

Dollars and Sense

Finance have provided the following “Plain English” guide to the financial statements of ADHB included in the 2008 Annual Report. If there are any questions you would like to ask, please contact Rosser Thornley in Shared Services Finance on extension 3009.

For full details of the financial statements and 2008 annual report, refer to www.adhb.govt.nz/news/publications

Page 56 Statement of Financial Performance (or Profit and Loss)

This statement shows total revenue and expenses for the 12 months from July 2007 to June 2008. Total revenue was \$1,530m and total expenses \$1,528m giving rise to a net surplus (difference between revenue and expenditure) of \$2m. This compared to a deficit of \$17m in the previous 12 month period.

The above results are for the ADHB Group. This means that they include the results of the 100% owned ADHB Charitable Trust, the two associate companies in which ADHB has shares – Auckland Regional RMO Services Ltd (33% shareholding) and Northern DHB Support Agency Ltd (33%) and the joint-venture Treaty Relationship Company Ltd (50%). The results excluding the Trust and these three companies is shown as “Parent”.

Details of the items that make up revenue and expenditure are shown in Notes 2 and 3. Items that may not be obvious include the following:

Funder Payments \$489m – these are payments made by ADHB Funder to all providers of health services other than through ADHB’s own Provider Arm including Non-Government Organisations and private sector providers such as Chemists for medicines they dispense.

Capital Charge \$38m – this is the charge made by the Crown (currently 8% per annum) on the funds (also called equity) that it has invested in ADHB.

Pages 57/58 Statement of Changes in Equity

This statement shows the Crown’s ownership in ADHB. The Crown’s funds at the beginning of the financial year were \$420m and at the end of the financial year were \$549m. The two reasons for the increase in funds of \$129m were the surplus of \$2m referred to above and revaluation of land and buildings of \$127m.

At the end of each financial period, ADHB is required by the accounting standards that it follows to revalue land and buildings. If there has been a material movement in value the change is required to be accounted for by adjusting the value of the assets and reserves. The impact of increasing the value of buildings is that the amount of depreciation provided as an expense increases in the future. This ensures ADHB is making a larger provision towards the replacement of those buildings in the future.

Details of items that make up the Statement of Changes in Equity are shown in Note 6.

Pages 59/60 Statement of Financial Position (or Balance Sheet)

This statement shows the value of ADHB's assets and liabilities at the end of the financial year, 30 June 2008, as well as the Crown's Equity. In the order they are set out in the detailed statement, these values are as follows:

Current Assets - \$184m,
Non-Current Assets - \$946m
Total Assets - \$1,130m

Current Liabilities - \$277m,
Non-Current Liabilities – \$304m
Total Liabilities - \$581m

Crown Equity - \$549m (being Total Assets less Total Liabilities)

Current assets and liabilities are assets that can be realised and liabilities that must be met within 12 months. Non-current assets and liabilities are held for longer than 12 months.

Details of items that make up the financial position are shown in Notes 5-11, 13, 14, 18 and 19.

Page 61 Statement of Cashflows

This statement shows the movement of ADHB's cash flows for the 12 months to 30 June 2008. In the order they are set out in the detailed statement, these flows were as follows:

Net cash inflows from operating activities, \$128m, trading cash surplus
Net cash outflows from investing activities, \$35m, investment in new capital assets
Net cash outflows from financing activities, \$10m, repayment of debt
Net cash inflows from all activities, \$83m, improvement in our overall cash position.

Accordingly, it was a very positive 12 months for cashflow. Notable during this period was the repayment of \$10.5m of debt to Crown Health Financing Agency as part of the Board's programme for repayment of \$315m debt over 30 years relating to the HSDP building and change programmes. Also, as ADHB has achieved a surplus, MOH pay our monthly funding in advance rather than arrears which accounts for the significant improvement in cash.

Pages 62-70 Significant Accounting Policies – Note 1

The most interesting development in this area was the use for the first time of International Financial Reporting Standards (IFRSs) in the preparation of ADHB's

financial statements. Prior to this the standards used were referred to as Financial Reporting Standards (FRS) along with their associated Statement of Standard Accounting Practices (SSAPs). The new accounting standards have evolved from the ashes of the Enron financial collapse in an attempt to make financial reporting far more transparent to the reader and to show the real value of all assets and liabilities of the organisation at balance date.

ADHB also changed its accounting policy at 30 June 2008 to include in Property, Plant and Equipment the value of land with restrictive titles. A benefit that accrued from this accounting change was for the audit qualification, that had been applied previously in relation to the exclusion of this land value, being removed and ADHB receiving an unqualified audit opinion from its external auditors Ernst & Young.

Pages 71-102 Other Notes to the Financial Statements

Notes 2-23 provide more details and explanation of revenue and expenses, assets and liabilities reported in the financial statements. Included in Note 23 are the changes arising from the use of IFRSs as outlined above.

Pages 125/126 Report of the Auditor General

The financial statements and Statement of Service Performance (Pages 103-124) included in the 2008 Annual Report are reviewed by Ernst & Young. Their opinion is expressed in the “Report of the Auditor-General” on behalf of the Auditor-General. As outlined above, an “Unqualified Opinion” has been provided by them. This indicates that in the view of the auditors the report provides a fair view of the activities of ADHB and that the resulting financial results and cash flows have been prepared in accord with generally accepted accounting practice.