this report.

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 Equity
- 8.2 Reconciliation of net result for the year to net cash inflow/(outflow) from operating activities
- 8.3 Responsible persons disclosures
- 8.4 Executive officer disclosures
- 8.5 Related parties
- 8.6 Remuneration of auditors
- 8.7 AASBs issued that are not yet effective
- 8.8 Events occurring after the balance sheet date
- 8.9 Jointly controlled operations
- 8.10 Alternative presentation of comprehensive operating statement
- 8.11 Economic Dependency

NOTE 8.1: EQUITY

	2018 \$'000	2017 \$'000
(a) Surpluses		
Property, Plant & Equipment Revaluation Surplus¹		
Balance at the beginning of the reporting period		
– Land	5,035	5,035
– Buildings	51,678	51,678
Balance at the end of the reporting period	56,713	56,713
(b) Restricted Specific Purpose Surplus		
Balance at the beginning of the reporting period		
	22	22
Balance at the end of the reporting period		
	22	22
Total Surpluses	56,735	56,735
Contributed Capital		
Balance at the beginning of the reporting period		
	76,744	76,744
Capital Contribution received from Victorian Government		
	-	-
Balance at the end of the reporting period	76,744	76,744
(c) Accumulated Surpluses / (Deficits)		
Balance at the beginning of the reporting period		
	56,227	60,426
Net Result for the Year		
	(11,067)	(4,199)
Balance at the end of the reporting period	45,160	56,227
Total Equity at end of financial year	178,639	189,706

(1) The property, plant and equipment asset revaluation surplus arises on the revaluation of property, plant and equipment.

NOTE 8.1: EQUITY (CONTINUED)**(c) Accumulated Surpluses/(Deficits)****Contributed Capital**

Consistent with Australian Accounting Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities* and FRD 119A *Contributions by Owners*, appropriations for additions to the net asset base have been designated as contributed capital. Other transfers that are in the nature of contributions to or distributions by owners, that have been designated as contributed capital are also treated as contributed capital.

Transfers of net assets arising from administrative restructurings are treated as contributions by owners. Transfers of net liabilities arising from administrative restructures are to go through the comprehensive operating statement.

Property, Plant and Equipment Revaluation Surplus

The asset revaluation surplus is used to record increments and decrements on the revaluation of non-current physical assets.

Specific Restricted Purpose Surplus

A specific restricted purpose surplus is established where the Health Service has possession or title to the funds but has no discretion to amend or vary the restriction and/or condition underlying the funds received.

NOTE 8.2: RECONCILIATION OF NET RESULT FOR THE YEAR TO NET CASH INFLOW / (OUTFLOW) FROM OPERATING ACTIVITIES

	2018 \$'000	2017 \$'000
NET RESULT FOR THE PERIOD	(11,067)	(4,199)
Non Cash Movements		
Non Cash Revenue- Assets received from Department of Health & Human Services (DHHS) and Dental Health Services Victoria.	(329)	(924)
Depreciation	14,861	12,892
Movements included in investing and financing activities		
Net (Gain) / Loss from Sale of Plant & Equipment	128	(60)
Movements in assets and liabilities		
Change in Operating Assets & Liabilities		
– (Increase) / Decrease in Receivables	922	(3,390)
– (Increase) / Decrease in Other Assets	(459)	343
– Increase / (Decrease) in Payables	(1,969)	2,707
– Increase / (Decrease) in Provisions	3,021	1,917
– (Increase) / Decrease in Other Liabilities	535	(2,110)
– (Increase) / Decrease in Inventories	(115)	(152)
NET CASH INFLOW / (OUTFLOW) FROM OPERATING ACTIVITIES	5,528	7,024

NOTE 8.3: RESPONSIBLE PERSON DISCLOSURES

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

	Period
Responsible Ministers:	
The Honourable Jill Hennessy, Minister for Health, Minister for Ambulance Services	01/07/2017 – 30/06/2018
The Honourable Martin Foley, Minister for Mental Health, Minister for Housing, Disability and Ageing	01/07/2017 – 30/06/2018
Governing Board:	
Mr. J. Maher	01/07/2017 – 30/06/2018
Mrs. N. Allen	01/07/2017 – 30/06/2018
Mr. G. Toogood	01/07/2017 – 30/06/2018
Mr. S. Callaghan	01/07/2017 – 30/06/2018
Mr. B. Brown	01/07/2017 – 30/06/2018
Mr. R. Worland	01/07/2017 – 30/06/2018
Mr. R. Montgomery	01/07/2017 – 30/06/2018
Mrs. J. Waterhouse	01/07/2017 – 30/06/2018
Mrs. B. Northeast	01/07/2017 – 30/06/2018
Ms. K. Gaston	01/07/2017 – 30/06/2018
Accountable Officer:	
Mr C. Fraser	01/07/2017 – 30/06/2018

Remuneration of Responsible Persons

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

	2018 \$'000	2017 \$'000
Income Band		
\$0 – \$9,999	10	10
\$270,000 – \$279,999	1	-
\$390,000 – \$399,999	-	1
Total Numbers	11	11
Total remuneration received or due and receivable by		
Responsible Persons from the reporting entity amounted to:	277	373

Amounts relating to Responsible Ministers are reported in the financial statements of the Department of Premier and Cabinet.

NOTE 8.4: EXECUTIVE OFFICER DISCLOSURES**Remuneration of executive officers**

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.

	Total Remuneration	
	2018 \$'000	2017 (a) \$'000
Short-term employee benefits	927	1,105
Post-employment benefits	91	120
Other long-term benefits	24	36
Total Remuneration (b)	1,042	1,261
Total Number of Executives (c)	7	6
Total Annualised Employee Equivalent (AEE) (d)	5.60	6

(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 8.5).

(ii) Annualised employee equivalent is based on the time fraction worked over the reporting period. This is calculated as the total number of days 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 - Equivalent of 40 hours per week).

NOTE 8.5: RELATED PARTIES

The hospital 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; and
- > 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.

Key management personnel (KMP) are those people with the authority and responsibility for planning, directing and controlling the activities of the Health Service and its controlled entities, directly or indirectly.

The Board of Directors and the Executive Directors of South West Healthcare and its controlled entities are deemed to be KMPs.

Entity	KMP's	Position Title
South West Healthcare	Mr. J. Maher	Chair of the Board
South West Healthcare	Mrs. N. Allen	Board Member
South West Healthcare	Mr. G. Toogood	Board Member
South West Healthcare	Mr. S. Callaghan	Board Member
South West Healthcare	Mr. B. Brown	Board Member
South West Healthcare	Mr. R. Worland	Board Member
South West Healthcare	Mr. R. Montgomery	Board Member
South West Healthcare	Mrs. J. Waterhouse	Board Member
South West Healthcare	Mrs. B. Northeast	Board Member
South West Healthcare	Ms. K. Gaston	Board Member
South West Healthcare	Mr. C. Fraser	Chief Executive Officer
South West Healthcare	Mr. A. Trigg	Director of Financial Operations and Performance
South West Healthcare	Dr. P. O'Brien	Director of Medical Services (Resigned 18/08/17)
South West Healthcare	Dr. N. Van Zyl	Director of Medical Services (Commenced 08/01/18)
South West Healthcare	Ms. J. Clift	Director of Nursing
South West Healthcare	Mr. J. Brennan	Director of Service Development
South West Healthcare	Ms. K. Cook	Director Mental Health Services
South West Healthcare	Ms. K. Anderson	Director Primary and Community Services

COMPENSATION

	2018 \$'000	2017 (a) \$'000
Short term employee benefits (i)	1,175	1,422
Post-employment benefits	112	189
Other long-term benefits	31	47
Total (ii)	1,318	1,658

(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 8.3 Responsible Persons or Note 8.4 Remuneration of Executives.

Significant 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 and amounts disclosed below, there were no related party transactions that involved key management personnel and their close family members. No provision has been required, nor any expense recognised, for impairment of receivables from related parties.

Other Transactions of Responsible Persons and their Related Parties

Mr S. Callaghan is a director of Callaghan Motors which provides repairs, maintenance and purchase of motor vehicles on normal commercial terms and conditions.

	2018 \$'000	2017 \$'000
	327	291

Significant transactions with government-related entities

South West Healthcare received funding from the Department of Health and Human Services of \$142,900,189 (2017 \$133,270,872).

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.

Treasury Risk Management Directions require the Health Service to hold cash (in excess of working capital) and investments, and source all borrowings from Victorian Public Financial Corporations.

NOTE 8.6: REMUNERATION OF AUDITORS

	2018 \$'000	2017 \$'000
Victorian Auditor-General's Office		
Audit of Financial Statement	46	45
	46	45
Other Providers		
Internal Audit Services	60	43
	60	43

NOTE 8.7: AASBs ISSUED THAT ARE NOT YET EFFECTIVE

Certain new Australian accounting standards have been published that are not mandatory for 30 June 2018 reporting period. DFT assesses the impact of all these new standards and advises South West Healthcare of their applicability and early adoption where applicable.

As at 30 June 2018, 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 9 <i>Financial Instruments</i>	The key changes introduced by AASB 9 include simplified requirements for the classification and measurement of financial assets, a new hedge accounting model and a revised impairment loss model to recognise expected impairment losses earlier, as opposed to the current approach that recognises impairment only when incurred.	1 Jan 2018	The assessment has identified the amendments are likely to result in earlier recognition of impairment losses and at more regular intervals. The initial application of AASB 9 is not expected to significantly impact the financial position however there will be a change to the way financial instruments are classified and new disclosure requirements.
AASB 2014-1 <i>Amendments to Australian Accounting Standards [Part E Financial Instruments]</i>	Amends various AASs to reflect the AASB's decision to defer the mandatory application date of AASB 9 to annual reporting periods beginning on or after 1 January 2018, and to amend reduced disclosure requirements.	1 Jan 2018	<i>This amending standard will defer the application period of AASB 9 to the 2018-19 reporting period in accordance with the transition requirements.</i>
AASB 2014-7 <i>Amendments to Australian Accounting Standards arising from AASB 9</i>	Amends various AASs to incorporate the consequential amendments arising from the issuance of AASB 9.	1 Jan 2018	The assessment has indicated there will be no significant impact for the public sector.
AASB 15 <i>Revenue from Contracts with Customers</i>	The core principle of AASB 15 requires an entity to recognise revenue when the entity satisfies a performance obligation by transferring a promised good or service to a customer. Note that amending standard AASB 2015-8 <i>Amendments to Australian Accounting Standards - Effective Date of AASB 15</i> has deferred the effective date of AASB 15 to annual reporting periods beginning on or after 1 January 2018, instead of 1 January 2017.	1 Jan 2018	The changes in revenue recognition requirements in AASB 15 may result in changes to the timing and amount of revenue recorded in the financial statements. The standard will also require additional disclosures on service revenue and contract modifications.
AASB 2014-5 <i>Amendments to Australian Accounting Standards arising from AASB 15</i>	Amends the measurement of trade receivables and the recognition of dividends as follows: > Trade receivables that do not have a significant financing component, are to be measured at their transaction price at initial recognition. > Dividends are recognised in the profit and loss only when: – the entity's right to receive payment of the dividend is established; – it is probable the economic benefits associated with the dividend will flow to the entity; and – the amount can be measured reliably.	01/01/2018 except amendments to AASB 9 (Dec 2009) and AASB 9 (Dec 2010) apply from 1 Jan 2018	The assessment has indicated there will be no significant impact for the public sector.
AASB 2015-8 <i>Amendments to Australian Accounting Standards - Effective Date of AAS 15</i>	This standards defers the mandatory effective date of AASB 15 from 1 January 2017 to 1 January 2018.	1 Jan 2018	This amending standard will defer the application period of AASB 15 for for-profit entities to the 2018-19 reporting period in accordance with the transition requirements.
AASB 2016-3 <i>Amendments to Australian Accounting Standards - Clarifications to AASB 15</i>	This Standard amends AASB 15 to clarify the requirements on identifying performance obligations, principal versus agent considerations and the timing of recognising revenue from granting a licence. The amendments require: > A promise to transfer to a customer a good or service that is 'distinct' to be recognised as a separate performance obligation; > For items purchased online, the entity is a principal if it obtains control of the good or service prior to transferring to the customer; and > For licences identified as being distinct from other goods or services in a contract, entities need to determine whether the licence transfers to the customer over time (right to use) or at a point in time (right to access).	1 Jan 2018	The assessment has indicated there will be no significant impact for the public sector, other than the impact identified for AASB 15 above.

Topic	Key requirements	Effective date	Impact on financial statements
AASB 2016-7 <i>Amendments to Australian Accounting Standards - Deferral of AASB 15 for Not-for-Profit-Entities</i>	This Standard defers the mandatory effective date of AASB 15 for not-for-profit-entities from 1 January 2018 to 1 January 2019.	1 Jan 2019	The amending standard will defer the application period of AASB 15 for not-for-profit entities to the 2019-20 reporting period.
AASB 2016-8 <i>Amendments to Australian Accounting Standards - Australian Implementation Guidance for Not-for-Profit-Entities</i>	AASB 2016-8 inserts Australian requirements and authoritative implementation guidance for not-for-profit-entities into AASB 9 and AASB 15. This Standard amends AASB 9 and AASB 15 to include requirements to assist not-for-profit entities in applying the respective standards to particular transactions and events.	1 Jan 2019	This standard clarifies the application of AASB 15 and AASB 9 in a not-for-profit context. The areas within these standards that are amended for not-for-profit application include: AASB 9 > Statutory receivables are recognised and measured similarly to financial assets. AASB 15 > The "customer" does not need to be the recipient of goods and/or services; > The "contract" could include an arrangement entered into under the direction of another party; > Contracts are enforceable if they are enforceable by legal or "equivalent means"; > Contracts do not have to have commercial substance, only economic substance; and > Performance obligations need to be "sufficiently specific" to be able to apply AASB 15 to these transactions.
AASB 16 <i>Leases</i>	The key changes introduced by AASB 16 include the recognition of operating leases (which are currently not recognised) on balance sheet.	1 Jan 2019	The assessment has indicated that most operating leases, with the exception of short term and low value leases will come on to the balance sheet and will be recognised as right of use assets with a corresponding lease liability. In the operating statement, the operating lease expense will be replaced by depreciation expense of the asset and an interest charge. There will be no change for lessors as the classification of operating and finance leases remains unchanged.
AASB 1058 <i>Income of Not-for-Profit-Entities</i>	AASB 1058 standard will replace the majority of income recognition in relation to government grants and other types of contributions requirements relating to public sector not-for-profit entities, previously in AASB 1004 <i>Contributions</i> . The restructure of administrative arrangement will remain under AASB 1004 and will be restricted to government entities and contributions by owners in a public sector context. AASB 1058 establishes principles for transactions that are not within the scope of AASB 15, where the consideration to acquire an asset is significantly less than fair value to enable not-for-profit entities to further their objective.	1 Jan 2019	The current revenue recognition for grants is to recognise revenue up front upon receipt of the funds. This may change under AASB 1058, as capital grants for the construction of assets will need to be deferred. Income will be recognised over time, upon completion and satisfaction of performance obligations for assets being constructed, or income will be recognised at a point in time for acquisition of assets. The revenue recognition for operating grants will need to be analysed to establish whether the requirements under other applicable standards need to be considered for recognition of liabilities (which will have the effect of deferring the income associated with these grants). Only after that analysis would it be possible to conclude whether there are any changes to operating grants. The impact on current revenue recognition of the changes is the phasing and timing of revenue recorded in the profit and loss statement.

The following accounting pronouncements are also issued but not effective for the 2017-18 reporting period. At this stage, the preliminary assessment suggests they may have insignificant impacts on public sector reporting.

- > AASB 2016-5 Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions
- > AASB 2016-6 Amendments to Australian Accounting Standards – Applying AASB 9 Financial Instruments with AASB 4 Insurance Contracts
- > AASB 2017-1 Amendments to Australian Accounting Standards – Transfers of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments
- > AASB 2017-3 Amendments to Australian Accounting Standards – Clarifications to AASB 4

- > AASB 2017-4 Amendments to Australian Accounting Standards – Uncertainty over Income Tax Treatments
- > AASB 2017-5 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections
- > AASB 2017-6 Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation
- > AASB 2017-7 Amendments to Australian Accounting Standards – Long-term Interests in Associates and Joint Ventures
- > AASB 2018-1 Amendments to Australian Accounting Standards – Annual Improvements 2015 – 2017 Cycle
- > AASB 2018-2 Amendments to Australian Accounting Standards – Plan Amendments, Curtailment or Settlement

NOTE 8.8: EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

Assets, liabilities, income or expenses arise from past transactions or other past events. Where the transactions result from an agreement between the Health Service and other parties, the transactions are only recognised when the agreement is irrevocable at or before the end of the reporting period. Adjustments are made to amounts recognised in the financial statements for events which occur between the end of the reporting period and the date when the financial statements are authorised for issue, where those events provide information about conditions which existed at the reporting date. Note disclosure is made about events between the end of the reporting period and the date the financial statements are authorised for issue where the events relate to conditions which arose after the end of the reporting period that are considered to be of material interest.

There have been no material events which have occurred subsequent to the reporting date which require further disclosure.

NOTE 8.9: JOINTLY CONTROLLED OPERATIONS AND ASSETS

Name of Entity	Principal Activity	Ownership Interest	
		2018	2017
		%	%
South West Alliance of Rural Health	Information Systems	15.45	14.83

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

	2018 \$'000	2017 \$'000
Current Assets		
Cash and Cash Equivalents	1,140	777
Receivables	300	2,733
Inventories	13	3
Total Current Assets	1,453	3,513
Non Current Assets		
Property, Plant & Equipment	608	889
Total Non Current Assets	608	889
Total Assets	2,061	4,402
Current Liabilities		
Payables	947	3,130
Provisions	244	254
Lease Liabilities	331	392
Total Current Liabilities	1,522	3,776
Non Current Liabilities		
Provisions	45	44
Lease Liabilities	234	475
Total Non Current Liabilities	279	519
Total Liabilities	1,801	4,295

NOTE 8.9: JOINTLY CONTROLLED OPERATIONS AND ASSETS (CONTINUED)

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

	2018 \$'000	2017 \$'000
Revenues		
Other Revenue	3,655	3,355
Total Revenue	3,655	3,355
Expenses		
Employee Expenses	1,222	965
Maintenance Contracts & IT Support	1,631	1,627
Software Licence costs		
Other	294	134
Total Operating Expenses	3,147	2,726
Net Result Before Capital & Specific Items	508	629
Depreciation	(418)	(545)
Finance Lease Costs	(33)	(127)
Impairment Non Financial Assets	-	(10)
Other Items	95	73
Total Capital & Specific Items	(356)	(609)
Revaluation of Long Service Leave	0	6
Net Result	152	26

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 8.10: ALTERNATIVE PRESENTATION OF COMPREHENSIVE OPERATING STATEMENT

	2018 \$'000	2017 \$'000
Grants	159,950	143,641
Interest	379	373
Other Income	24,876	28,684
Revenue from Transactions	185,205	172,698
Employee Expenses	118,498	108,774
Other Expenses	62,900	55,356
Depreciation	14,861	12,892
Expenses from Transactions	196,259	177,022
Net Result From Transactions	(11,054)	(4,324)
Other economic flows included in net result		
Net gain / (loss) on sale of non-financial assets	(128)	(60)
Other Gains / (Losses) from other economic flows included in net result	115	185
Total other economic flows included in net result	(13)	125
NET RESULT FOR THE YEAR	(11,067)	(4,199)

NOTE 8.11: ECONOMIC DEPENDENCY

The Health Service 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 the Health Service.