

Financial Statements

4



Sunshine Coast Hospital and Health Service
Contents and financial statements preparation information
30 June 2019

Contents

| | |
|---|----|
| Statement of comprehensive income | 3 |
| Statement of financial position | 4 |
| Statement of changes in equity | 5 |
| Statement of cash flows | 6 |
| Notes to the financial statements | 7 |
| Management certificate | 43 |
| Independent auditor's report Sunshine Coast Hospital and Health Service | 44 |

General Information

Sunshine Coast Hospital and Health Service ("SCHHS") was established on 1 July 2012 as a statutory body under the *Hospital and Health Boards Act 2011*.

SCHHS is controlled by the State of Queensland which is the ultimate parent.

The head office and principal place of business of SCHHS is:

Sunshine Coast University Hospital
6 Doherty Street
Birtinya
QLD 4575

For further information in relation to the financial statements, please call 07 5202 0017, email SCHHS-CFO@health.qld.gov.au or visit SCHHS website at <http://www.health.qld.gov.au/sunshinecoast>.

Authorisation of Financial Statements for Issue

The financial statements are authorised for issue by the Chief Executive and the Acting Chief Finance Officer, of the Sunshine Coast Hospital and Health Service, and, the Board Chair of the Sunshine Coast Hospital and Health Board, as at the date of signing the Management Certificate.

Sunshine Coast Hospital and Health Service
Contents and financial statements preparation information

30 June 2019

Statement of compliance

SCHHS has prepared these financial statements in compliance with section 62 (1) of the *Financial Accountability Act 2009* and section 43 of the *Financial and Performance Management Standard 2009*.

These financial statements are general purpose financial statements and have been prepared on an accrual basis in accordance with Australian Accounting Standards and Interpretations. In addition, the financial statements comply with Queensland Treasury's Financial Reporting Requirements for Queensland Government Agencies for the year ending 30 June 2019 and other authoritative pronouncements.

With respect to compliance with Australian Accounting Standards and Interpretations, as SCHHS is a not-for-profit statutory body it has applied those requirements applicable to not-for-profit entities. Except where stated, the historical cost convention is used.

New, revised or amended Accounting Standards or Interpretations that are not yet mandatory are only adopted early when mandated by Queensland Treasury.

Basis of financial statements preparation

Reporting entity

The financial statements cover the Sunshine Coast Hospital and Health Service as an individual entity.

Comparative information reflects the audited 2018 financial statements except where restated to conform with 2019 presentation.

Rounding, comparatives and accounting policies

The financial report is presented in Australian dollars, which is the functional and presentation currency of SCHHS. Amounts in this report have been rounded off to the nearest thousand dollars, or in certain cases, the nearest dollar.

Accounting policies are specified in the Notes and should be read in conjunction with the numerical information and other disclosures.

Current and non-current classification

Assets and liabilities are classified as either 'current' or 'non-current' in the Statement of financial position and associated notes.

Assets are classified as 'current' where their carrying amount is expected to be realised within 12 months after the reporting date.

Liabilities are classified as 'current' when they are due to be settled within 12 months after the reporting date, or SCHHS does not have an unconditional right to defer settlement to beyond 12 months after the reporting date. All other assets and liabilities are classified as non-current.

Sunshine Coast Hospital and Health Service
Statement of comprehensive income
For the year ended 30 June 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|---|--------|--------------------|--------------------|
| Income | | | |
| Health service funding | 2 | 1,122,196 | 1,082,392 |
| User charges | 3 | 72,660 | 68,535 |
| Grants and other contributions | 4 | 47,368 | 34,341 |
| Other revenue | | 12,455 | 7,629 |
| Gains on asset disposals | | 155 | 1,469 |
| Total income | | <u>1,254,834</u> | <u>1,194,366</u> |
| Expenses | | | |
| Employee expenses | 5 | (793,680) | (730,429) |
| Supplies and services | 6 | (322,477) | (328,882) |
| Grants and subsidies | | (74) | (46) |
| Depreciation and amortisation | 12, 13 | (117,912) | (106,684) |
| Impairment losses | | (849) | (781) |
| Interest expense | 20 | (27,881) | (27,599) |
| Other expenses | 7 | (14,143) | (13,879) |
| Total expenses | | <u>(1,277,016)</u> | <u>(1,208,300)</u> |
| Operating result for the year | | <u>(22,182)</u> | <u>(13,934)</u> |
| Other comprehensive income | | | |
| <i>Items that will not be reclassified subsequently to operating result</i> | | | |
| Increase in the asset revaluation surplus | 18 | 86,301 | 185,536 |
| Other comprehensive income for the year | | <u>86,301</u> | <u>185,536</u> |
| Total comprehensive income for the year | | <u>64,119</u> | <u>171,602</u> |

The above statement of comprehensive income should be read in conjunction with the accompanying notes

Sunshine Coast Hospital and Health Service
Statement of financial position
As at 30 June 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|--------------------------------------|------|------------------|------------------|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | 10 | 85,668 | 78,459 |
| Trade and other receivables | 11 | 27,844 | 38,356 |
| Inventories | | 5,490 | 5,156 |
| Other assets | | 3,282 | 2,258 |
| Total current assets | | <u>122,284</u> | <u>124,229</u> |
| Non-current assets | | | |
| Property, plant and equipment | 12 | 1,988,192 | 1,995,944 |
| Intangibles | 13 | 7,901 | 12,391 |
| Total non-current assets | | <u>1,996,093</u> | <u>2,008,335</u> |
| Total assets | | <u>2,118,377</u> | <u>2,132,564</u> |
| Liabilities | | | |
| Current liabilities | | | |
| Trade payables | 14 | 68,306 | 71,784 |
| Interest bearing liability | 15 | 8,300 | 7,625 |
| Accrued employee benefits | 16 | 32,824 | 29,498 |
| Unearned revenue | 17 | 16,616 | 13,288 |
| Total current liabilities | | <u>126,046</u> | <u>122,195</u> |
| Non-current liabilities | | | |
| Interest bearing liability | 15 | 512,362 | 520,662 |
| Unearned revenue | 17 | 83,162 | 84,267 |
| Total non-current liabilities | | <u>595,524</u> | <u>604,929</u> |
| Total liabilities | | <u>721,570</u> | <u>727,124</u> |
| Net assets | | <u>1,396,807</u> | <u>1,405,440</u> |
| Equity | | | |
| Contributed equity | | 1,120,318 | 1,193,070 |
| Asset revaluation surplus | 18 | 291,161 | 204,860 |
| Accumulated surpluses | | (14,672) | 7,510 |
| Total equity | | <u>1,396,807</u> | <u>1,405,440</u> |

The above statement of financial position should be read in conjunction with the accompanying notes

Sunshine Coast Hospital and Health Service
Statement of changes in equity
For the year ended 30 June 2019

| | Contributed equity \$'000 | Asset revaluation surplus \$'000 | Accumulated surpluses \$'000 | Total equity \$'000 |
|--|--|---|---|------------------------------------|
| Balance at 1 July 2017 | 1,277,610 | 19,324 | 21,444 | 1,318,378 |
| Result for the year | - | - | (13,934) | (13,934) |
| Other comprehensive income for the year | - | 185,536 | - | 185,536 |
| Total comprehensive income for the year | - | 185,536 | (13,934) | 171,602 |
| <i>Transactions with owners in their capacity as owners:</i> | | | | |
| Equity injections * | 22,399 | - | - | 22,399 |
| Equity withdrawals | (106,939) | - | - | (106,939) |
| Balance at 30 June 2018 | 1,193,070 | 204,860 | 7,510 | 1,405,440 |
| | Contributed equity \$'000 | Asset revaluation surplus \$'000 | Accumulated surpluses \$'000 | Total equity \$'000 |
| Balance at 1 July 2018 | 1,193,070 | 204,860 | 7,510 | 1,405,440 |
| Result for the year | - | - | (22,182) | (22,182) |
| Other comprehensive income for the year | - | 86,301 | - | 86,301 |
| Total comprehensive income for the year | - | 86,301 | (22,182) | 64,119 |
| <i>Other comprehensive income for the year</i> | | | | |
| Equity injections * | 46,510 | - | - | 46,510 |
| Equity withdrawals | (119,262) | - | - | (119,262) |
| Balance at 30 June 2019 | 1,120,318 | 291,161 | (14,672) | 1,396,807 |

*Includes the assets and liabilities associated with SCUH transferred from the Department of Health - see Note 24.

The above statement of changes in equity should be read in conjunction with the accompanying notes

Sunshine Coast Hospital and Health Service
Statement of cash flows
For the year ended 30 June 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|---|------|----------------------|----------------------|
| Cash flows from operating activities | | | |
| Health service funding | | 1,028,139 | 966,274 |
| User charges | | 73,133 | 62,285 |
| Grants and other contributions | | 37,957 | 24,979 |
| Interest received | | 153 | 98 |
| GST collected from customers | | 6,230 | 6,507 |
| GST input tax credits | | 28,332 | 27,666 |
| Other revenue | | 8,498 | 5,236 |
| Employee expenses | | (790,354) | (727,619) |
| Supplies and services | | (320,291) | (320,584) |
| Grants and subsidies | | (74) | (46) |
| GST paid to suppliers | | (26,547) | (28,691) |
| GST remitted | | (6,086) | (6,414) |
| Interest expense | | (28,019) | (27,371) |
| Other expenses | | (14,040) | (13,611) |
| Net cash from/(used by) operating activities | 8 | <u>(2,969)</u> | <u>(31,291)</u> |
| Cash flows from investing activities | | | |
| Proceeds from disposal of property, plant and equipment | | 155 | 7,653 |
| Payments for property, plant and equipment* | | (19,562) | (37,350) |
| Payments for intangibles | | (3,890) | (2,536) |
| Net cash from/(used by) investing activities | | <u>(23,297)</u> | <u>(32,233)</u> |
| Cash flows from financing activities | | | |
| Proceeds from equity injections | | 41,100 | 28,424 |
| Borrowing redemptions | | (7,625) | (6,941) |
| Net cash from/(used by) financing activities | | <u>33,475</u> | <u>21,483</u> |
| Net increase/(decrease) in cash held | | <u>7,209</u> | <u>(42,041)</u> |
| Cash and cash equivalents at the beginning of the financial year | | <u>78,459</u> | <u>120,500</u> |
| Cash and cash equivalents at the end of the financial year | 10 | <u><u>85,668</u></u> | <u><u>78,459</u></u> |

* Non-cash acquisitions of property, plant and equipment of \$3.253m (2018: \$0.121 m), primarily due to an incentive on a property lease, have been excluded from this line.

The above statement of cash flows should be read in conjunction with the accompanying notes

Sunshine Coast Hospital and Health Service
Notes to the financial statements
30 June 2019

| | |
|---|----|
| Note 1. Critical accounting judgements, estimates and assumptions | 8 |
| Note 2. Health service funding | 8 |
| Note 3. User charges | 9 |
| Note 4. Grants and other contributions | 9 |
| Note 5. Employee expenses | 10 |
| Note 6. Supplies and services | 11 |
| Note 7. Other expenses | 12 |
| Note 8. Reconciliation of result to net cash from/(used in) operating activities | 12 |
| Note 9. Budget vs actual comparison | 13 |
| Note 10. Current assets - cash and cash equivalents | 19 |
| Note 11. Current assets - trade and other receivables | 19 |
| Note 12. Non-current assets - property, plant and equipment.. .. | 21 |
| Note 13. Non-current assets - intangibles | 25 |
| Note 14. Current liabilities - trade payables | 26 |
| Note 15. Interest bearing liability | 26 |
| Note 16. Current liabilities - accrued employee benefits | 26 |
| Note 17. Unearned revenue | 26 |
| Note 18. Equity - asset revaluation surplus | 27 |
| Note 19. Equity injections and equity withdrawals | 27 |
| Note 20. Financial instruments | 28 |
| Note 21. Contingencies | 29 |
| Note 22. Commitments | 29 |
| Note 23. Key management personnel | 30 |
| Note 24. Related party transactions | 35 |
| Note 25. Agency and patient trust transactions and balances | 36 |
| Note 26. Arrangements for the provision of public infrastructure by other entities | 37 |
| Note 27. Joint operations | 39 |
| Note 28. Taxation | 40 |
| Note 29. First year application of new standards or change in policy | 40 |
| Note 30. Future impact of accounting standards not yet effective | 41 |
| Note 31. Events after the reporting period | 42 |

Sunshine Coast Hospital and Health Service

Notes to the financial statements

30 June 2019

Note 1. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent assets and liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, that management believes to be reasonable under the circumstances.

The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Allowance for impairment of receivables

The level of allowance is assessed by taking into account the ageing of receivables and historical collection rates to determine lifetime expected credit losses as well as consideration of changes in economic circumstances. Refer to Note 11. Current assets - trade and other receivables.

Fair value measurement

Fair value measurement can be sensitive to the various valuation inputs selected. Considerable judgement is required to determine of our building assets, what is significant to fair value and therefore which category the asset is placed in can be subjective. Refer to Note 12. Non-current assets - property, plant and equipment.

Estimation of useful lives of non-current assets

The useful lives could change significantly as a result of technical innovations or some other event. The depreciation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

Contingencies

Contingent assets and liabilities require a degree of judgment as to the occurrence or non-occurrence, timing and magnitude of uncertain future events. Accordingly, contingent assets and liabilities are assessed continually to ensure that developments are appropriately reflected in the financial statements.

Note 2. Health service funding

| | 2019 \$'000 | 2018 \$'000 |
|------------------------------|------------------|------------------|
| Activity based funding | 875,657 | 852,336 |
| Block funding | 67,880 | 61,991 |
| Funding for depreciation | 117,912 | 106,684 |
| Other system manager funding | 60,747 | 61,381 |
| | <u>1,122,196</u> | <u>1,082,392</u> |

Health service funding primarily comprises revenue from the Department of Health ("the Department") as System Manager for the public health system in Queensland.

Funding from the Department is provided predominantly for specific public health services purchased by the Department from SCHHS in accordance with a service agreement between the Department and SCHHS. Activity based funding is based on agreed activity volumes and a state-wide price, per the service agreement. Revenue is recognised on the basis of purchased activity once delivered. Block funding is not based on levels of public activity. Block funding is received for other services SCHHS has agreed to provide under the service agreement. This funding has specific conditions attached which are not related to activity covered by activity based funding. The service agreement is reviewed periodically and updated for changes in activities and prices of services delivered by SCHHS.

SCHHS receives an offset from the Department to cover depreciation costs resulting in a non-cash revenue and non-cash equity withdrawal.

Cash funding instalments from the Department are received fortnightly throughout the year. Revenue is recognised as obligations under the service level agreement are fulfilled by SCHHS. Accounting adjustments are required where the services provided are above or below the agreed level.

Other system manager funding includes funding required to cover various administrative, operational and support costs, including project related costs.

Sunshine Coast Hospital and Health Service

Notes to the financial statements

30 June 2019

Note 2. Health service funding (continued)

Economic dependency

SCHHS has prepared these financial statements on a going concern basis which assumes it will be able to meet its financial obligations as and when they fall due. SCHHS is economically dependent on funding received from its Service Agreement with the Department. The current service agreement covers the period 1 July 2016 to 30 June 2019 with a new agreement approved in June 2019 to cover the period 1 July 2019 to 30 June 2022. The Service Agreement provides performance targets and terms and conditions in relation to provision of funding commitments and agreed purchased activity for this period. Accordingly, the Board and management of SCHHS believe that the terms and conditions of its funding arrangements under the Service Agreement Framework, and an undertaking from the Department to provide support as is reasonably required, will provide SCHHS with sufficient cash resources to meet its financial obligations for at least the next financial year. SCHHS has no intention to liquidate or to cease operations. Under section 18 of the Hospital and Health Boards Act 2011, SCHHS represents the State of Queensland and thus has all the privileges and immunities of the State in this respect.

Note 3. User charges

| | 2019 \$'000 | 2018 \$'000 |
|--|----------------|----------------|
| Sale of goods and services | 3,628 | 4,683 |
| Hospital fees | 37,983 | 36,593 |
| Pharmaceutical Benefits Scheme reimbursement | 31,049 | 27,259 |
| | <u>72,660</u> | <u>68,535</u> |

Hospital fees (for patients who elect to utilise their private health cover) and sales of goods and services are recognised as revenue when earned and can be measured reliably with a sufficient degree of certainty. This involves either invoicing for related goods/services and/or recognising accrued revenue based on estimated volumes of goods/services delivered.

Under the Pharmaceutical Benefits Scheme (PBS) the Australian Government subsidises the cost of a broad range of listed prescription medicines for various medical conditions. Hospital patients have access to medicines listed on the PBS at subsidised prices on discharge and through outpatient clinics and consultations. Patients are invoiced at the reduced PBS rate and SCHHS lodges monthly claims for co-payments through PBS arrangements at which time the revenue is recognised.

Sale of goods and services includes \$1.930m (2018: \$2.024m) received from the Department of Communities, Child Safety and Disability Services in relation to the Evolve Interagency Services program.

Note 4. Grants and other contributions

| | 2019 \$'000 | 2018 \$'000 |
|--|----------------|----------------|
| Australian Government grants | 10,056 | 10,437 |
| State Government grants | 26,613 | 13,386 |
| Other grants | 720 | 699 |
| Donations | 9,826 | 9,698 |
| Donations of non-current physical assets | 153 | 121 |
| | <u>47,368</u> | <u>34,341</u> |

Grants, contributions, donations and gifts that are non-reciprocal in nature are recognised as revenue in the year in which SCHHS obtains control over them. Where grants are received that are reciprocal in nature, revenue is progressively recognised as it is earned, according to the terms of the funding arrangements.

Contributed assets are recognised at their fair value. Contributions of services are recognised only when a fair value can be determined reliably and the services would have been purchased if they had not been donated. Where this is the case, an equal amount of revenue and expense is recognised.

Australian Government grants

This grant revenue is mainly related to the Transition Care Program - \$3.783m (2018: \$4.557m), the Home Support Program - \$4.093m (2018: \$3.818m) and the Nursing Home Grant - \$1.768m (2018: \$1.638m).

State Government grants

\$21.478m (2018: \$13.368m) is related to reimbursements received from the Department to fund various expenses and capital purchases made by SCHHS.

Sunshine Coast Hospital and Health Service

Notes to the financial statements

30 June 2019

Note 4. Grants and other contributions (continued)

Donations

SCHHS receives corporate services support from the Department for no direct cost. Corporate services received would have been purchased if they were not provided by the Department and include payroll services, accounts payable and banking services. The fair value of corporate services received in 2019 were \$8.848m (2018: \$8.773m) for payroll services and \$0.478m (2018: \$0.468m) for accounts payable and banking services. An equal amount of expense is recognised as services received below fair value. Refer to Note 6. Supplies and services.

This category also reflects receipts from individuals and not for profit, charitable entities including the Wishlist Foundation - \$0.214m (2018: \$0.262m).

Note 5. Employee expenses

| | 2019 | 2018 |
|---------------------------------------|----------------|----------------|
| | \$'000 | \$'000 |
| Wages and salaries | 626,099 | 579,376 |
| Employer superannuation contributions | 65,162 | 60,461 |
| Annual leave levy | 74,699 | 66,175 |
| Long service leave levy | 13,219 | 12,297 |
| Redundancies | 220 | 437 |
| Workers' compensation premium | 9,306 | 6,538 |
| Other employee related expenses | 4,975 | 5,145 |
| | <u>793,680</u> | <u>730,429</u> |

The number of full-time equivalent employees as at 30 June 2019 was 5,954 (2018: 5,746).

Wages and salaries

Wages and salaries due but unpaid at reporting date are recognised in the statement of financial position at current salary rates. As SCHHS expects such liabilities to be wholly settled within 12 months of reporting date, the liabilities are recognised at undiscounted amounts.

Superannuation

Employer superannuation contributions are paid to employee nominated superannuation funds. Contributions are expensed in the period in which they are payable and the obligation of SCHHS is limited to its contribution to employee nominated superannuation funds.

Annual leave and long service leave

SCHHS participates in the State Government's Annual Leave Central Scheme and the Long Service Leave Central Scheme.

Levies are payable by SCHHS under these schemes quarterly in arrears to cover the cost of employees' annual leave (including leave loading and on-costs) and long service leave.

These levies are expensed in the period in which they are payable. Amounts paid to employees for annual leave and long service leave are claimed from the schemes quarterly in arrears which is currently facilitated by the Department.

No provision for annual leave or long service leave is recognised in the financial statements of SCHHS, as the liability for these schemes is held on a whole-of-government basis and reported in those financial statements pursuant to AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

Workers' compensation

Workers' compensation insurance is a consequence of employing employees but is not counted in an employee's total remuneration package. It is not an employee benefit and is recognised separately as an employee related expense.

Sick Leave

Prior history indicates that on average, sick leave taken each reporting period is less than the entitlement accrued. This is expected to continue in future periods. Accordingly, it is unlikely that existing accumulated entitlements will be used by employees and no liability for unused sick leave entitlements is recognised. As sick leave is non-vesting, an expense is recognised for this leave as it is taken.

Sunshine Coast Hospital and Health Service
Notes to the financial statements
30 June 2019

Note 6. Supplies and services

| | 2019 | 2018 |
|---|----------------|----------------|
| | \$'000 | \$'000 |
| Medical consultants and contractors | 5,284 | 9,847 |
| Other consultants and contractors | 16,423 | 14,229 |
| Ambulance service | 8,089 | 8,113 |
| Electricity and other energy | 9,238 | 12,573 |
| Services purchased from private hospitals | 36,622 | 75,578 |
| Patient travel | 2,001 | 2,323 |
| Other travel | 1,336 | 1,199 |
| Water | 2,382 | 1,729 |
| Building services | 3,748 | 3,304 |
| Computer services | 10,444 | 6,475 |
| Motor vehicles | 640 | 296 |
| Communications | 14,489 | 12,515 |
| Repairs and maintenance | 37,507 | 25,285 |
| Expenses relating to capital works | 472 | 5,810 |
| Operating lease rentals | 3,682 | 3,773 |
| Drugs | 42,586 | 37,336 |
| Clinical supplies and services | 69,470 | 56,993 |
| Catering and domestic supplies | 13,283 | 13,093 |
| Pathology, blood and parts | 26,148 | 22,637 |
| Services received below fair value * | 9,326 | 9,241 |
| Other supplies and services | 9,307 | 6,533 |
| | <u>322,477</u> | <u>328,882</u> |

* SCHHS receives corporate services support from the Department for no direct cost. Corporate services received would have been purchased if they were not provided by the Department and include payroll services, accounts payable and banking services. The fair value of corporate services received in 2019 were \$8.848m (2018: \$8.773m) for payroll services and \$0.478m (2018: \$0.468m) for accounts payable and banking services. An equal amount of income is recognised as services received below fair value. Refer to Note 4. Grants and other contributions.

Services purchased from private hospitals during the year amounted to \$36.622m (2018: \$75.578m). These expenses include the agreements with Ramsay Health Care for the provision of health services to public patients within the Noosa Private Hospital and the Sunshine Coast University Private Hospital. Refer to Note 26. Arrangements for the provision of public infrastructure by other entities.

A total of \$31.285m (2018: \$39.711m) was expensed in relation to quarterly service payments due to Exemplar Health in relation to the operation of SCUH. This value is included within the expense categories Electricity and other energy, Water, Building services, Repairs and maintenance, and Other supplies and services. Refer to Note 26. Arrangements for the provision of public infrastructure by other entities.

Sunshine Coast Hospital and Health Service
Notes to the financial statements
30 June 2019

Note 7. Other expenses

| | 2019 | 2018 |
|--|---------------|--------|
| | \$'000 | \$'000 |
| Insurance premiums | 9,647 | 9,221 |
| Inventory written off | 175 | 99 |
| Losses from the disposal of non-current assets | 103 | 268 |
| Special payments | 1 | 3 |
| Other legal costs | 654 | 819 |
| Other | 3,563 | 3,469 |
| | 14,143 | 13,879 |

Audit fees - Total estimated audit fees paid or payable to the Queensland Audit Office relating to the 2018-2019 financial year included in the Other category of Other Expenses were \$0.250m (2018: \$0.250m). There are no non-audit services included in this amount.

Certain losses of property and health litigation costs are insured with the Queensland Government Insurance Fund (QGIF). The maximum excess amount payable is \$20,000 for each claim event. The claims made in respect of these losses have yet to be assessed by QGIF and the amount recoverable cannot be estimated reliably at reporting date, refer to Note 21. Contingencies. Upon notification by QGIF of the acceptance of the claims, revenue will be recognised for the agreed settlement amount and disclosed as Other Revenues - Insurance compensation.

Occasionally SCHHS makes a special (ex-gratia) payment even though it is not contractually or legally obligated to make such a payment to other parties. SCHHS maintains a register of all special payments and discloses the nature of those particular payments. There were no payments greater than \$5,000 during the period (2018: nil).

Note 8. Reconciliation of result to net cash from/(used in) operating activities

| | 2019 | 2018 |
|--|------------------|-----------|
| | \$'000 | \$'000 |
| Operating result for the year | (22,182) | (13,934) |
| Adjustments for: | | |
| Proceeds from disposal of property plant and equipment | - | (1,469) |
| Losses on disposal of non current assets | 103 | 268 |
| Depreciation and amortisation | 117,912 | 106,684 |
| Depreciation offset from the Department | (117,912) | (106,684) |
| Revaluation loss/ (gain) on land assets | - | - |
| Assets donated revenue - non cash | (153) | (121) |
| Impairment losses on receivables | (319) | 188 |
| Movements in assets and liabilities: | | |
| (Increase)/decrease in trade and other receivables | 4,807 | (27,277) |
| (Increase)/decrease in GST receivables | 1,929 | (932) |
| (Increase)/decrease in inventories | (334) | 146 |
| (Increase)/decrease in accrued revenue | 9,283 | (956) |
| (Increase)/decrease in prepayments | (1,024) | (1,434) |
| Increase/(decrease) in trade and other payables | 2,134 | 6,966 |
| Increase/(decrease) in salary and wages accrued | 2,802 | 2,729 |
| Increase/(decrease) in other employee benefits | 524 | 81 |
| Increase/(decrease) in unearned revenue | (539) | 4,581 |
| Increase/(decrease) in interest payable | - | (127) |
| Net cash from/(used by) operating activities | (2,969) | (31,291) |

Sunshine Coast Hospital and Health Service
Notes to the financial statements
30 June 2019

Note 9. Budget vs actual comparison

Statement of comprehensive income

| | Budget | Actual | Variance | Variance |
|--|--------------------|--------------------|-----------------|-----------------|
| | 2019 | 2019 | 2019 | |
| | \$'000 | \$'000 | \$'000 | % |
| Income | | | | |
| Health service funding | 1,104,900 | 1,122,196 | 17,296 | 2% |
| User charges | 72,041 | 72,660 | 619 | 1% |
| Grants and other contributions | 12,089 | 47,368 | 35,279 | 292% |
| Other revenue | 7,212 | 12,455 | 5,243 | 73% |
| Gains on asset disposals | - | 155 | 155 | -% |
| Total income | <u>1,196,242</u> | <u>1,254,834</u> | <u>58,592</u> | |
| Expenses | | | | |
| Employee expenses | (778,682) | (793,680) | (14,998) | 2% |
| Supplies and services | (269,374) | (322,477) | (53,103) | 20% |
| Grants and subsidies | (67) | (74) | (7) | 10% |
| Depreciation and amortisation | (100,843) | (117,912) | (17,069) | 17% |
| Impairment losses | (771) | (849) | (78) | 10% |
| Interest expense | (27,188) | (27,881) | (693) | 3% |
| Other expenses | (19,317) | (14,143) | 5,174 | (27%) |
| Total expenses | <u>(1,196,242)</u> | <u>(1,277,016)</u> | <u>(80,774)</u> | |
| Operating result for the year | - | (22,182) | (22,182) | |
| Other comprehensive income | | | | |
| Increase in the asset revaluation surplus | 16,667 | 86,301 | 69,634 | |
| Other comprehensive income for the year | <u>16,667</u> | <u>86,301</u> | <u>69,634</u> | |
| Total comprehensive income for the year | <u>16,667</u> | <u>64,119</u> | <u>47,452</u> | |

To be consistent with the financial statements, original budgeted figures are reclassified at the line item level where necessary.

Explanations of material variances - Statement of comprehensive income

Grants and other contributions

The increase is predominantly due to recoveries of non-capital expenditure from the Department for costs associated with integrated electronic Medical Record (ieMR) system, the refurbishment of the Caloundra and Nambour hospitals, the stage 2 transition of new services at SCUH (\$26.2m), and goods and services received below fair value from the Department (\$9.3m). SCHHS recognised this revenue, which is offset by an identical amount under Supplies and services, for the firsttime in 2017-18 and was not known at the time the budget was set.

Other revenue

The increase is due to the reclassification of funding for University and Technical and Further Education funded student placements from employee expenses (\$2.0m), the reimbursement of costs associated with ieMR and Financial Systems Renewal (FSR) projects (\$1.7m), shared costs associated with the joint operation of SCHI (\$0.7m) and rebates received for expenditure on linen and from pharmaceutical suppliers under the Chemotherapy Compounding Payment Scheme (\$0.5m).

Sunshine Coast Hospital and Health Service

Notes to the financial statements

30 June 2019

Note 9. Budget vs actual comparison (continued)

Explanations of material variances - Statement of comprehensive income (continued)

Supplies and services

The increase in supplies and services is partially due to the recognition of goods and services received below fair value from the Department (\$9.3m). SCHHS recognised this expense, which is offset by an identical amount under Grants and other contributions income, for the first time late in 2017-18. This was not known at the time the budget was set. The increase was also due to higher than expected costs of service delivery during the year. This includes:

- additional expenditure on non-clinical contractors, consultancies and other professional services for filling temporary employee vacancies, for service delivery improvement initiatives and for information communication and technology costs associated with e-referrals and the ieMR system (\$13.8m).
- additional expenditure on services outsourced to the Noosa Hospital and for dental and endoscopy/colonoscopy services (\$12.8m).
- additional expenditure on building and equipment maintenance, minor works and expensed construction costs (\$9.0m).
- additional expenditure on training, program management support and equipment for the rollout of the ieMR system (\$5.7m).
- additional expenditure on pathology services, pharmaceuticals and prosthetic appliances (\$5.7m).
- additional expenditure on telecommunications purchased from the Department (\$1.3m).
- lower than expected expenditure on the patient travel subsidy scheme (\$2.6m).
- lower than expected expenditure on electricity due to re-negotiated contracts (\$2.2m).

Depreciation and amortisation

The increase relates to prior year revaluations, the revision of useful lives and the additional commissioning of non-current assets.

Other expenses

The decrease is predominantly due to the deferral of contingent project expenditure into 2019-20 as part of the stage 2 transition to new services at SCUH (\$5.2m).

Increase in the asset revaluation surplus

The increase is due to higher than expected valuations of land (\$1.4m) and buildings (\$68.3m) across SCHHS.

Sunshine Coast Hospital and Health Service

Notes to the financial statements

30 June 2019

Note 9. Budget vs actual comparison (continued)

Statement of financial position

| | Budget 2019 \$'000 | Actual 2019 \$'000 | Variance 2019 \$'000 | Variance % |
|--------------------------------------|--------------------------|--------------------------|----------------------------|---------------|
| Assets | | | | |
| Current assets | | | | |
| Cash and cash equivalents | 68,849 | 85,668 | 16,819 | 24% |
| Trade and other receivables | 17,692 | 27,844 | 10,152 | 57% |
| Inventories | 5,302 | 5,490 | 188 | 4% |
| Other assets | 863 | 3,282 | 2,419 | 280% |
| Total current assets | 92,706 | 122,284 | 29,578 | |
| Non-current assets | | | | |
| Property, plant and equipment | 1,819,833 | 1,988,192 | 168,359 | 9% |
| Intangibles | 28,916 | 7,901 | (21,015) | (73%) |
| Total non-current assets | 1,848,749 | 1,996,093 | 147,344 | |
| Total assets | 1,941,455 | 2,118,377 | 176,922 | |
| Liabilities | | | | |
| Current liabilities | | | | |
| Trade and other payables | 57,879 | 68,306 | 10,427 | 18% |
| Interest bearing liability | 7,827 | 8,300 | 473 | 6% |
| Accrued employee benefits | 35,707 | 32,824 | (2,883) | (8%) |
| Unearned revenue | 3,764 | 16,616 | 12,852 | 341% |
| Total current liabilities | 105,177 | 126,046 | 20,869 | |
| Non-Current liabilities | | | | |
| Interest bearing liability | 513,251 | 512,362 | (889) | (0%) |
| Unearned revenue | 79,860 | 83,162 | 3,302 | 4% |
| Total non-current liabilities | 593,111 | 595,524 | 2,413 | |
| Total liabilities | 698,288 | 721,570 | 23,282 | |
| Net assets | 1,243,167 | 1,396,807 | 153,640 | |
| Equity | | | | |
| Contributed equity | 1,181,510 | 1,120,318 | (61,192) | (5%) |
| Asset revaluation surplus | 53,308 | 291,161 | 237,853 | 446% |
| Accumulated surpluses | 8,349 | (14,672) | (23,021) | (276%) |
| Total equity | 1,243,167 | 1,396,807 | 153,640 | |

Sunshine Coast Hospital and Health Service

Notes to the financial statements

30 June 2019

Note 9. Budget vs actual comparison (continued)

Explanations of material variances - Statement of financial position

Cash and cash equivalents

The increase is predominantly due to lower than expected expenditure on intangible assets as part of the staged transition to new services at SCUH (\$12.7m), and the receipt of additional capital project funding during the year which is accrued to be returned to the Department (\$3.9m).

Trade and other receivables

The increase is predominantly due to accrued funding from the Department for information and communication technology assets and other projects, for enterprise bargaining agreements and service delivery initiatives (\$7.5m), an increase in revenues receivable from user charges and private practice (\$4.8m) offset by a reduction in revenues receivable from Exemplar Health for movements in the floating rate component of the financial liability under the service agreement held for SCUH (-\$2.0m).

Other assets

The increase relates to higher than expected prepayments for maintenance and other contracts including for medical equipment (\$2.4m).

Property, plant and equipment

The increase relates predominantly to higher than expected revaluations of land assets (\$5.0m) and building assets (\$232.8m), the downward revision of the commissioning of plant and equipment assets as part of the staged transition to new services at SCUH (-\$40.0m) and lower than expected acquisitions of assets net of disposals (-\$34.3m).

Intangibles

The decrease relates to lower than expected capitalisation of expenditure on information and communications technology assets as part of the staged transition to new services at SCUH (\$21.4m).

Trade and other payables

The increase is predominantly due to funding payable to the Department including a funding swap and movements in the floating rate component on the interest bearing liability held to partially fund the assets of SCUH (\$23.1m). This is offset by a decrease in expenses payable to the Department, the private sector and other vendors for goods/services received on or before balance date (\$12.7m).

Unearned revenue (current)

The increase is largely due to receipts from the Department for program costs associated with the staged transition to new services at SCUH (\$6.8m), receipts from the Department for various strategies/projects including the specialist outpatient smart referral project (\$4.1m) and from the advance receipt of Radiation Oncology Health Program Grants (\$1.0m).

Accrued employees benefits

The liability for salaries and wages payable was overestimated at balance date when the budget was set.

Asset revaluation surplus

The increase is due to higher than expected revaluation increments for land (\$5.0m) and buildings (\$232.8m).

Accumulated surpluses

The movement in accumulated results is due to the difference between the 2017-18 budgeted and actual operating result (-\$0.8m) and the 2018-19 operating result (-\$22.2m).

Sunshine Coast Hospital and Health Service
Notes to the financial statements
30 June 2019

Note 9. Budget vs actual comparison (continued)

Statement of cash flows

| | Budget 2019 \$'000 | Actual 2019 \$'000 | Variance 2019 \$'000 | Variance % |
|---|--------------------------|--------------------------|----------------------------|---------------|
| Cash flows from operating activities | | | | |
| Health service funding | 1,004,058 | 1,028,139 | 24,081 | 2% |
| User charges | 72,342 | 73,133 | 791 | 1% |
| Grants and other contributions | 12,103 | 37,957 | 25,854 | 214% |
| Interest received | 88 | 153 | 65 | 74% |
| GST collected from customers | - | 6,230 | 6,230 | -% |
| GST input tax credits | 19,708 | 28,332 | 8,624 | 44% |
| Other revenue | 2,252 | 8,498 | 6,246 | 277% |
| Employee expenses | (776,132) | (790,354) | (14,222) | 2% |
| Supplies and services | (268,806) | (320,291) | (51,485) | 19% |
| Grants and subsidies | (55) | (74) | (19) | 35% |
| GST paid to suppliers | (19,143) | (26,547) | (7,404) | 39% |
| GST remitted | (564) | (6,086) | (5,522) | 979% |
| Interest expense | (27,188) | (28,019) | (831) | 3% |
| Other expenses | (18,962) | (14,040) | 4,922 | (26%) |
| Net cash from/(used by) operating activities | (299) | (2,969) | (2,670) | |
| Cash flows from investing activities | | | | |
| Payments for property, plant and equipment | (9,225) | (19,562) | (10,337) | 112% |
| Payments for intangibles | (16,606) | (3,890) | 12,716 | (77%) |
| Proceeds from disposal of property, plant and equipment | (258) | 155 | 413 | (160%) |
| Net cash from/(used by) investing activities | (26,089) | (23,297) | 2,792 | |
| Cash flows from financing activities | | | | |
| Proceeds from equity injections | 13,354 | 41,100 | 27,746 | 208% |
| Proceeds from equity withdrawals | (1,924) | - | 1,924 | (100%) |
| Borrowing redemptions | (7,209) | (7,625) | (416) | |
| Net cash from/(used by) financing activities | 4,221 | 33,475 | 29,254 | |
| Net increase/(decrease) in cash held | (22,167) | 7,209 | 29,376 | |
| Cash and cash equivalents at the beginning of the financial year | 91,015 | 78,459 | (12,556) | |
| Cash and cash equivalents at the end of the financial year | 68,848 | 85,668 | 16,820 | |

Sunshine Coast Hospital and Health Service

Notes to the financial statements

30 June 2019

Note 9. Budget vs actual comparison (continued)

Explanations of material variances - Statement of cash flows

Grants and other contributions

The increase is predominantly due to recoveries of non-capital expenditure from the Department for costs associated with ieMR system, the Caloundra and Nambour hospital redevelopments and the stage 2 transition to new services at SCUH (\$21.2m).

Payments for property, plant and equipment

The increase is largely due to additional payments for the Caloundra and Nambour redevelopments, and the stage 2 transition to new services at SCUH.

Payments for intangibles

The decrease is predominantly due to lower than expected expenditure on information and communications technology assets as part of the staged transition to new services at SCUH.

Proceeds from equity injections

The increase is largely due to the receipt of funding from the Department in 2018-19 for purchases made in 2017-18 for capital projects including the stage 2 transition to new services at SCUH (\$17.7m) and in relation to additional funding in 2018-19 for projects including the Caloundra refurbishment, the stage 2 transition to new services at SCUH and the ieMR system (\$1 0.0m).

For the other revenue, supplies and services and other expenses categories, refer to the Statement of comprehensive income Budget vs Actual commentary.

Sunshine Coast Hospital and Health Service
Notes to the financial statements
30 June 2019

Note 10. Current assets - cash and cash equivalents

| | 2019 | 2018 |
|--------------------------|----------------------|---------------|
| | \$'000 | \$'000 |
| Cash at bank and on hand | 80,390 | 74,730 |
| 24 hour call deposits | 5,278 | 3,729 |
| | <u>85,668</u> | <u>78,459</u> |

A deposit is held with the Queensland Treasury Corporation reflecting the value of the SCHHS General Trust Fund. The value of this deposit as at 30 June 2019 was \$5.278m (2018: \$3.729m) and the annual effective interest rate was 2.38% (2018: 2.41%). For further information on the General Trust refer to Note 25. Agency and patient trust transactions and balances. The main operating bank account does not earn interest.

Note 11. Current assets - trade and other receivables

| | 2019 | 2018 |
|-----------------------------------|----------------------|---------------|
| | \$'000 | \$'000 |
| Trade receivables | 19,096 | 16,353 |
| Less: Allowance for credit losses | (643) | (962) |
| | <u>18,453</u> | <u>15,391</u> |
| GST input tax credits receivables | 1,528 | 3,313 |
| GST payable | (1,447) | (1,303) |
| | <u>81</u> | <u>2,010</u> |
| Accrued revenue | 2,053 | 5,993 |
| Health service funding in arrears | 7,257 | 14,962 |
| | <u>27,844</u> | <u>38,356</u> |

Trade debtors at 30 June 2019 included amounts due from the granted private practice arrangement of \$4.408m (2018: \$3.548m), which has been included in accrued revenue in prior years.

Trade debtors are recognised at their carrying value less any impairment. The recoverability of trade debtors is reviewed on an ongoing basis at an operating unit level. All known bad debts are written off when identified and approved by senior management.

The allowance for credit losses for trade receivables reflects lifetime expected credit losses and incorporates reasonable and supportable forward-looking information. The allowance for impairment reflects the assessment of the credit risk associated with receivables balances.

Accommodation billing makes up the majority of aged receivables. It takes approximately 20 days from the date of discharge for billing to be sent for payment. Under normal circumstances there is an approximate four week turn around before receipt.

If health funds require additional information (e.g. pre-existing forms, accident forms, acute care certificates) this can further extend the collection period.

Revenue accrued at 30 June 2019 included amounts for reimbursements under the PBS of \$0.413m (2018: \$1.286m). There were no amounts included for reimbursement of expenses by the Department (2018: \$4.644m).

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

| | 2019 | 2018 |
|--|-------------------|------------|
| | \$'000 | \$'000 |
| Opening balance | 962 | 774 |
| Additional provisions recognised | 850 | 388 |
| Receivables written off during the year as uncollectable | (1,169) | (200) |
| Closing balance | <u>643</u> | <u>962</u> |

Sunshine Coast Hospital and Health Service

Notes to the financial statements

30 June 2019

Note 11. Current assets - trade and other receivables (continued)

The maximum exposure to credit risk at balance date for receivables is the gross carrying amount of those assets. No collateral is held as security and there are no other credit enhancements relating to SCHHS's receivables.

SCHHS uses a provision matrix to measure the expected credit losses on trade receivables. Loss rates are calculated separately for groupings of customers with similar loss patterns and the calculations reflect historical observed default rates during the last 5 years for each group. Where applicable, the historical default rates are then adjusted by reasonable and supportable forward-looking information. No such adjustment has been applied for the year ending 30 June 2019.

Set out below is the credit risk exposure on SCHHS's trade receivables. The comparative disclosure for 2018 is made under AASB 139 impairment rules, where receivables are assessed individually for impairment.

| | 2019 | | | 2018 | | |
|---------------------------|--------------------------------|----------------|---|--------------------------------|-----------------------------------|------------------------------|
| | Trade receivables \$'000 | Loss rate % | Allowance for credit losses \$'000 | Trade receivables \$'000 | Impairment allowance \$'000 | Carrying amount \$'000 |
| Aging | | | | | | |
| Current | 5,901 | 1% | (69) | 4,861 | - | 4,861 |
| 1 to 30 days overdue | 7,927 | 2% | (158) | 4,027 | - | 4,027 |
| 31 - 60 days overdue | 2,092 | 4% | (75) | 1,434 | (23) | 1,411 |
| 61 - 90 days overdue | 739 | 5% | (36) | 3,656 | (16) | 3,640 |
| More than 90 days overdue | 2,437 | 13% | (305) | 2,375 | (923) | 1,452 |
| | 19,096 | | (643) | 16,353 | (962) | 15,391 |

Sunshine Coast Hospital and Health Service
Notes to the financial statements
30 June 2019

Note 12. Non-current assets - property, plant and equipment

Balances and reconciliation of carrying amounts

| | 2019 | 2018 |
|------------------------------------|------------------|-----------|
| | \$'000 | \$'000 |
| Land - at fair value | 76,534 | 74,455 |
| Buildings - at fair value | 2,178,956 | 2,093,074 |
| Less: Accumulated depreciation | (404,601) | (326,848) |
| | 1,774,355 | 1,766,226 |
| Plant and equipment - at cost | 221,232 | 205,978 |
| Less: Accumulated depreciation | (89,310) | (78,543) |
| | 131,922 | 127,435 |
| Capital work in progress - at cost | 5,381 | 27,828 |
| | 1,988,192 | 1,995,944 |

| | Land - Level 2 \$'000 | Buildings - Level 2 \$'000 | Buildings - Level 3 \$'000 | Plant and equipment \$'000 | Capital works in progress \$'000 | Total \$'000 |
|---|--------------------------------------|---|---|---|---|-------------------------|
| Carrying amount at 30 June 2017 | 70,093 | 983 | 1,671,052 | 135,071 | 591 | 1,877,790 |
| Additions | - | - | 30 | 8,282 | 29,159 | 37,471 |
| Disposals | - | - | (5,413) | (1,026) | - | (6,439) |
| Revaluation increments | 4,362 | 37 | 181,137 | - | - | 185,536 |
| Revaluation decrements | - | - | (60) | - | - | (60) |
| Transfers in | - | - | - | 4,229 | - | 4,229 |
| Transfers out | - | - | - | (255) | - | (255) |
| Transfers between classes | - | - | 1,010 | 912 | (1,922) | - |
| Adjustment to accumulated depreciation on transfers | - | - | - | (31) | - | (31) |
| Depreciation expense | - | (98) | (82,452) | (19,747) | - | (102,297) |
| Carrying amount at 30 June 2018 | 74,455 | 922 | 1,765,304 | 127,435 | 27,828 | 1,995,944 |
| Additions | - | - | - | 7,270 | 15,545 | 22,815 |
| Disposals | - | - | - | (103) | (5,949) | (6,052) |
| Revaluation increments | 2,079 | 149 | 84,073 | - | - | 86,301 |
| Transfers in * | - | - | - | 2,961 | - | 2,961 |
| Transfers between classes | - | - | 15,750 | 16,293 | (32,043) | - |
| Adjustment to accumulated depreciation on transfers | - | - | - | 14 | - | 14 |
| Depreciation expense | - | (102) | (91,741) | (21,948) | - | (113,791) |
| Carrying amount at 30 June 2019 | 76,534 | 969 | 1,773,386 | 131,922 | 5,381 | 1,988,192 |

*Due to original costs being incorrectly recorded in 2019 \$2.925m of medical equipment and computing hardware (Plant and equipment class) was transferred from Software work in progress. Refer Note 13.

Sunshine Coast Hospital and Health Service

Notes to the financial statements

30 June 2019

Note 12. Non-current assets - property, plant and equipment (continued)

Recognition

Items of property, plant and equipment with a cost or other value equal to more than the following thresholds, and with a useful life of more than one year, are recognised at acquisition. Items below these values are expensed on acquisition.

| Class | Threshold |
|---|-----------|
| Buildings (including land improvements) | \$10,000 |
| Land | \$1 |
| Plant and Equipment | \$5,000 |

Acquisition

Property plant and equipment are initially recorded at consideration plus any other costs directly incurred in ensuring the asset is ready for use.

Assets under construction are at cost until they are ready for use. The construction of major health infrastructure assets relating to SCHHS is funded by the Department and managed by SCHHS. These assets are assessed at fair value upon practical completion by an independent valuer. They are then transferred from Department to SCHHS via an equity adjustment.

Depreciation

Property, plant and equipment are depreciated on a straight-line basis to allocate the net cost or revalued amount of each asset progressively over its estimated useful life. It is assumed that all assets have a residual value of zero. This is based on the general practice that SCHHS uses assets until there is no longer any economic benefit to be derived.

Any expenditure that increases the originally assessed capacity or service potential of an asset is capitalised and the new depreciable amount is depreciated (or amortised) over the remaining useful life of the asset. Where assets have separately identifiable components that are subject to regular replacement, these components are assigned useful lives distinct from the asset to which they relate and are depreciated accordingly. The only asset that is currently componentised is SCUH (buildings and site improvements).

Useful lives of assets are reviewed annually and where necessary are adjusted to better reflect the pattern of future economic benefits.

Amortisation and depreciation is not charged against land and artwork, which have indefinite lives, or assets under construction (work-in-progress assets) until they are ready for their intended use.

For each class of depreciable assets, the following depreciation rates were used:

| Class | Depreciation Rates Used | Useful lives |
|---------------------|-------------------------|---------------|
| Buildings | 1.1 % - 4.3% | 23 - 93 years |
| Plant and Equipment | 4.4% - 33.3% | 3 - 23 years |

Impairment

A review is conducted annually to identify indicators of impairment in accordance with *AASB 136 Impairment of Assets*. If an indicator of impairment exists, SCHHS determines the asset's recoverable amount (the higher of value in use or fair value less costs of disposal). Any amount by which the asset's carrying amount exceeds the recoverable amount is considered an impairment loss and is accounted for as follows:

- for assets measured at cost, an impairment loss is recognised immediately in the statement of comprehensive income.
- for assets measured at fair value, the impairment loss is treated as a revaluation decrease and offset against the asset revaluation surplus of the relevant class to the extent available. Where no asset revaluation surplus is available in respect of the class of asset, the loss is expensed in the statement of comprehensive income as a revaluation decrement.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

Sunshine Coast Hospital and Health Service

Notes to the financial statements

30 June 2019

Note 12. Non-current assets - property, plant and equipment (continued)

Impairment (continued)

For assets measured at cost, impairment losses are reversed through the income statement.

For assets measured at fair value, to the extent the original decrease was expensed through the statement of comprehensive income, the reversal is recognised in income, otherwise the reversal is treated as a revaluation increase for the class of asset through asset revaluation surplus. When an asset is measured at fair value, any accumulated impairment losses at that date are eliminated against the gross amount of the asset prior to restating for the revaluation.

Land and building revaluation

Land and buildings are measured at fair value in accordance with AASB 116 Property, Plant and Equipment, AASB 13 Fair Value Measurement as well as Queensland Treasury's Non-Current Asset Policies for the Queensland Public Sector.

SCHHS engage external valuers to determine fair value through either comprehensive revaluations and/or the indexation of the assets not subject to comprehensive revaluations. Comprehensive revaluations are undertaken at least once every five years. However, if a particular asset class experiences significant volatile changes in fair value, that class is subject to specific appraisal in the reporting period, where practicable, regardless of the timing of the last specific appraisal.

Where there is a significant change in fair value of an asset from one period to another, an analysis is undertaken by management with the external valuer. This analysis includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

Where indices are used, these are either publicly available, or are derived from market information available to the valuer. The valuer provides assurance of their robustness, validity and appropriateness for application to the relevant assets. Indices used are also tested for reasonableness by applying the indices to a sample of assets, comparing the results to similar assets that have been comprehensively valued by the valuer, and analysing the trend of changes in values over time. Management also performs an assessment of the reasonableness of the indices applied.

Any revaluation increment arising on the revaluation of an asset is credited to the asset revaluation surplus of the appropriate class, except to the extent it reverses a revaluation decrement for the class previously recognised as an expense. A decrease in the carrying amount on revaluation is charged as an expense, to the extent it exceeds the balance, if any, in the revaluation surplus relating to that asset class. On revaluation, for assets valued using a cost valuation approach, accumulated depreciation is restated proportionately with the change in the carrying amount of the asset and any change in the estimate of remaining useful life. On revaluation, for assets valued using a market approach, accumulated depreciation is eliminated against the gross amount of the asset prior to restating for valuation.

Fair value is the price that would be received by using assets in their highest and best use or by selling it to another market participant that would use the assets in their highest and best use, regardless of whether that price is directly derived from observable inputs or estimated using another valuation technique. All SCHHS assets are currently used in line with their highest and best use.

Observable inputs are publicly available data that are relevant to the characteristics of the asset being valued. Examples for SCHHS include, but are not limited to, published sales data for land and general buildings. Unobservable inputs are data, assumptions and judgements that are not publicly available, but are relevant to the characteristics of the asset being valued. Examples for SCHHS include, but are not limited to, internal records of construction costs, assessment of physical condition and remaining useful life. Unobservable inputs are used to the extent that sufficient relevant and reliable observable inputs are not available for similar assets.

Land

The State Valuation Service provided an index for land in 2018-2019. The indexation for land ranged between 1.0 and 1.1, based on market conditions for commercial property on the Sunshine Coast.

The State Valuation Service performed a comprehensive valuation of 3 parcels of land (16% of all land holdings), with an effective valuation date of 30 June 2019. The valuation was based on a market approach. Key inputs into the valuation include publicly available data on sales of similar land in nearby localities in the 12 months prior to the date of revaluation. Adjustments were made to the sales data to take into account the location, size, street/road frontage and access, and any significant restrictions for each individual parcel of land.

Sunshine Coast Hospital and Health Service

Notes to the financial statements

30 June 2019

Note 12. Non-current assets - property, plant and equipment (continued)

Land and building revaluation (continued)

Buildings

GRC Quantity Surveyors provided an index for buildings in 2018-2019. The indexation for buildings was 3.02% based on cost escalations evidenced in the market.

Previously, GRC Quantity Surveyors performed a comprehensive valuation of all buildings measured on a current replacement cost basis (effective valuation date of 30 June 2019). Key inputs into the valuation on replacement cost basis included internal records of the original cost of the specialised fit out and more contemporary design/construction costs published for various standard components of buildings. Significant judgement was also used to assess the remaining service potential of the buildings given local environmental conditions and the records of the current condition of the building.

The revaluation increment/decrement is shown below:

| | 2019 | 2018 |
|--|---------------|---------|
| | \$'000 | \$'000 |
| Recognised in other comprehensive income: | | |
| Land revaluation increment | 2,079 | 4,362 |
| Net building revaluation increment | 84,222 | 181,174 |
| Net revaluation increment | 86,301 | 185,536 |

Categorisation of fair values

The fair value hierarchy classification is based on the data and assumptions used in the most recent comprehensive valuations, being:

Level 1: Quoted prices (unadjusted) in active markets for identical assets that the entity can access at the measurement date

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the assets, either directly or indirectly

Level 3: Unobservable inputs for the assets

Land and buildings valued with reference to an active market is classified as Level 2. Purpose-built hospital and health service buildings valued without reference to an active market are valued using the replacement cost methodology and classified as Level 3.

Sunshine Coast Hospital and Health Service
Notes to the financial statements
30 June 2019

Note 13. Non-current assets - intangibles

Balances and reconciliation of carrying amounts

| | 2019 | 2018 |
|---|----------------|---------|
| | \$'000 | \$'000 |
| Software generated | 16,872 | 15,348 |
| Software generated - Accumulated amortisation | (9,614) | (5,493) |
| | 7,258 | 9,855 |
| Software work in progress | 643 | 2,536 |
| | 643 | 2,536 |
| | 7,901 | 12,391 |

| | Software Internally Generated: At Cost \$'000 | Software work in progress \$'000 | Total \$'000 |
|--|--|---|---------------------|
| Carrying amount at 30 June 2017 | 14,242 | - | 14,242 |
| Additions | - | 2,536 | 2,536 |
| Amortisation | (4,387) | - | (4,387) |
| Carrying amount at 30 June 2018 | 9,855 | 2,536 | 12,391 |
| Additions | - | 3,890 | 3,890 |
| Transfers | 2,858 | (2,858) | - |
| Transfer to plant and equipment * | - | (2,925) | (2,925) |
| Transfers to the Department | (1,334) | - | (1,334) |
| Amortisation | (4,121) | - | (4,121) |
| Carrying amount at 30 June 2019 | 7,258 | 643 | 7,901 |

*Due to original costs being incorrectly recorded in 2019 \$2.925m of medical equipment and computing hardware (Plant and equipment class) was transferred from Software work in progress. Refer Note 12. Non-current assets - property, plant and equipment.

Accounting Policy

SCHHS intangible assets are measured at their historical cost as there is no active market for these assets. Intangible assets with a cost or other value equal to or greater than \$100,000 are recognised in the financial statements. Items with a lesser value are expensed. Each intangible asset is amortised over its estimated useful life.

Useful lives for Software generated assets are between 2 and 5 years.

All intangible assets are assessed for indicators of impairment on an annual basis. As no indicators of impairment have been identified, none of SCHHS intangible assets have been impaired during 2019.

Sunshine Coast Hospital and Health Service
Notes to the financial statements
30 June 2019

Note 14. Current liabilities - trade payables

| | 2019 | 2018 |
|-------------------------|----------------------|---------------|
| | \$'000 | \$'000 |
| Trade payables | 35,249 | 46,728 |
| Health funding payables | 23,134 | 15,080 |
| Other payables | 9,923 | 9,976 |
| | <u>68,306</u> | <u>71,784</u> |

These amounts represent liabilities for goods and services provided to SCHHS prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 - 60 days of recognition.

Note 15. Interest bearing liability

| | 2019 | 2018 |
|--|-----------------------|----------------|
| | \$'000 | \$'000 |
| Current | | |
| Interest bearing liability - PPP arrangement | 8,300 | 7,625 |
| Total | <u>8,300</u> | <u>7,625</u> |
| Non-current | | |
| Interest bearing liability - PPP arrangement | 512,362 | 520,662 |
| Total | <u>512,362</u> | <u>520,662</u> |

See Note 26. Arrangements for the provision of public infrastructure by other entities for details of the Public Private Partnership (PPP) arrangement at Sunshine Coast University Hospital.

Note 16. Current liabilities - accrued employee benefits

| | 2019 | 2018 |
|---------------------------------|----------------------|---------------|
| | \$'000 | \$'000 |
| Salaries and wages accrued | 28,569 | 25,767 |
| Other employee benefits payable | 4,255 | 3,731 |
| | <u>32,824</u> | <u>29,498</u> |

No provision for annual leave or long service leave is recognised in the financial statements of SCHHS, as the liability for these schemes is held on a whole-of-government basis and reported in those financial statements pursuant to *AASB 1049 Whole of Government and General Government Sector Financial Reporting*.

Note 17. Unearned revenue

| | 2019 | 2018 |
|--------------------------------|----------------------|---------------|
| | \$'000 | \$'000 |
| Unearned revenue - current | 16,616 | 13,288 |
| | <u>16,616</u> | <u>13,288</u> |
| Unearned revenue - non-current | 83,162 | 84,267 |
| | <u>83,162</u> | <u>84,267</u> |

The current component includes \$6.806m (2018: \$8.009m) received from the Department in advance of services being delivered.

The majority of unearned revenue relates to two car parks constructed by Exemplar Health in return for a licence to operate the car parks over 25 years. See Note 26. Arrangements for the provision of public infrastructure by other entities for details of the arrangement. The revenue will be unwound over the 25 year term of the agreement. As at 30 June 2019, the balance relating to the car parks is non-current of \$79.910m (2018: \$83.649m) and current of \$3.738m (2018: \$3.738m). The amount of revenue recognised for the year ending 30 June 2019 was \$3.738m (2018: \$3.738m).

Sunshine Coast Hospital and Health Service
Notes to the financial statements
30 June 2019

Note 18. Equity - asset revaluation surplus

| | 2019 \$'000 | 2018 \$'000 |
|---------------------------------------|----------------|----------------|
| Asset revaluation surplus - buildings | 274,055 | 189,832 |
| Asset revaluation surplus - land | 17,106 | 15,028 |
| | <u>291,161</u> | <u>204,860</u> |

Movement in asset revaluation surplus

Movements in the assets revaluation surplus during the current year are set out below:

| | Revaluation Surplus \$'000 |
|-------------------------|----------------------------------|
| Balance at 1 July 2017 | 19,324 |
| Revaluations | 185,536 |
| Balance at 30 June 2018 | 204,860 |
| Revaluations | 86,301 |
| Balance at 30 June 2019 | <u>291,161</u> |

Note 19. Equity injections and equity withdrawals

| | 2019 \$'000 | 2018 \$'000 |
|---|-----------------|-----------------|
| Equity injections and equity withdrawals | | |
| Cash injection from the Department for capital works and acquisitions | 41,100 | 28,424 |
| Reclass equity received to revenue | 5,343 | (10,219) |
| Non cash injection of capital assets related to SCUH PPP | - | 3,995 |
| Non cash injection of other capital assets | 67 | 199 |
| Non cash withdrawal for depreciation offset | (117,912) | (106,684) |
| Non cash withdrawal for assets transferred to the Department | (1,350) | (255) |
| Net equity injections and equity withdrawals for the period | <u>(72,752)</u> | <u>(84,540)</u> |

Non-reciprocal transfers of assets and liabilities between wholly-owned Queensland State Public Sector entities are adjusted to contributed equity in accordance with *Interpretation 1038 Contributions by Owners Made to Wholly-Owned Public Sector Entities*. Appropriations for equity adjustments are similarly designated.

SCHHS receives funding from the Department to cover depreciation costs. However, as depreciation is a non-cash expenditure item, the Minister of Health has approved a withdrawal of equity by the State for the same amount, resulting in non-cash revenue and non-cash equity withdrawal.

Sunshine Coast Hospital and Health Service

Notes to the financial statements

30 June 2019

Note 20. Financial instruments

Recognition

Financial assets and financial liabilities are recognised in the Statement of financial position when SCHHS becomes party to the contractual provisions of the financial instrument. SCHHS holds financial instruments in the form of cash, receivables, payables and interest bearing liabilities (borrowings).

Classification

Financial instruments are classified and measured as follows:

- Cash and cash equivalents - held at amortised cost
- Receivables - held at amortised cost
- Payables - held at amortised cost
- Interest bearing liabilities - held at amortised cost

SCHHS does not enter into derivative and other financial instrument transactions for speculative purposes nor for hedging.

The effective interest rate on the Interest bearing liability as at 30 June 2019 is 4.8% (2018: 5.43%) and is denominated in AUD. No interest has been capitalised during the current period.

Categorisation of financial instruments

SCHHS has the following categories of financial assets and financial liabilities.

| | 2019 \$'000 | 2018 \$'000 |
|------------------------------------|----------------|----------------|
| Financial Assets | | |
| Cash and cash equivalents | 85,668 | 78,459 |
| Trade and other receivables | 27,844 | 38,356 |
| Total Financial Assets | <u>113,512</u> | <u>116,815</u> |
| | 2019 \$'000 | 2018 \$'000 |
| Financial Liabilities | | |
| Trade payables | 68,306 | 71,784 |
| Interest bearing liability | 520,662 | 528,287 |
| Total Financial Liabilities | <u>588,968</u> | <u>600,071</u> |

Financial risk management

SCHHS has exposure to a variety of financial risks arising from financial instruments - credit risk, liquidity risk and market risk.

Financial risk management is implemented pursuant to Queensland Government and SCHHS policies. The policies provide principles for overall risk management and aim to minimise potential adverse effects of risk events on the financial performance of SCHHS.

Credit risk

Credit risk is the potential for financial loss arising from SCHHS's debtors defaulting on their obligations. Credit risk is measured by ageing analysis for cash inflows at risk. The maximum exposure to credit risk at balance date is the carrying value of receivable balances adjusted for impairment. Credit risk is considered minimal for SCHHS.

Liquidity risk

Liquidity risk refers to the situation when SCHHS may encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or other financial assets. Liquidity risk is measured through monitoring of cash flows by active management of accrual accounts. An approved debt facility of \$6m under Whole of Government banking arrangements to manage any short-term cash shortfalls has been established. No funds had been withdrawn against this debt facility as at 30 June 2019 (2018: \$nil).

Sunshine Coast Hospital and Health Service

Notes to the financial statements

30 June 2019

Note 20. Financial instruments (continued)

Market risk - Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because changes in market interest rates.

In relation to cash deposits held, our sensitivity analysis indicates that the impact on revenue due to interest rate movements is immaterial for SCHHS. SCHHS has minimal interest rate exposure on the 24 hour call deposits. There is no interest rate risk on the main operating accounts as these accounts do not earn interest. Refer to Note 10. Current assets - cash and cash equivalents.

The interest rate sensitivity analysis of the Interest bearing liability, depicting the outcome on net income if interest rates would change by +/- 1% from the year end rates. The interest rate change impacts the floating rate component of the interest bearing liability. With all other variables held constant SCHHS would have a surplus and equity increase / (decrease) of \$4.698m (2018: \$4.789m).

Note 21. Contingencies

Contingent liabilities - litigation in progress

All SCHHS medical indemnity and general liability claims have been managed by the QGIF. At 30 June 2019 SCHHS has 2 litigation cases before the courts (2018: 3 cases).

There are 23 claims (2018: 21 claims) managed by QGIF, some of which may never be litigated or result in payment of claims. The maximum exposure to SCHHS under this policy is \$20,000 for each insurable event. SCHHS legal advisors, management advisors and management believe it would be misleading to estimate the final amount payable (if any) in respect of litigation before the courts at this time.

Note 22. Commitments

| | 2019 | 2018 |
|---|-----------------------|----------------|
| | \$'000 | \$'000 |
| <i>Non-cancel/able operating leases</i> | | |
| Committed at reporting date but not recognised as liabilities, payable: | | |
| within one year | 3,173 | 939 |
| one year to five years | 8,392 | 597 |
| more than five years | 14,880 | 26 |
| | <u>26,445</u> | <u>1,562</u> |
| <i>Capital expenditure commitments</i> | | |
| Committed at reporting date but not recognised as liabilities, payable: | | |
| within one year | 1,329 | 9,833 |
| | <u>1,329</u> | <u>9,833</u> |
| <i>Lessor revenue commitments</i> | | |
| Committed at reporting date but not recognised as assets, receivable: | | |
| within one year | 4,657 | 4,657 |
| one year to five years | 18,571 | 18,588 |
| more than five years | 80,432 | 85,072 |
| | <u>103,660</u> | <u>108,317</u> |

All amounts disclosed are exclusive of GST.

Non-cancel/able operating leases

The majority of operational leases are in relation to the tenancy of various administrative, residential and commercial buildings. SCHHS is not party to any finance leases.

Lessor revenue commitments

SCHHS is the beneficiary of rental income arising from the lease of retail space and commercial car parks to a third party. The retail space lease receipts are generally fixed, but with inflation escalation clauses. The revenue from the commercial car parks will be unwound over the 25 year term of the agreement. Refer to Note 17. Unearned revenue.

Sunshine Coast Hospital and Health Service

Notes to the financial statements

30 June 2019

Note 23. Key management personnel (KMP)

The responsible Minister of SCHHS is identified as a KMP of SCHHS, consistent with additional guidance included in the revised version of AASB 124 *Related Party Disclosures*. That Minister is the Minister for Health and Minister for Ambulance Services ("the Minister"). Non-ministerial KMP are outlined below.

| Position (Board) | Contract classification and appointment authority | Name of incumbent (Board) | Original appointment date | Cessation date |
|--|---|--------------------------------------|----------------------------------|-----------------------|
| Board Chair Provide strategic leadership and guidance and effective oversight of management, operations and financial performance. | Board Chair <i>Hospital and Health Boards Act 2011</i> Section 25 (1) (a) | Dr Lorraine Ferguson, AM | 18/05/2016 as Board Chair | |
| Board Member Provide strategic guidance and effective oversight of management, operations and financial performance. | Board Member <i>Hospital and Health Boards Act 2011</i> Section 23 (1) | Dr Mason Stevenson | 01/07/2012 | |
| | | Mr Peter Sullivan | 06/09/2012 | |
| | | Dr Edward Weaver | 06/09/2012 | 17/05/2019 |
| | | Mr Cosmo Schuh | 18/05/2013 | |
| | | Mr Brian Anker | 18/05/2013 | |
| | | Prof. Julie-Anne Tarr | 18/05/2016 | |
| | | Ms Anita Phillips | 18/05/2017 | |
| | | Mr Mark Raguse | 18/05/2019 | |
| | | Emeritus Professor Birgit Lohmann | 18/05/2019 | |
| Ms Debra Blume! | 18/05/2019 | | | |
| Position (Executive) | Contract classification and appointment authority | Name of incumbent (Executive) | Original appointment date | Cessation date |
| Chief Executive Provide strategic leadership and direction, promote effective and efficient use of resources, develop health service plans, workforce plans and capital works for the delivery of public sector health services. | <i>Hospital and Health Boards Act 2011</i> Section 33 | Adjunct Professor Naomi Dwyer | 11/12/2017 | |
| Chief Operating Officer* Provide strategic leadership and assume accountability for the day to day delivery of operational excellence in clinical and clinical support services of SCHHS. | HES3-2 <i>Hospital and Health Boards Act 2011</i> Section 74 | Dr Piotr Swierkowski (Acting) | 10/04/2018 | 06/08/18 |
| | | Karlyn Chettleburgh | 06/08/18 | |
| Chief Finance Officer** Provide strategic financial advice and governance in all aspects of finance management. | HES3-1 <i>Hospital and Health Boards Act 2011</i> Section 74 | John Slaven | 08/04/2015 | 02/08/2018 |
| | | Andrew McDonald (Acting) | 09/07/2018 | |

* During the year the position of Executive Director, Clinical Services was retitled to Chief Operating Officer.

** During the year the position of Executive Director, Finance, Business and Operational Services was retitled to Chief Finance Officer and the position description has been amended to reflect this.

Sunshine Coast Hospital and Health Service
Notes to the financial statements
30 June 2019

Note 23. Key management personnel (continued)

| Position | Contract classification and appointment authority | Name of incumbent (Executive) | Original appointment date | Cessation date |
|--|---|-------------------------------|---------------------------|----------------|
| Chief Information Officer Provide strategic leadership and operational control of the information technology function. | HES2-1 <i>Hospital and Health Boards Act 2011</i> Section 74 | Benjamin Brouard (Acting) | 25/06/2018 | 21/10/2018 |
| | | Michael DeZwart (Contractor) | 24/10/2018 | |
| Executive Director, Strategy, Performance and Governance *** Provide strategic development, leadership and direction across projects, communication and governance functions. | HES2-5 <i>Hospital and Health Boards Act 2011</i> Section 74 | Angela Bardini (Acting) | 21/03/2018 | 09/12/2018 |
| | | Luke Worth | 10/12/2018 | |
| Executive Director People and Culture Provide strategic leadership, development and implementation of the People and Culture framework. | HES2-5 <i>Hospital and Health Boards Act 2011</i> Section 74 | Philippa Murray | 24/09/2018 | 28/04/2019 |
| | | Terence Seymour (Acting) | 12/04/2019 | |
| Executive Director, Medical Services Professional leader for all medical practitioners and oversight of the patient safety agenda, credentialing, education and research. | MMO12 <i>Hospital and Health Boards Act 2011</i> Section 74 | Dr Mauritius Du Toit (Acting) | 12/03/2018 | 05/08/2018 |
| | | Dr Piotr Swierkowski | 07/08/2018 | 09/10/2018 |
| | | Dr Mauritius Du Toit (Acting) | 10/10/2018 | 08/02/2019 |
| | | Dr Andrew Hallahan (Acting) | 07/02/2019 | |
| Executive Director, Nursing and Midwifery Services Provide leadership, strategic direction, clinical governance and professional support for nursing and midwifery services including credentialing, education and research. | NRG13-2 <i>Queensland Health Nurses and Midwives Award - State 2015</i> | Suzanne Metcalf | 13/02/2017 | |
| Executive Director, Innovation, Quality, Research and Education Provide strategic leadership and operational control of the education and research functions. | HES2-4 <i>Hospital and Health Boards Act 2011</i> Section 74 | Dr Margaret Way | 01/03/2017 | 15/03/2019 |
| Executive Director - Allied Health Professional leadership for all allied health practitioners, including professional governance, credentialing, education and research. | HP8.1, <i>Health Practitioners and Dental Officers (Queensland Health) Award - State 2015</i> | Gemma Turato | 01/09/2017 | |

*** During the year the position of Executive Director, SCUH Program was retitled to Executive Director, Strategy, Performance and Governance and the position description has been amended to reflect this.

Sunshine Coast Hospital and Health Service

Notes to the financial statements

30 June 2019

Note 23. Key management personnel (continued)

Key management personnel remuneration - Strategic Executive Committee (SEC)

Section 74 of the *Hospital and Health Board Act 2011* provides the contract of employment for health executive staff must state the term of employment, the person's functions and any performance criteria as well as the person's classification level and remuneration package.

Remuneration policy for SCHHS key executive management personnel is set by direct engagement common law employment contracts and various award agreements. The remuneration and other terms of employment for the key executive management personnel are also addressed by these common law employment contracts and awards. The remuneration packages provide for the provision of some benefits including motor vehicles.

Remuneration packages for key management personnel comprise the following components:

- Short term employee monetary benefits which includes salary, allowances, salary sacrifice component and leave entitlements expensed for the entire year or for that part of the year during which the employee occupied the specified position. Performance bonuses are not paid under the contracts in place.
- Short term non-monetary benefits consisting of provision of vehicle and other non-monetary benefits including **FBT** exemptions on benefits.
- Long term employee benefits include amounts expensed in respect of long service leave.
- Post-employment benefits include amounts expensed in respect of employer superannuation obligations.
- Redundancy payments are not provided for within individual contracts of employment. Contracts of employment provide only for notice periods or payment in lieu of notice on termination, regardless of the reason for termination.

Key management personnel remuneration - Board

SCHHS is independently and locally controlled by the Hospital and Health Board (The Board). The Board appoints the health service chief executive, subject to ministerial approval, and exercises significant responsibilities at a local level, including controlling the financial management of SCHHS and the management of SCHHS land and buildings (Section 7 *Hospital and Health Board Act 2011*).

Board members are remunerated for their services. The value of remuneration received by Board Members in their capacity as Board Members, and, the **E.T.**, are disclosed in the following sections.

Key management personnel remuneration - Minister

Ministerial remuneration entitlements are outlined in the Legislative Assembly of Queensland's Members' Remuneration Handbook. SCHHS does not bear any cost of remuneration of Ministers. The majority of Ministerial entitlements are paid by the Legislative Assembly, with the remaining entitlements being provided by Ministerial Services Branch within the Department of the Premier and Cabinet.

As all Ministers are reported as KMP of the Queensland Government, aggregate remuneration expenses for all Ministers is disclosed in the Queensland General Government and Whole of Government Consolidated Financial Statements, which are published as part of Queensland Treasury's Report on State Finances.

Sunshine Coast Hospital and Health Service
Notes to the financial statements
30 June 2019

Note 23. Key management personnel (continued)

| 2019 Name (Board) | Short term benefits | | Post-employment benefits | Long term benefits | Termination benefits | Total |
|-----------------------------------|---------------------|--------------|--------------------------|--------------------|----------------------|-------|
| | Monetary | Non-monetary | | | | |
| | \$'000 | \$'000 | | | | |
| Dr Lorraine Ferguson AM | 89 | - | 8 | - | - | 97 |
| Dr Mason Stevenson | 50 | - | 5 | - | - | 55 |
| Mr Peter Sullivan | 57 | - | 5 | - | - | 62 |
| Dr Edward Weaver | 45 | - | 4 | - | - | 49 |
| Mr Cosmo Schuh | 51 | - | 5 | - | - | 56 |
| Mr Brian Anker | 51 | - | 5 | - | - | 56 |
| Professor Julie-Anne Tarr | 47 | - | 4 | - | - | 51 |
| Ms Anita Phillips | 47 | - | 4 | - | - | 51 |
| Mr Mark Raguse | 6 | - | 1 | - | - | 7 |
| Emeritus Professor Birgit Lohmann | 6 | - | 1 | - | - | 7 |
| Ms Debra Blume! | 6 | - | 1 | - | - | 7 |

Board members were also reimbursed \$25.45 (2018: \$744) for out of pocket expenses.

| 2018 Name (Board) | Short term benefits | | Post-employment benefits | Long term benefits | Termination benefits | Total |
|---------------------------|---------------------|--------------|--------------------------|--------------------|----------------------|-------|
| | Monetary | Non-monetary | | | | |
| | \$'000 | \$'000 | | | | |
| Dr Lorraine Ferguson AM | 89 | - | 8 | - | - | 97 |
| Dr Mason Stevenson | 50 | - | 5 | - | - | 55 |
| Mr Peter Sullivan | 54 | - | 5 | - | - | 59 |
| Dr Edward Weaver | 50 | - | 5 | - | - | 55 |
| Mr Cosmo Schuh | 51 | - | 5 | - | - | 56 |
| Mr Brian Anker | 51 | - | 5 | - | - | 56 |
| Professor Julie-Anne Tarr | 47 | - | 4 | - | - | 51 |
| Ms Anita Phillips | 47 | - | 4 | - | - | 51 |

Sunshine Coast Hospital and Health Service

Notes to the financial statements

30 June 2019

Note 23. Key management personnel (continued)

| 2019 Name (Executive) | Short term benefits | | Post-employment benefits | Long term benefits | Termination benefits | Total |
|---|---------------------|--------------|--------------------------|--------------------|----------------------|--------|
| | Monetary | Non-monetary | | | | |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Chief Executive | 422 | 6 | 44 | 8 | - | 480 |
| Chief Operating Officer | 201 | - | 21 | 4 | - | 226 |
| Chief Finance Officer | 238 | - | 21 | 5 | - | 264 |
| Chief Information Officer | 64 | - | 6 | 1 | - | 71 |
| Executive Director, Strategy, Performance and Governance | 203 | - | 21 | 4 | - | 228 |
| Executive Director People and Culture | 173 | - | 18 | 3 | - | 194 |
| Executive Director of Medical Services | 551 | 1 | 44 | 11 | - | 607 |
| Executive Director, Nursing and Midwifery Services | 264 | - | 27 | 5 | - | 296 |
| Executive Director, Innovation, Quality, Research and Education | 149 | - | 16 | 3 | - | 168 |
| Executive Director - Allied Health | 194 | - | 24 | 4 | - | 222 |

* Payments made for the procurement of services provided by temporary contractors are not employee benefits for the purposes of AASB 119.

| 2018 Name (Executive) | Short term benefits | | Post-employment benefits | Long term benefits | Termination benefits | Total |
|---|---------------------|--------------|--------------------------|--------------------|----------------------|--------|
| | Monetary | Non-monetary | | | | |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Chief Executive | 351 | 4 | 36 | 7 | - | 398 |
| Executive Director, Clinical Services | 273 | - | 24 | 5 | - | 302 |
| Executive Director, Finance, Business and Operational Services | 219 | - | 22 | 4 | - | 245 |
| Chief Information Officer | 182 | - | 18 | 3 | - | 203 |
| Executive Director, SCUH Program | 249 | - | 24 | 4 | - | 277 |
| Executive Director People and Culture | 157 | - | 13 | 3 | - | 173 |
| Executive Director of Medical Services | 516 | - | 38 | 11 | - | 565 |
| Executive Director, Nursing and Midwifery Services | 239 | - | 23 | 4 | - | 266 |
| Executive Director, Innovation, Quality, Research and Education | 200 | - | 20 | 4 | - | 224 |
| Executive Director - Allied Health | 171 | - | 18 | 3 | - | 192 |

Sunshine Coast Hospital and Health Service
Notes to the financial statements
30 June 2019

Note 24. Related party transactions

Related parties of SCHHS include -

- the Minister
- each KMP of the State (all Ministers responsible for Whole of Government)
- all non-ministerial KMP
- any close family members of the above three groups
- any entity controlled or jointly controlled by a person from any of the above four groups

Transactions with Queensland Government controlled entities

SCHHS is controlled by its ultimate parent entity, the State of Queensland. All State of Queensland controlled entities meet the definition of a related party in *AASB 124 Related Party Disclosures*.

The following table summarises significant transactions with Queensland Government controlled entities:

| Entity | Note | Revenue | Expenses | Assets | Liabilities |
|---------------------------------|------|---|----------|---------------------------|-------------|
| | | \$'000 | \$'000 | \$'000 | \$'000 |
| | | For the year ending 30 June 2019 | | As at 30 June 2019 | |
| Department of Health | (a) | 1,131,522 | 103,389 | 7,257 | 38,650 |
| Queensland Treasury Corporation | (b) | 120 | 7 | 5,278 | - |
| WorkCover Queensland | (c) | - | 9,310 | - | - |
| | | For the year ending 30 June 2018 | | As at 30 June 2018 | |
| Department of Health | (a) | 1,091,633 | 96,895 | 14,962 | 27,874 |
| Queensland Treasury Corporation | (b) | 71 | 4 | 3,729 | - |
| WorkCover Queensland | (c) | - | 7,129 | - | - |

(a) Department of Health

SCHHS receives funding in accordance with a service agreement with the Department of Health. The Department receives its revenue from the Queensland Government and the Commonwealth Government. The signed service agreements are published on the Queensland Government website and publicly available. Refer to Note 2. Health service funding.

In addition to the provision of corporate services support (refer to Note 6. Supplies and services) the Department manages, on behalf of SCHHS, a range of services including procurement, ambulance services, communication and information technology, payroll, pathology, drug supplies, medical equipment repairs and maintenance and linen supply.

SCHHS also received assets from the Department transferred via equity under an enduring designation from the Minister for Health. Refer to Note 19. Equity injections and equity withdrawals.

(b) Queensland Treasury Corporation

SCHHS has an account with the Queensland Treasury Corporation for general trust monies and receives interest and incurs bank fees on this account.

(c) WorkCover Queensland

SCHHS takes out an annual policy with WorkCover Queensland for statutory worker's compensation insurance.

Other

There are no other individually significant transactions with Queensland Government controlled entities.

Transactions with other related parties

SCHHS engaged the services of Mr Michael DeZwart acting in the role of Chief Information Officer at a cost of \$0.221 m through Blackdog Technologies Pty Ltd T/as The DeZwart Family Trust.

There are no other individually significant transactions with other related parties. The Sunshine Coast Health Institute (SCHI) is a recognised related party to SCHHS. Refer to Note 27. Joint operations.

Sunshine Coast Hospital and Health Service

Notes to the financial statements

30 June 2019

Note 25. Agency-and patient trust transactions and balances

Granted private practice

Granted private practice permits Senior Medical Officers (SMOs) and Visiting Medical Officers (VMOs) employed in the public health system to treat individuals who elect to be treated as private patients.

Granted private practice provides the option for SMOs and VMOs to either assign all of their private practice revenue to the HHS (assignment arrangement) and in return receive an allowance, or for SMOs and VMOs to share in the revenue generated from billing patients and to pay service fees to SCHHS (retention arrangement).

All monies received for granted private practice are deposited into a separate bank account that is administered by SCHHS on behalf of the granted private practice SMOs and VMOs. These accounts are not reported in SCHHS's Statement of financial position.

All assignment option receipts, retention option services fees and service retention fees are included as revenue in the Statement of comprehensive income of SCHHS on an accrual basis. The funds are then subsequently transferred from the granted private practice bank accounts into SCHHS's operating and general trust bank account (for the service retention fee portion).

| | 2019 | 2018 |
|---|----------------|----------|
| | \$'000 | \$'000 |
| Granted Private Practice Revenues and Expenses | | |
| Billing - Assigned Model | 5,456 | 7,924 |
| Billing - Retention Model | 12,096 | 10,788 |
| Interest | 21 | 17 |
| Payments to SCHHS | (5,477) | (7,941) |
| Payments to retention doctors | (3,820) | (3,835) |
| To SCHHS for recoverable costs related to the Retention Model | (6,356) | (4,775) |
| To SCHHS for the SERT fund | (1,920) | (2,178) |
| | <u>-</u> | <u>-</u> |
| | <u>-</u> | <u>-</u> |
| Closing balance of bank account under a trust fund arrangement not yet disbursed and not restricted cash | 1,916 | 2,033 |

Patient trust

SCHHS acts in a custodial capacity in relation to patient trust accounts. These transactions and balances are not recognised in the financial statements. Although patient funds are not retained by SCHHS, trust activities are included in the audit performed annually by the Auditor-General of Queensland.

| | 2019 | 2018 |
|---|---------------|-----------|
| | \$'000 | \$'000 |
| Patient trust receipts and payments | | |
| Opening balance | 71 | 83 |
| Amounts receipted on behalf of patients | 687 | 623 |
| Amounts paid to or on behalf of patients | (700) | (635) |
| Closing balance (cash held and bank deposits) | <u>58</u> | <u>71</u> |

Restricted Assets

SCHHS receives cash contributions primarily from private practice clinicians and external entities for the provision of education, study and research in clinical areas. Contributions are also received from benefactors in the form of gifts, bequests, donations and legacies for stipulated purposes. At 30 June 2019, an amount of \$5.430m (2018: \$4.176m) in General Trust is set aside for specified purposes defined by the contribution.

Sunshine Coast Hospital and Health Service

Notes to the financial statements

30 June 2019

Note 26. Arrangements for the provision of public infrastructure by other entities

SCHHS has contractual arrangements with the counterparties listed below for the construction and operation of public infrastructure facilities. These arrangements are located on land that is recognised as an asset of SCHHS. These contractual arrangements operating for all or part of the financial year are as follows:

| Facility | Commencement Date | Termination Date | Counterparty and Operator |
|--|-------------------|-------------------|---------------------------|
| Noosa Hospital | 1 September 1999 | 30 June 2020 | Ramsay Health Care |
| Sunshine Coast University Private Hospital | 30 June 2013 | 20 September 2018 | Ramsay Health Care |
| Sunshine Coast University Hospital | 16 November 2016 | 15 November 2041 | Exemplar Health |
| Sunshine Coast University Hospital Car Parks | 16 November 2016 | 15 November 2041 | Exemplar Health |

Noosa Hospital

Under this arrangement, SCHHS funds the operators for the provision of services to public patients by Ramsay Health Care as operators of the Noosa Hospital. The operator is not permitted to charge any fees to public patients other than those normally charged for a service in a public hospital. The level of services and the amount paid by SCHHS is subject to annual review. A capital recovery charge is paid to the operator as part of the service agreement.

SCHHS does not control the building facilities associated with these arrangements. Therefore, these facilities are not recorded as assets. An estimate of the value of building assets to be transferred on completion of the agreement has not yet been determined. The most recent valuation conducted in December 2016 valued the hospital at approximately \$24m.

The recognised fair value of the land asset at Noosa is \$8.300m (2018: \$7.961 m). The entire site is dedicated to the operations of the Noosa Hospital and Specialist Centre.

The indicative cash flows for Noosa are prepared by applying an index uplift factor to the current underlying budgeted cash flows (included in table below).

Sunshine Coast University Private Hospital (SCUPH)

The services agreement with Ramsay Health Care as operators of SCUPH was structured to ensure that service capacity was available for, and supplied to, public patients within the facility. The operator was not permitted to charge any fees to public patients other than those normally charged for a service in a public hospital. This agreement terminated in September 2018 at which time SCUPH ceased providing services to public patients.

After the service term, Ramsay Health Care will continue to operate the entire facility as a private provider of health services for a further 45 years. At the end of the 50 year period the building and related building infrastructure will be transferred to SCHHS.

There is a separate agreement with Ramsay Health Care for the SCUPH facility. SCHHS does not control the building associated with this arrangement. Therefore, this facility is not recorded as an asset. An estimate of the value of building assets to be transferred on completion of the agreement has not yet been determined.

The recognised fair value of the entire land asset at Kawana is \$45.5m (2018: \$44.5m); this is the site of SCUH and incorporates the SCUPH building. The portion of the site dedicated to SCUPH is approximately 7.9% with an estimated value of \$3.610m (2018: \$3.531m).

The indicative cash flows for SCUPH for 2018 comparatives are prepared in accordance with the contracted fee schedule over the five year term (included in table below).

Sunshine Coast Hospital and Health Service

Notes to the financial statements

30 June 2019

Note 26. Arrangements for the provision of public infrastructure by other entities (continued)

Sunshine Coast University Hospital (SCUH)

In 2012 the State, represented by the Department of Health, entered into a Public Private Partnership (PPP) with Exemplar Health (EH) to finance, design, build and operate SCUH. During 2016-17 the Department novated all rights and obligations to SCHHS as the State representative and legal counterparty to the PPP arrangement.

The 25 year operating phase of the PPP commenced on the 16th of November 2016, this being the date of commercial acceptance. For an agreed fee EH provides specialist building and amenity services to SCUH. As part of the arrangement, EH manages all SCUH building and plant infrastructure including refurbishment and renewal, repairs and maintenance and replacement of certain equipment. EH is obligated to ensure all infrastructure and assets (including carparks) are kept in a fit for use condition throughout the operating term.

An interest bearing liability of \$537.69m represented the fair value of the payable to EH for the construction of SCUH as at the date of commercial acceptance. The liability is repayable over a 25 year term. Refer to Note 15. Interest bearing liability.

The licence to occupy SCUH incorporates the commitment of EH to occupy and operate, or sublease, dedicated commercial areas to provide defined retail services at SCUH. SCHHS is entitled to receive a minimum entitlement which in 2019 was \$0.859m (2018: \$0.838m). This is considered to be an operating lease and is included in the disclosed balance of lessor revenue commitments at Note 22. Commitments.

Other than certain assets contained within the SCHI (refer to Note 27. Joint operations) SCHHS has full control of all SCUH buildings, land, specialist medical assets and all other equipment and they are recorded as assets of SCHHS. At the end of the 25 year term the assets will remain in the control of SCHHS.

The indicative cash flows have been prepared based on the current Bank Bill Swap Rate plus the margin on the facility totalling an effective interest rate of 3.96% (2018: 4.85%) applied to base case financial projections, plus anticipated CPI (included in table below).

Sunshine Coast University Hospital car parks

As part of the SCUH PPP, EH constructed two carparks on the SCUH site. These car parks are legally owned by SCHHS and recorded in the building asset class at a fair value of \$115.765m as at 30 June 2019 (2018: \$115.947m). The State has granted EH a licence to undertake car parking operations for the duration of the 25 year operating term which entitles EH to generate revenue from the operations themselves.

As part of the PPP SCHHS may be contractually obligated to make a revenue payment if a number of independent contractual tests are met. One such test relates to ensuring SCHHS employs a minimum number of staff physically based at SCUH from 1 July 2017 onwards. As at 30 June 2019 SCHHS has exceeded the minimum staff threshold. As part of the agreement staff and public car parking rates are capped and subject to CPI.

SCHHS has deferred revenue from the carpark licence to operate the carpark granted to EH. See Note 17 Unearned Revenue. The revenue will be unwound over the 25 year term of the agreement. This is considered to be an operating lease and future revenue to be recognised from the agreement is included in Lessor revenue commitments disclosed in Note 22 Commitments.

There are zero cash flows to be received in the future from this agreement.

Sunshine Coast Hospital and Health Service

Notes to the financial statements

30 June 2019

Note 26. Arrangements for the provision of public infrastructure by other entities (continued)

The estimated future cash flows from current arrangements are shown below:

| | 2019 | 2018 |
|--|---------------------------|---------------------------|
| | \$'000 | \$'000 |
| <i>Inflows</i> | | |
| Not later than 1 year | 39,620 | 46,977 |
| Later than 1 year but not later than 5 years | 54,357 | 69,470 |
| Later than 5 years but not later than 10 years | 57,569 | 48,914 |
| Later than 10 years | 61,596 | 58,494 |
| <i>Outflows</i> | | |
| Not later than 1 year | (214,458) | (171,236) |
| Later than 1 year but not later than 5 years | (296,576) | (311,797) |
| Later than 5 years but not later than 10 years | (411,415) | (401,344) |
| Later than 10 years | <u>(1,123,230)</u> | <u>(1,192,622)</u> |
| Net indicative cash flows | <u><u>(1,832,537)</u></u> | <u><u>(1,853,144)</u></u> |

Note 27. Joint operations

SCHHS is a partner together with **TAFE** East Coast Queensland, the University of the Sunshine Coast and Griffith University in the operation of the SCHI. The SCHI operates as an unincorporated joint operation under a Joint Venture Agreement (JVA), based at the SCUH.

The primary aims of the SCHI are to advance the education of trainee medical officers, nurses, midwives and other health care professionals, whilst providing outstanding patient care and extending research knowledge.

SCHHS has a 28.9% (2018: 28.9%) interest in the SCHI. Each joint operator has rights and obligations to the assets, liabilities, revenue and expenses of the SCHI according to their interest in the joint operation. Under the JVA, the joint operators contribute to the running costs of the SCHI at set percentage allocations, which are a reflection of the relative space and resource utilisation of each joint operator under the Agreement.

All joint operators have equal decision making rights, irrespective of the underlying interests.

The assets of SCHI include specialist equipment to facilitate medical research and teaching, in addition to the building fitout within the shared joint operation areas.

The financial impacts of the SCHI, as they relate to SCHHS, are included within the main statements of SCHHS. Summary information about the SCHI is as follows:

| | SCHI | SCHHS's | SCHI | SCHHS's |
|-----------------------------------|-----------------------|---------------------|----------------|----------------|
| | 2019 | share | 2018 | share |
| | \$'000 | 2019 | \$'000 | 2018 |
| | | \$'000 | | \$'000 |
| Total income | 2,808 | 812 | 4,121 | 1,191 |
| Total expenses | <u>(4,193)</u> | <u>(1,212)</u> | <u>(3,857)</u> | <u>(1,115)</u> |
| Total comprehensive result | <u>(1,385)</u> | <u>(400)</u> | <u>264</u> | <u>76</u> |
| Current assets | 902 | 261 | 1,485 | 429 |
| Non-current assets | <u>17,085</u> | <u>4,938</u> | <u>18,251</u> | <u>5,274</u> |
| Total assets | <u>17,987</u> | <u>5,199</u> | <u>19,736</u> | <u>5,703</u> |
| Current liabilities | <u>864</u> | <u>250</u> | <u>1,228</u> | <u>355</u> |
| Total liabilities | <u>864</u> | <u>250</u> | <u>1,228</u> | <u>355</u> |
| Net assets | <u>17,123</u> | <u>4,949</u> | <u>18,508</u> | <u>5,348</u> |

Sunshine Coast Hospital and Health Service

Notes to the financial statements

30 June 2019

Note 28. Taxation

The only federal taxes that SCHHS is assessed against are Fringe Benefits Tax (FBT) and GST. All FBT and GST reporting to the Commonwealth is managed centrally by the Department with payments/receipts made on behalf of SCHHS reimbursed to/from the Department on a monthly basis. GST credits receivable from, and GST payable to the Australian Tax Office (ATO), are recognised on this basis.

Both SCHHS and the Department satisfy section 149-25 of the *A New Tax System (Goods and Services Tax) Act 1999 (Cth)* (the GST Act). Consequently they were able, with other Hospital and Health Services, to form a group for GST purposes under Division 149 of the GST Act. Any transactions between the members of the group do not attract GST.

Note 29. First year application of new standards or change in policy

SCHHS did not voluntarily change any of its accounting policies during 2018-2019.

No Australian Accounting Standards have been early adopted for 2018-2019.

The following Australian Accounting Standard has been applied for the first time for 2018-2019.

(i) AASB 9 Financial Instruments

SCHHS applied AASB 9 Financial Instruments for the first time for the year ending 30 June 2019. The main impact of this standard on SCHHS is that it changes the requirements for the classification, measurement, impairment and disclosures associated with SCHHS's financial assets. M S B 9 introduced different criteria for whether financial assets can be measured at amortised cost or fair value.

When adopting M S B 9, SCHHS has applied transitional relief whereby comparative information for the year ending 30 June 2018 has not been restated and continues to be reported under M S B 139 Financial Instruments: Recognition and Measurement. Differences arising from the adoption of M S B 9 in relation to classification, measurement, and impairment are immaterial and have not been recognised in opening retained earnings as at 1 July 2018.

SCHHS has reviewed the impact of M S B 9 on the classification and measurement of its financial instruments. The following summarises the impact of M S B 9 which changed the categorisation and valuation of the amounts reported in Note 20. Financial instruments:

- There will be no change to either the classification or valuation of the cash and cash equivalent item.
- Trade and other receivables will be classified and measured at amortised cost, similar to the previous classification of trade and other receivables. However, AASB 9 requires the loss allowance to be measured using a forward-looking expected credit loss approach, replacing AASB 139's incurred loss approach. These are now characterised as 'expected credit losses'. SCHHS applied a simplified approach of recognising these lifetime credit losses as these items do not have a significant financing component. No additional impairment provision has been raised for these amounts on transition at 1 July 2018 due to immateriality.
- All financial liabilities listed in Note 20. Financial instruments continue to be measured at amortised cost with no change to the reported value of financial liabilities.

Sunshine Coast Hospital and Health Service

Notes to the financial statements

30 June 2019

Note 30. Future impact of accounting standards not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2019 reporting periods and have not been early adopted by SCHHS. The entity's assessment of the impact of these new standards and interpretations is set out below.

(i) AASE 1058 Income of Not-for-Profit Entities and AASB 15 Revenue from Contracts with Customers

The transition date for both AASB 15 and AASB 1058 is 1 July 2019. Consequently, these standards will first apply to SCHHS for the financial statements for the year ending 30 June 2020.

AASB 15 will replace AASB 111 Construction Contracts, AASB 118 Revenue and a number of related interpretations. A contract will be outside the scope of AASB 15 if it falls within the scope of other specific standards such as leases (AASB 16), insurance contracts (AASB 4 / AASB 17) and financial instruments (AASB 9). AASB 1058 will supersede the majority of income recognitions requirements of AASB 1004 Contributions and specifically addresses treatment of donations and volunteer services.

Depending on the specific contractual terms, the new requirements had the potential to result in a change to the timing of revenue for SCHHS, such that some revenue may need to be deferred to a later reporting period to the extent that SCHHS had not met its associated obligations. Further, under the new standards, grants presently recognised as revenue upfront may have become eligible to be recognised as revenue progressively as the associated performance obligations are satisfied, if the associated performance obligations were enforceable and sufficiently specific.

SCHHS has reviewed the impact of AASB 15 and AASB 1058 and identified that SCHHS does not currently have any revenue contracts with a material impact for the period after 1 July 2019. Specifically, the following assessments have been made regarding significant revenue categories:

Health Service Funding

AASB 15 was determined to be applicable to Health Service Funding under SCHHS's Service Agreement with the Department of Health. The timing of recognition of revenue received through this Agreement will not change from current practices.

Hospital Fees

AASB 15 was found to be applicable to fees earned from providing patient care to private, WorkCover and Medicare-ineligible patients, along with retention and assignment private practitioner revenue earned through Granted Private Practice Agreements. The timing of recognition of revenue received from these sources will not change from current practices.

Australian Government Grants

AASB 15 was found to be applicable to the three major Australian Government Grants through the terms of the relevant Grant Agreements. The timing of recognition of revenue received through these Agreements will not change from current practices.

State Government Grants

AASB 15 was found to be applicable to the operating revenue component of State Government-funded capital projects through the terms of the relevant project agreements. The timing of recognition of revenue received through these Agreements will not change from current practices.

Donations (including volunteer labour)

AASB 1058 was found to be applicable to Donations revenue and was used to assess the potential financial impact of volunteer labour supplied to SCHHS. Donations of assets and other donations are already being recorded at fair value in the accounts of SCHHS, and thus will not change upon adoption of AASB 1058. The estimated value of volunteer labour contributed to SCHHS is not material and will not be brought to account in the financial statements for the year ending 30 June 2019.

Sunshine Coast Hospital and Health Service

Notes to the financial statements

30 June 2019

Note 30. Future impact of accounting standards not yet effective (continued)

(ii) AASB 16 Leases

This Standard first applies to SCHHS's financial statements for the year ending 30 June 2020. When applied, the Standard supersedes AASB 117 Leases, AASB Interpretation 4 Determining whether an Arrangement contains a Lease, AASB Interpretation 115 Operating Leases - Incentives and AASB Interpretation 127 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

Unlike AASB 117 Leases, AASB 16 introduces a single lease accounting model for lessees. Lessees will be required to recognise a right-of-use asset (representing rights to use the underlying leased asset) and a liability (representing the obligation to make lease payments) for all leases with a term of more than 12 months (unless the underlying assets are of low value). In effect, the majority of operating leases (as defined by the current AASB 117) will be reported on the Statement of financial position under AASB 16.

The right-of-use asset will be initially recognised at cost, consisting of the initial amount of the associated lease liability. The right-of-use asset will give rise to a depreciation expense.

The lease liability will be initially recognised at an amount equal to the present value of all lease payments made during the lease term, less any payments made to 30 June 2019 as if AASB 16 had always applied. Current operating lease rental payments will no longer be expensed in the Statement of comprehensive income for the qualifying operating leases. They will be apportioned between a reduction in the recognised lease liability and the implicit finance charge (the effective rate of interest) in the lease. The finance cost will also be recognised as an expense.

SCHHS plans to adopt the transitional retrospective approach whereby the 2019-20 financial statements will not restate 2018-19 comparatives.

Based on SCHHS's assessment, it is expected that the first-time adoption of AASB 16 for the year ending 30 June 2020 will not have a material impact on the transactions and balances recognised in the financial statements. The immaterial impact will be:

- lease assets and financial liabilities on the Statement of financial position will increase by \$617,195 and \$662,902 respectively (based on estimates made considering the facts at the date of assessment), with the balance being a reduction to opening retained surplus of \$45,707.
- Operating cash outflows will be lower and financing cash flows will be higher in the Statement of cash flows as principal and interest payments on all lease liabilities will now be included in financing activities rather than operating activities.

(iii) AASB 1059 Service Concession Arrangements: Grantors

AASB 1059 will first apply to SCHHS's financial statements for the year ending 30 June 2021. This standard defines service concession arrangements and applies a new control concept to the recognition of service concession assets and related liabilities.

SCHHS has analysed the effects of this standard on the contractual arrangements summarised in Note 26. Arrangements for the provision of public infrastructure by other entities. This assessment has not yet been finalised so it cannot yet be determined whether the first-time adoption of AASB 1059 for the year ending 30 June 2021 will have a material impact on the transactions and balances recognised in the financial statements.

Note 31. Events after the reporting period




No matter or circumstance has arisen since 30 June 2019 that has significantly affected, or may significantly affect the operations of SCHHS, the results of those operations, or the state of affairs of SCHHS in future financial years.

Sunshine Coast Hospital and Health Service
 Management Certificate
 For the year ended 30 June 2019

These general purpose financial statements have been prepared pursuant to Section 62 (1) of the *Financial Accountability Act 2009* (the Act), Section 43 the *Financial and Performance Management Standard 2009* and other prescribed requirements. In accordance with Section 62 (1) (b) of the Act we certify that in our opinion:

- a) the prescribed requirements for establishing and keeping the accounts have been complied with in all material respects; and
- b) the financial statements have been drawn up to present a true and fair view, in accordance with prescribed accounting standards, of the transactions of Sunshine Coast Hospital and Health Service for the financial year ended 30 June 2019 and of the financial position of the Sunshine Coast Hospital and Health Service at the end of that year; and

We acknowledge responsibility under s.8 and s.15 of the *Financial and Performance Management Standard 2009* for the establishment and maintenance, in all material respects, of an appropriate and effective system of internal controls and risk management processes with respect to financial reporting throughout the reporting period.

| | | |
|---|--|---|
| <p>Dr Lorraine Ferguson Board Chair Sunshine Coast Hospital and Health Board</p>  <p>Dated 28/8/2019</p> | <p>Adjunct Professor Naomi Dwyer Chief Executive Sunshine Coast Hospital and Health Service</p>  <p>Dated 28/8/2019</p> | <p>Andrew McDonald CA A/Chief Finance Officer Sunshine Coast Hospital and Health Service</p>  <p>Dated 28/8/2019</p> |
|---|--|---|

INDEPENDENT AUDITOR'S REPORT

To the Board of Sunshine Coast Hospital and Health Service

Report on the audit of the financial report

Opinion

I have audited the accompanying financial report of Sunshine Coast Hospital and Health Service.

In my opinion, the financial report:

- a) gives a true and fair view of the entity's financial position as at 30 June 2019, and its financial performance and cash flows for the year then ended
- b) complies with the *Financial Accountability Act 2009*, the Financial and Performance Management Standard 2009 and Australian Accounting Standards.

The financial report comprises the statement of financial position as at 30 June 2019, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes to the financial statements including summaries of significant accounting policies and other explanatory information, and the management certificate.

Basis for opinion

I conducted my audit in accordance with the *Auditor-General of Queensland Auditing Standards*, which incorporate the Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of my report.

I am independent of the entity in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to my audit of the financial report in Australia. I have also fulfilled my other ethical responsibilities in accordance with the Code and the *Auditor-General of Queensland Auditing Standards*.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key audit matters

Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the financial report of the current period. I addressed these matters in the context of my audit of the financial report as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

Specialised buildings valuation (\$1,774.4 million)

Refer to Note 12 in the financial report.

| Key audit matter | How my audit addressed the key audit matter |
|---|---|
| <p>Buildings were material to Sunshine Coast Hospital and Health Service at balance date and were measured at fair value using the current replacement cost method. For 2019, Sunshine Coast Hospital and Health Service performed a comprehensive revaluation over the majority of buildings this year as part of the rolling revaluation program. All other buildings were assessed using relevant indices.</p> <p>The current replacement cost method comprises:</p> <ul style="list-style-type: none"> • Gross replacement cost, less • Accumulated depreciation <p>Sunshine Coast Hospital and Health Service derived the gross replacement cost of its buildings at balance date using unit prices that required significant judgements for:</p> <ul style="list-style-type: none"> • identifying the components of buildings with separately identifiable replacement costs • developing a unit rate for each of these components, including: <ul style="list-style-type: none"> o Estimating the current cost for a modern substitute (including locality factors and oncosts), expressed as a rate per unit (e.g. \$/square metre) o Identifying whether the existing building contains obsolescence or less utility compared to the modern substitute, and if so estimating the adjustment to the unit rate required to reflect this difference. <p>The measurement of accumulated depreciation involved significant judgements for forecasting the remaining useful lives of building components.</p> <p>The significant judgements required for gross replacement cost and useful lives are also significant judgements for calculating annual depreciation expense.</p> | <p>My procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Assessing the adequacy of management's review of the valuation process. • Reviewing the scope and instructions provided to the valuer • Assessing the appropriateness of the valuation methodology and the underlying assumptions • Assessing the appropriateness of the components of buildings used for measuring gross replacement cost with reference to common industry practices • Assessing the competence, capabilities and objectivity of the experts used to develop the models. • For unit rates associated with buildings that were comprehensively revalued this year, on a sample basis, evaluating the relevance, completeness and accuracy of source data used to derive the unit rate of the: <ul style="list-style-type: none"> o modern substitute (including locality factors and oncosts) o adjustment for excess quality or obsolescence. • Evaluating useful life estimates for reasonableness by: <ul style="list-style-type: none"> o Reviewing management's annual assessment of useful lives. o At an aggregated level, reviewing asset management plans for consistency between renewal budgets and the gross replacement cost of assets. o Ensuring that no asset still in use has reached or exceeded its useful life. o Enquiring of management about their plans for assets that are nearing the end of their useful life. o Reviewing assets with an inconsistent relationship between condition and remaining useful life. • Where changes in useful lives were identified, evaluating whether the effective dates of the changes applied for depreciation expense were supported by appropriate evidence. • Reconciling the fair value of the buildings as determined by management to the underlying accounting records and disclosures in the financial statements. |

Responsibilities of the entity for the financial report

The Board is responsible for the preparation of the financial report that gives a true and fair view in accordance with the *Financial Accountability Act 2009*, the Financial and Performance Management Standard 2009 and Australian Accounting Standards, and for such internal control as the Board determines is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

The Board is also responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless it is intended to abolish the entity or to otherwise cease operations.

Auditor's responsibilities for the audit of the financial report

My objectives 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 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 expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the entity.
- Conclude on the appropriateness of the entity'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 entity'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. I base my conclusions on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity 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.

From the matters communicated with the Board, I determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. I describe these matters in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

- **Queensland**
- • **Audit Office**
Better public services

In accordance with s.40 of the *Auditor-General Act 2009*, for the year ended 30 June 2019:

- a) I received all the information and explanations I required.
- b) In my opinion, the prescribed requirements in relation to the establishment and keeping of accounts were complied with in all material respects.

31 August 2019



C G Strickland
as delegate of the Auditor-General

Queensland Audit Office
Brisbane