

## Auditor-General's Independence Declaration

### To the Board, St Vincent's Hospital (Melbourne) Limited

The Auditor-General's independence is established by the *Constitution Act 1975*. The Auditor-General, an independent officer of parliament, is not subject to direction by any person about the way in which his powers and responsibilities are to be exercised.

Under the *Audit Act 1994*, the Auditor-General is the auditor of each public body and for the purposes of conducting an audit has access to all documents and property, and may report to parliament matters which the Auditor-General considers appropriate.

### *Independence Declaration*

As auditor for St Vincent's Hospital (Melbourne) Limited for the year ended 30 June 2018, I declare that, to the best of my knowledge and belief, there have been:

- no contraventions of auditor independence requirements of the *Australian Charities and Not-for-profits Commission Act 2012* in relation to the audit.
- no contraventions of any applicable code of professional conduct in relation to the audit.

MELBOURNE  
30 August 2018



Ron Mak  
*as delegate for the Auditor-General of Victoria*

## Board Members and Accountable Officer's Declaration

We declare that:

The Financial Report comprising the Comprehensive Operating Statement, Statement of Financial Position, Statement of Changes in Equity, Cash Flow Statement and notes to and forming part of the financial statements are in accordance with the *Australian Charities and Not-for-Profits Commission Act 2012 (Cth)*, including:

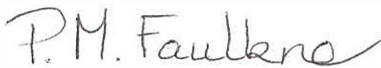
- (a) Giving a true and fair view of St Vincent's Hospital (Melbourne) Limited's financial position as at 30 June 2018 and of its performance for the year ended on that date: and
- (b) Complying with Accounting Standards, Australian Charities and Not-for-Profits Regulation 2013 and other mandatory professional reporting requirements.

There are reasonable grounds to believe that St Vincent's Hospital (Melbourne) Limited will be able to pay its debts as and when they become due and payable.

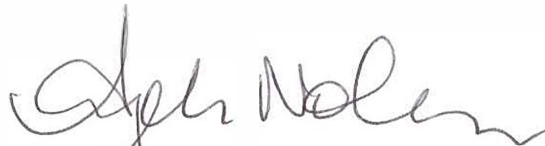
At the time of signing, we certify that the attached financial report for St Vincent's Hospital (Melbourne) Limited have been prepared in accordance with Direction 5.2 of the *Standing Directions* of the Minister for Finance under the *Financial Management Act 1994*, applicable Financial Reporting Directions (with the exception of FRD103F Non-Financial Physical Assets and FRD114A Financial Instruments), Australian Accounting Standards and other mandatory professional reporting requirements.

We are not aware of any circumstance which would render any particulars included in the financial statements to be misleading or inaccurate.

We authorise the attached financial statements for issue on 21 August 2018.



**Ms Patricia Faulkner AO**  
Deputy Chair  
Dated 21 August 2018  
Melbourne



**Angela Nolan**  
Chief Executive Officer  
Dated 21 August 2018  
Melbourne

## Comprehensive Operating Statement for the Financial Year Ended 30 June 2018

	Note	2018 \$'000	2017 \$'000
Revenue From Operating Activities	2.1	739,955	725,211
Revenue From Non-Operating Activities	2.1	1,591	2,442
Employee Expenses	3.1	(504,591)	(479,503)
Non Salary Labour Costs	3.1	(7,958)	(6,959)
Supplies and Consumables	3.1	(141,130)	(160,042)
Maintenance Contracts	3.1	(12,196)	(12,291)
Other Expenses	3.1	(72,107)	(65,515)
<b>Net Result Before Capital and Specific Items</b>		<b>3,564</b>	<b>3,343</b>
Capital Purpose Income	2.1	28,356	36,172
Assets Received Free of Charge	2.2	1,340	8
Depreciation and Amortisation	4.3	(23,785)	(22,138)
Leasehold Expense		(66)	(66)
Finance Costs	3.3	(2,713)	(6,108)
Other Capital Expenses	3.1	(6,636)	(12,452)
<b>Net Result After Capital and Specific Items</b>		<b>60</b>	<b>(1,241)</b>
<b>Other Economic Flows Included in Net Result</b>			
Net gain/ (loss) on revaluation of Investment Property	4.5	239	140
Net gain/ (loss) on revaluation of Long Service Leave		(30)	721
(Increase) / Decrease in Provision for Doubtful Debts	5.1	(928)	(865)
<b>Total Other Economic Flows Included in Net Result</b>		<b>(719)</b>	<b>(4)</b>
<b>Net Result for the Year</b>		<b>(659)</b>	<b>(1,245)</b>
<b>Other Comprehensive Income</b>			
<b>Items that will not be reclassified to Net Result</b>			
Changes in Asset Revaluation Surplus	8.1	(21)	12
<b>COMPREHENSIVE RESULT FOR THE YEAR</b>		<b>(680)</b>	<b>(1,233)</b>

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

## Balance Sheet for the Financial Year Ended 30 June 2018

	Note	2018 \$'000	2017 \$'000
<b>Assets</b>			
<b>Current Assets</b>			
Cash and Cash Equivalents	6.3	12,656	12,105
Receivables	5.1	32,872	41,108
Other Financial Assets	4.1	6,781	6,660
Inventories	5.2	6,997	7,380
Other Assets	5.4	1,373	1,522
Debtor - Department of Health & Human Services	8.12	-	3,711
<b>Total Current Assets</b>		<b>60,679</b>	<b>72,486</b>
<b>Non-Current Assets</b>			
Receivables	5.1	32,825	27,511
Other Financial Assets	4.1	67,498	63,024
Property, Plant and Equipment	4.2	151,337	157,353
Intangible Assets	4.4	15,002	10,429
Investment Property	4.5	2,639	2,400
<b>Total Non-Current Assets</b>		<b>269,301</b>	<b>260,717</b>
<b>Total Assets</b>		<b>329,980</b>	<b>333,203</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Payables	5.5	46,636	51,609
Interest Bearing Liabilities	6.1	7,512	18,366
Provisions	3.4	134,496	118,654
Other Liabilities	5.3	14,997	13,234
Obligation to provide Public Hospital Services	8.12	-	3,711
<b>Total Current Liabilities</b>		<b>203,641</b>	<b>205,574</b>
<b>Non-Current Liabilities</b>			
Interest Bearing Liabilities	6.1	15,661	17,540
Provisions	3.4	21,907	20,638
<b>Total Non-Current Liabilities</b>		<b>37,568</b>	<b>38,178</b>
<b>Total Liabilities</b>		<b>241,209</b>	<b>243,752</b>
<b>Net Assets</b>		<b>88,771</b>	<b>89,451</b>
<b>Equity</b>			
General Purpose Surplus	8.1a	165	445
Asset Revaluation Surplus	8.1a	605	626
Restricted Specific Purpose Surplus	8.1a	30,591	30,399
AIB Surplus	8.1a	6,067	5,979
Funds Held in Perpetuity	8.1a	250	250
Contributed Capital	8.1c	25,850	25,850
Accumulated Surplus	8.1b	25,243	25,902
<b>Total Equity</b>		<b>88,771</b>	<b>89,451</b>

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

## Statement of Changes in Equity for the Financial Year Ended 30 June 2018

		General Purpose Surplus	Asset Revaluation Surplus	Restricted Specific Purpose Surplus	AIB Surplus	Funds Held in Perpetuity	Contrib'tn by Owners	Accum. Surplus/ (Deficit)	Total
	Note	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Balance at 30 June 2016</b>	<b>8.1</b>	<b>1,200</b>	<b>614</b>	<b>29,732</b>	<b>5,891</b>	<b>250</b>	<b>25,850</b>	<b>27,147</b>	<b>90,684</b>
Net Result For The Year		-	-	-	-	-	-	(1,245)	(1,245)
Other Comprehensive Income		-	12	-	-	-	-	-	12
Transfer To/(From) AIB Surplus		(88)	-	-	88	-	-	-	-
Transfer To/(From) Restricted Specific Purpose Surplus		(667)	-	667	-	-	-	-	-
<b>Balance at 30 June 2017</b>	<b>8.1</b>	<b>445</b>	<b>626</b>	<b>30,399</b>	<b>5,979</b>	<b>250</b>	<b>25,850</b>	<b>25,902</b>	<b>89,451</b>
Net Result For Year		-	-	-	-	-	-	(659)	(659)
Other Comprehensive Income		-	(21)	-	-	-	-	-	(21)
Transfer To/(From) AIB Surplus		(88)	-	-	88	-	-	-	-
Transfer To/(From) Restricted Specific Purpose Surplus		(192)	-	192	-	-	-	-	-
<b>Balance at 30 June 2018</b>	<b>8.1</b>	<b>165</b>	<b>605</b>	<b>30,591</b>	<b>6,067</b>	<b>250</b>	<b>25,850</b>	<b>25,243</b>	<b>88,771</b>

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

## Cash Flow Statement for the Financial Year Ended 30 June 2018

		2018 \$'000	2017 \$'000
	Note	Inflows/ (Outflows)	Inflows/ (Outflows)
<b>Cash Flows From Operating Activities</b>			
Operating Grants from Government		576,795	530,126
Capital Grants from Government		24,048	29,247
Patient and Resident Fees Received		23,917	23,066
Private Practice and Pathology Fees Received		39,559	38,515
Donations and Bequests Received		3,476	3,457
Interest Received		1,686	2,519
Other Receipts		163,388	184,625
Interest received – St Vincent's Healthcare Ltd		1,542	4,310
Other Capital Receipts		1,882	1,861
<b>Total Receipts</b>		<b>836,293</b>	<b>817,726</b>
Employee Benefits Paid		(482,269)	(465,484)
Non Salary Labour Costs		(7,958)	(6,958)
Payments for Supplies and Consumables		(166,283)	(185,324)
Finance Costs		(2,713)	(6,108)
Other Expenses		(90,455)	(72,585)
GST Paid to ATO		(43,990)	(43,653)
Capital Building and Occupancy		(5,253)	(10,400)
<b>Total Payments</b>		<b>(798,921)</b>	<b>(790,512)</b>
<b>Net Cash Inflow from Operating Activities</b>	<b>8.2</b>	<b>37,372</b>	<b>27,214</b>
<b>Cash Flows From Investing Activities</b>			
Purchase of Property Plant and Equipment		(17,418)	(18,744)
Proceeds from Sale of Property Plant and Equipment		70	108
Payment for Intangible Assets		(4,896)	(358)
Purchases of Investments		(1,820)	(1,268)
<b>Net Cash Outflow from Investing Activities</b>		<b>(24,064)</b>	<b>(20,262)</b>
<b>Cash Flows From Financing Activities</b>			
Proceeds from Borrowings		3,689	8,355
Repayment of Borrowings		(11,939)	(9,560)
Repayment of Finance Leases		(4,668)	(4,856)
<b>Net Cash Inflow/(Outflow) From Financing Activities</b>		<b>(12,918)</b>	<b>(6,061)</b>
Net Increase/(Decrease) In Cash and Cash Equivalents Held		390	890
Cash and Cash Equivalents at Beginning of the Financial Year		2,997	2,107
<b>Cash and Cash Equivalents at End of the Financial Year</b>	<b>6.3</b>	<b>3,387</b>	<b>2,997</b>

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

## Notes to the financial statements for the financial year ended 30 June 2018

### Basis of Preparation

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

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

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

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

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

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

Revisions to accounting estimates are recognised in the period in which the estimate is revised and also future periods that are affected by the revision. Judgements and assumptions made by management in applying the application of AAS that have significant effect on the financial statements and estimates are disclosed in the notes under the heading: 'Significant judgement or estimates'.

### Note 1: Summary of Significant Accounting Policies

These annual financial statements represent the audited general purpose financial statements for St Vincent's Hospital (Melbourne) Limited ('Health Service') for the period ended 30 June 2018. The report provides users with information about the Health Services' stewardship of resources entrusted to it.

#### a) Statement of compliance

These general-purpose statements have been prepared in accordance with the Australian Charities and Not-for-Profits Commission Act 2012 (Cth), the Financial Management Act 1994 and Accounting Standards issued by the Australian Accounting Standards Board. Accounting standards include Australian Accounting Standards (AAS's) and Interpretations. The financial statements also comply with relevant Financial Reporting Directions (FRDs) issued by the Department of Treasury and Finance and relevant Standing Directions (SDs) authorised by the Minister of Finance, with the exception of FRD103F – Non-Financial Physical Assets and FRD114B Financial Instruments.

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

The annual financial statements were authorised for issue by the Board of the Health Service on 21 August 2018.

#### b) Basis of accounting preparation and measurement

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

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2018 and the comparative information presented in these financial statements for the year ended 30 June 2017. The going concern basis was used to prepare the financial statements.

These financial statements are presented in Australian dollars, the functional and presentation currency of St Vincent's Hospital (Melbourne) Limited (the 'Hospital').

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

The Health Service operates on a fund accounting basis and maintains three funds, Operating, Specific Purpose and Capital Funds.

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

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

- the fair value of cultural assets and investment property (refer to Note 4.2 and 4.5);
- employee benefit provisions are based on likely tenure of existing staff, patterns of leave claims, future salary movements and future discount rates (refer to Note 3.4); and
- fair value of shares and other investments.

**c) Goods and Services Tax**

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

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

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

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

**d) Reporting Entity**

The financial statements include all the controlled activities of the Hospital.

Its principal place of business is:

St Vincent's Hospital (Melbourne) Limited  
41 Victoria Parade  
Fitzroy Victoria 3065

A description of the nature of the Health Service's operations and its principal activities is included in the report of operations, which does not form part of these financial statements.

**e) Jointly Controlled Operations**

*Jointly controlled assets or operations*

Interests in jointly controlled assets or operations are not consolidated by the Hospital, but are accounted for in accordance with the policy outlined in Note 8.11.



## **Note 2: Funding delivery of our services**

The hospital's overall objective is to provide quality health services that support and enhance the wellbeing of all Victorians.

The hospital is predominantly funded by accrual based grant funding for the provision of outputs. The hospital also receives income from the supply of services.

### **Structure**

2.1 Analysis of revenue by source

2.2 Assets received free of charge or for nominal consideration

Note 2.1: Analysis of Revenue by Source – 2018

	RAC incl									
	Admitted Patients		Non-Admitted		Mental Health		Mental Health		Primary Health	
	2018	2018	2018	2018	2018	2018	2018	2018	2018	2018
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Government Grant	385,885	28,937	27,575	53,284	9,918	3,307	-	52,467	561,373	
Indirect Contributions by Department of Health and Human Services	6,113	-	-	-	-	-	-	-	6,113	
Patient and Resident Fees	18,187	254	437	442	2,757	-	-	1,163	23,240	
Commercial Activities	-	-	-	-	-	-	-	79,175	79,175	
Pathology	-	-	-	-	-	-	-	35,631	35,631	
Diagnostic Imaging	-	-	-	-	-	-	-	12,226	12,226	
Other Revenue from Operating Activities	7,871	51	294	1,611	166	6	22	12,176	22,197	
Total Revenue from Operating Activities	418,056	29,242	28,306	55,337	12,841	3,313	22	192,838	739,955	
Interest	-	-	-	-	-	-	-	1,101	1,101	
Dividends	-	-	-	-	-	-	-	490	490	
Total Revenue from Non-Operating Activities	-	-	-	-	-	-	-	1,591	1,591	
Capital Purpose Income	-	-	-	-	-	-	-	26,792	26,792	
Capital Interest – St Vincent's Healthcare Ltd	-	-	-	-	-	-	-	1,564	1,564	
Total Capital Purpose Income	-	-	-	-	-	-	-	28,356	28,356	
Assets Received Free of Charge (Note 2.2)	-	-	-	-	-	-	-	1,340	1,340	
Total Revenue	418,056	29,242	28,306	55,337	12,841	3,313	22	224,125	771,242	

Department of Health and Human Services makes certain payments on behalf of the Hospital. These amounts have been brought to account in determining the operating result for the year by recording them as revenue and expenses.

Revenue has been classified across programs as defined in the Agency Information Management System (AIMS) guidelines.

Note 2.1: Analysis of Revenue by Source – 2017

	Admitted Patients	Non- Admitted	EDS	RAC incl							
				Mental Health		Aged Care		Primary Health		Other	Total
				2017	\$'000	2017	\$'000	2017	\$'000		
Government Grant	357,551	28,478	19,366	51,569	8,557	3,003	-	-	83,635	552,159	
Indirect Contributions by Department of Health and Human Services	4,119	-	-	-	-	-	-	-	-	4,119	
Patient and Resident Fees	17,801	240	364	338	2,056	-	-	-	1,977	22,776	
Commercial Activities	-	-	-	-	-	-	-	-	76,306	76,306	
Pathology	-	-	-	-	-	-	-	-	30,344	30,344	
Diagnostic Imaging	-	-	-	-	-	-	-	-	11,867	11,867	
Other Revenue from Operating Activities	7,073	4	209	1,548	94	12	21	18,679	27,640		
<b>Total Revenue from Operating Activities</b>	<b>386,544</b>	<b>28,722</b>	<b>19,939</b>	<b>53,455</b>	<b>10,707</b>	<b>3,015</b>	<b>21</b>	<b>222,808</b>	<b>725,211</b>		
Interest	-	-	-	-	-	-	-	2,087	2,087		
Dividends	-	-	-	-	-	-	-	355	355		
<b>Total Revenue from Non-Operating Activities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,442</b>	<b>2,442</b>		
Capital Purpose Income	-	-	-	-	-	-	-	31,838	31,838		
Capital Interest – St Vincent's Healthcare Ltd	-	-	-	-	-	-	-	4,334	4,334		
<b>Total Capital Purpose Income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>36,172</b>	<b>36,172</b>		
Assets Received Free of Charge (Note 2.2)	-	-	-	-	-	-	-	8	8		
<b>Total Revenue</b>	<b>386,544</b>	<b>28,722</b>	<b>19,939</b>	<b>53,455</b>	<b>10,707</b>	<b>3,015</b>	<b>21</b>	<b>261,430</b>	<b>763,833</b>		

Department of Health and Human Services makes certain payments on behalf of the Hospital. These amounts have been brought to account in determining the operating result for the year by recording them as revenue and expenses.

Revenue has been classified across programs as defined in the Agency Information Management System (AIMS) guidelines.

## Revenue Recognition

Revenue is recognised in accordance with AASB 118 Revenue and is recognised as revenue to the extent it is probable that the economic benefits will flow to the Hospital and the revenue can be reliably measured at fair value. Unearned income at reporting dates is reported as income received in advance. Amounts disclosed as revenue are, where applicable, net of returns, allowances and duties and taxes.

### Government Grants

Grants are recognised as revenue when the Hospital gains control of the underlying assets as prescribed in *AASB 1004 Contributions*. Where grants are reciprocal, revenue is recognised as performance occurs under the grant. Non-reciprocal grants are recognised as revenue when the grant is received or receivable. Conditional grants may be reciprocal or non-reciprocal depending on the terms of the grant.

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

### Indirect Contributions from the Department of Health and Human Services ('the Department')

Indirect Contributions from the Department

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

### Patient and Resident Fees

Patient and resident fees are recognised as revenue on an accrual basis.

### Private Practice Fees

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

### Donations and Bequests

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

### Dividends

Dividend revenue is recognised when the right to receive payment is established. Dividends represent the income arising from the Hospital's investments in Financial Assets.

### Interest

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

### Resources Provided and Received Free of Charge or Nominal Consideration

Resources provided or received free of charge or for nominal consideration are recognised at their fair value when the Hospital receives control over them regardless of any restrictions or conditions imposed over their use. Contributions in the form of services are only recognised when a fair value can be reliably determined and the services would have been purchased if not donated.

### Revenue from Commercial Activities

Revenue from commercial activities such as car park and property rental income are recognised on an accrual basis.

### Category Groups

The Hospital has used the following category groups for reporting purposes for the current and previous financial years. However it should be noted that allocations across category groups are limited by both the Hospital's common chart of account coverage and the inclusion of the activities of St George's Health Service, Caritas Christ Hospice and Prague House.

**Admitted Patient Services (Admitted Patients)** comprises all recurrent health revenue/expenditure on admitted patient services, where services are delivered in public hospitals, or free standing day hospital facilities, or palliative care facilities, or rehabilitation facilities, or alcohol and drug treatment units.

**Mental Health Services (Mental Health)** comprises all recurrent health revenue/expenditure on specialised mental health services (child and adolescent, general and adult, community) managed or funded by the state or territory health administrations, and includes: Admitted patient services, outpatient services, emergency department services (where it is possible to separate emergency department mental health services), community-based services, residential and ambulatory services.

**Non Admitted Services (Non-Admitted)** comprises all recurrent health revenue/expenditure on public hospital type outpatient services, where services are delivered in public hospital outpatient clinics, or free standing day hospital facilities, or rehabilitation facilities, or alcohol and drug treatment units, or outpatient clinics specialising in ophthalmic aids or palliative care.

**Emergency Department Services (EDS)** comprises all recurrent health revenue/expenditure on emergency department services that are available free of charge to public patients.

**Aged Care** comprises revenue/expenditure from Home and Community Care (HACC) programs Allied Health, Aged Care Assessment and support services.

**Residential Aged Care (RAC)** including Mental Health referred to in the past as psychogeriatric residential services, comprises those Commonwealth-licensed residential aged care services in receipt of supplementary funding from the department under the mental health program. It excludes all other residential services funded under the mental health program, such as mental health funded community care units (CCUs) and secure extended care units (SECs).

**Primary Health** comprises revenue/expenditure for Community Health Services including health promotion and counselling, physiotherapy, speech therapy, podiatry and occupational therapy.

**Other Services not reported elsewhere** (Other) comprises services not separately classified above, including: Public Health Services including diagnostic imaging, cafeteria, car park, property, correctional health, BreastScreen clinic and community medical centre.

## Note 2.2: Assets Received Free of Charge or for Nominal Consideration

	Total 2018 \$'000	Total 2017 \$'000
During the reporting period, the fair value of assets received free of charge, was as follows:		
Cultural Assets	215	8
Financial Assets – shares in Epi-Minder	1,125	-
<b>Total</b>	<b>1,340</b>	<b>8</b>

### **Note 3: The cost of delivering services**

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

#### **Structure**

- 3.1 Analysis of expenses by source
- 3.2 Analysis of expense and revenue by internally managed and restricted specific purpose funds
- 3.3 Finance costs
- 3.4 Employee benefits in the balance sheet
- 3.5 Superannuation

Note 3.1: Analysis of Expense by Source – 2018

	Admitted Patients 2018 \$ '000	Non-Admitted 2018 \$ '000	EDS 2018 \$ '000	Mental Health 2018 \$ '000	RAC incl Mental Health 2018 \$ '000	Aged Care 2018 \$ '000	Primary Health 2018 \$ '000	H&CI and Restricted 2018 \$ '000	Other 2018 \$ '000	Total 2018 \$ '000
Employee Expenses	321,827	13,986	33,847	59,641	14,695	3,920	200	40,494	15,981	504,591
Non-Salary Labour Costs	3,646	78	979	791	658	6	-	1,699	101	7,958
Supplies and Consumables	111,674	6,432	4,405	6,445	1,603	381	4	4,307	5,879	141,130
Maintenance Contracts	7,822	720	564	869	339	45	-	1,144	693	12,196
Fuel, Light, Power & Water	4,559	337	321	818	359	38	-	302	611	7,345
Other Expenses	34,381	2,243	2,070	8,739	1,707	500	(1)	11,763	3,360	64,762
<b>Total Expenses from Operating Activities</b>	<b>483,909</b>	<b>23,796</b>	<b>42,186</b>	<b>77,303</b>	<b>19,361</b>	<b>4,890</b>	<b>203</b>	<b>59,709</b>	<b>26,625</b>	<b>737,982</b>
Campus Lease	-	-	-	-	-	-	-	-	5,253	5,253
Other Expenditure for Capital Purposes	-	-	-	-	-	-	-	-	1,449	1,449
Depreciation and Amortisation (Note 4.3)	-	-	-	-	-	-	-	-	23,785	23,785
Finance Costs (Note 3.3)	-	-	-	-	-	-	-	-	2,713	2,713
<b>Total Other Expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>33,200</b>	<b>33,200</b>
<b>Total Expenses</b>	<b>483,909</b>	<b>23,796</b>	<b>42,186</b>	<b>77,303</b>	<b>19,361</b>	<b>4,890</b>	<b>203</b>	<b>59,709</b>	<b>59,825</b>	<b>771,182</b>

Expenditure has been classified across programs as defined in the Agency Information Management System (AIMS) guidelines.

Note 3.1: Analysis of Expense by Source – 2017

	Admitted Patients 2017 \$ '000	Non-Admitted 2017 \$ '000	EDS 2017 \$ '000	Mental Health 2017 \$ '000	RAC incl Mental Health 2017 \$ '000	Aged Care 2017 \$ '000	Primary Health 2017 \$ '000	H&Ci and Restricted 2017 \$ '000	Other 2017 \$ '000	Total 2017 \$ '000
Employee Expenses	300,165	13,249	28,893	56,358	12,596	3,581	168	39,965	24,528	479,503
Non-Salary Labour Costs	3,335	53	561	1,241	400	5	-	1,229	135	6,959
Supplies and Consumables	129,481	6,159	3,361	6,045	1,239	338	-	4,358	9,061	160,042
Maintenance Contracts	7,707	762	484	854	279	42	-	1,043	1,120	12,291
Fuel, Light, Power & Water	3,729	292	199	705	249	31	-	229	857	6,291
Other Expenses	31,128	2,164	1,541	8,104	1,194	468	1	10,399	4,225	59,225
<b>Total Expenses from Operating Activities</b>	<b>475,545</b>	<b>22,679</b>	<b>35,039</b>	<b>73,307</b>	<b>15,957</b>	<b>4,465</b>	<b>169</b>	<b>57,223</b>	<b>39,926</b>	<b>724,310</b>
Campus Lease	-	-	-	-	-	-	-	-	10,407	10,407
Other Expenditure for Capital Purposes	-	-	-	-	-	-	-	-	2,111	2,111
Depreciation and Amortisation (Note 4.3)	-	-	-	-	-	-	-	-	22,138	22,138
Finance Costs (Note 3.3)	-	-	-	-	-	-	-	-	6,108	6,108
<b>Total Other Expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>40,765</b>	<b>40,765</b>
<b>Total Expenses</b>	<b>475,545</b>	<b>22,679</b>	<b>35,039</b>	<b>73,307</b>	<b>15,957</b>	<b>4,465</b>	<b>169</b>	<b>57,223</b>	<b>80,691</b>	<b>765,075</b>



## Expense Recognition

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

### Employee expenses

Employee expenses include:

- wages and salaries;
- annual leave;
- sick leave;
- termination payments;
- long service leave;
- superannuation expenses which are reported differently depending upon whether employees are members of defined benefit or defined contribution plans; and
- workcover premiums.

### Other Operating Expenses

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

- **Supplies and consumables**  
Supplies and services costs which are recognised as an expense in the reporting period in which they are incurred. The carrying amounts of any inventories held for distribution are expensed when distributed.
- **Bad and doubtful debts**  
Refer to Note 5.1 Receivables.
- **Borrowing costs of qualifying assets**  
In accordance with the paragraphs of AASB 123 Borrowing Costs applicable to not-for-profit public sector entities, the Health Services continues to recognise borrowing costs immediately as an expense, to the extent that they are directly attributable to the acquisition, construction or production of a qualifying asset.

Other economic flows are changes in the volume or value of assets or liabilities that do not result from transactions.

### Net gain/ (loss) on non-financial assets

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

#### *Revaluation gains/ (losses) of non-financial physical assets*

Refer to Note 4.2 Property plant and equipment.

#### *Net gain/ (loss) on disposal of non-financial assets*

Any gain or loss on the disposal of non-financial assets is recognised at the date of disposal and is the difference between the proceeds and the carrying amount of the asset at the time.

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

Net gain/ (loss) on financial instruments includes:

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

### Amortisation of non-produced intangible assets

Intangible non-produced assets with finite lives are amortised as an 'other economic flow' on a systematic basis over the assets useful life. Amortisation begins when the asset is available for use that is when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

### Impairment of non-financial assets

Goodwill and intangible assets with indefinite useful lives (and intangible assets not available for use) are tested annually for impairment and whenever there is an indication that the asset may be impaired. Refer to Note 4.4 Intangibles.

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

Other gains/ (losses) include:

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

**Note 3.2: Analysis of Expense and Revenue by Internally Managed and Restricted Specific Purpose Funds**

	Expense		Revenue	
	Total 2018 \$'000	Total 2017 \$'000	Total 2018 \$'000	Total 2017 \$'000
<b>Commercial Activities</b>				
Diagnostic Imaging	8,403	8,396	9,181	9,098
Cafeteria	180	169	466	600
Car Park	1,101	1,079	6,014	5,956
Property Expense/Revenue	268	172	3,136	2,806
Correctional Health Services	18,649	20,413	22,279	24,053
Childcare	47	38	220	235
Breastscreen Clinic	4,658	4,392	4,658	4,387
Commercial Training Programs	-	2	-	-
Community Medical Centre	1,806	1,818	1,802	1,810
Specific Purpose Trust Funds	12,420	9,458	15,754	12,233
Other Business Units	275	519	2,102	2,150
<b>Other Activities</b>				
Fundraising & Donations	1,831	1,510	4,470	4,003
Research & Scholarship	10,071	9,260	9,093	8,975
Other	-	-	-	-
<b>Total</b>	<b>59,709</b>	<b>57,226</b>	<b>79,175</b>	<b>76,306</b>

**Note 3.3: Finance Costs**

	Total 2018 \$'000	Total 2017 \$'000
St Vincent's Healthcare Ltd Loan	150	326
AIB Bond Holders	1,542	4,310
Finance Leases	761	1,047
Commonwealth Bank of Australia	260	425
<b>Total</b>	<b>2,713</b>	<b>6,108</b>

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

- Interest on bank overdrafts and short-term and long-term borrowings;
- Amortisation of discounts or premiums relating to borrowings;
- Amortisation of ancillary costs incurred in connection with the arrangement of borrowings; and
- Finance charges in respect of finance leases recognised in accordance with AASB 117 Leases.

### Note 3.4: Employee Benefits in the Balance Sheet

	Total 2018 \$'000	Total 2017 \$'000
<b>Current Provisions</b>		
Employee Benefits*		
Annual Leave		
- Unconditional and expected to be utilised within 12 months	27,943	25,440
- Unconditional and expected to be utilised after 12 months	4,662	4,220
Long Service Leave		
- Unconditional and expected to be utilised within 12 months	6,546	6,750
- Unconditional and expected to be utilised after 12 months	65,255	57,969
Accrued Wages and Salaries		
- Unconditional and expected to be utilised within 12 months	16,107	11,905
Accrued Days Off		
- Unconditional and expected to be utilised within 12 months	1,203	1,095
	<b>121,716</b>	<b>107,379</b>
Provisions related to Employee Benefit On-Costs		
- Unconditional and expected to be utilised within 12 months	5,439	4,745
- Unconditional and expected to be utilised after 12 months	7,341	6,530
	<b>12,780</b>	<b>11,275</b>
<b>Total Current Provisions</b>	<b>134,496</b>	<b>118,654</b>
<b>Non-Current Provisions</b>		
Employee Benefits*	19,825	18,677
Provisions related to Employee Benefit On-Costs	2,082	1,961
<b>Total Non-Current Provisions</b>	<b>21,907</b>	<b>20,638</b>
<b>Total Provisions</b>	<b>156,403</b>	<b>139,292</b>

\* Employee benefits consist of annual leave and long service leave accrued by employees. On-costs are not employee benefits and are reflected as a separate provision.

#### (a) Employee Benefits and Related On-Costs

	Total 2018 \$'000	Total 2017 \$'000
<b>Current Employee Benefits and Related On-Costs</b>		
Unconditional Long Service Leave Entitlements	79,341	71,515
Annual Leave Entitlements	36,028	32,774
Accrued Wages and Salaries	17,798	13,155
Accrued Days Off	1,329	1,210
<b>Total Current</b>	<b>134,496</b>	<b>118,654</b>
<b>Non-Current Employee Benefits and Related On-Costs</b>		
Conditional Long Service Leave Entitlements	21,907	20,638
<b>Total Non-Current</b>	<b>21,907</b>	<b>20,638</b>
<b>Total Employee Benefits and Related On-Costs</b>	<b>156,403</b>	<b>139,292</b>

#### (b) Movement in Provisions

	Total 2018 \$'000	Total 2017 \$'000
<b>Movement in Long Service Leave</b>		
Balance at start of year	92,153	85,744
Provisions made during the year	15,926	12,783
Settlement made during the year	(6,831)	(6,374)
<b>Balance at End of Year</b>	<b>101,248</b>	<b>92,153</b>

### **Provisions**

Provisions are recognised when the Hospital has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a liability is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows, using a discount rate that reflects the time value of money and risks specific to the provision.

When some or all of the economic benefits required to settle a provision are expected to be received from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

### **Employee Benefits**

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

#### **Wages and Salaries, Annual Leave and Accrued Days Off**

Liabilities for wages and salaries, including non-monetary benefits and annual leave are all recognised in the provision for employee benefits as 'current liabilities', because the Hospital does not have an unconditional right to defer settlements of these liabilities.

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

- Undiscounted value – if the Hospital expects to wholly settle within 12 months; or
- Present value – if the Hospital does not expect to wholly settle within 12 months.

#### **Long Service Leave**

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

Current Liability - unconditional LSL (representing 10 or more years of continuous service) is disclosed as a current liability regardless of whether or not the Hospital expects to settle the liability within 12 months, as it does not have the unconditional right to defer the settlement of the entitlement should an employee decide to take leave within 12 months. An unconditional right arises after a qualifying period.

The components of this current LSL liability are measured at:

- Present value - component that the Hospital does not expect to settle within 12 months; and
- Nominal value - component that the Hospital expects to settle within 12 months.

Non-Current Liability - conditional LSL (representing less than 10 years of continuous service) is disclosed as a non-current liability. There is an unconditional right to defer the settlement of the entitlement until 10 years of service has been completed by an employee. Conditional LSL is required to be measured at present value.

Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using interest rates of Commonwealth Government guaranteed securities in Australia.

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

#### **Termination Benefits**

Termination benefits are payable when employment is terminated before the normal retirement date or when an employee accepts voluntary redundancy in exchange for these benefits.

Liabilities for termination benefits are recognised when a detailed plan for the termination has been developed and a valid expectation has been raised with those employees affected that the terminations will be carried out. The liabilities for termination benefits are recognised in other creditors unless the amount or timing of the payments is uncertain, in which case they are recognised as a provision.

#### **On-Costs related to Employee Expense**

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

### Note 3.5: Superannuation

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

#### Defined contribution superannuation plans

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

#### Defined benefit superannuation plans

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

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

However superannuation contributions paid or payable for the reporting period are included as part of employee benefits in the comprehensive operating statement of the Hospital. The name, details and amounts expensed in relation to the major employee superannuation funds and contributions made by the Hospital are as follows:

	Paid Contribution for the Year		Contribution Outstanding at Year End	
	Total 2018 \$'000	Total 2017 \$'000	Total 2018 \$'000	Total 2017 \$'000
<b>Defined Benefit Plans:</b>				
First State Super	424	514	-	-
Government State Super Funds	216	229	21	22
<b>Defined Contribution Plans:</b>				
First State Super	21,954	21,957	1,724	1,718
HESTA	12,971	12,317	1,054	1003
VicSuper	151	131	12	10
Other	2,434	2,161	1,163	957
<b>Total</b>	<b>38,150</b>	<b>37,309</b>	<b>3,974</b>	<b>3,710</b>

#### **Note 4: Key Assets to support service delivery**

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

##### **Structure**

- 4.1 Investments and other financial assets
- 4.2 Property, plant & equipment
- 4.3 Depreciation and amortisation
- 4.4 Intangible assets
- 4.5 Investment properties

#### Note 4.1: Investments and other financial assets

	Operating Fund		Specific Purpose Fund		AIB Reserve Fund		Total	Total
	2018	2017	2018	2017	2018	2017	2018	2017
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Current</b>								
<b>Held to Maturity</b>								
Bank Bills and Term Deposits	298	267	416	414	-	-	714	681
<b>Fair Value through Profit and Loss</b>								
Guaranteed Bill Index Deposit in Escrow	-	-	-	-	6,067	5,979	6,067	5,979
<b>Total Current Other Financial Assets</b>	<b>298</b>	<b>267</b>	<b>416</b>	<b>414</b>	<b>6,067</b>	<b>5,979</b>	<b>6,781</b>	<b>6,660</b>
<b>Non-Current</b>								
<b>Fair Value through Profit and Loss</b>								
Shares and Other Managed Investments	10,211	9,828	15,990	15,239	-	-	26,201	25,067
Fixed Interest Securities and Floating rate notes	15,656	14,880	24,516	23,077	-	-	40,172	37,957
Shares in Epi Minder	1,125	-	-	-	-	-	1,125	-
<b>Total Non-Current Other Financial Assets</b>	<b>26,992</b>	<b>24,708</b>	<b>40,506</b>	<b>38,316</b>	<b>-</b>	<b>-</b>	<b>67,498</b>	<b>63,024</b>
<b>Total Other Financial Assets</b>	<b>27,290</b>	<b>24,975</b>	<b>40,922</b>	<b>38,730</b>	<b>6,067</b>	<b>5,979</b>	<b>74,279</b>	<b>69,684</b>
<b>Represented by:</b>								
Health Service Investments	27,290	24,975	40,922	38,730	6,067	5,979	74,279	69,684
<b>Total</b>	<b>27,290</b>	<b>24,975</b>	<b>40,922</b>	<b>38,730</b>	<b>6,067</b>	<b>5,979</b>	<b>74,279</b>	<b>69,684</b>

#### Investment Recognition

Hospital investments must be in accordance with Standing Direction 3.7.2 – Treasury and Investment Risk Management. Investments are recognised and derecognised on trade date where purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs.

Investments are classified in the following categories:

- financial assets at fair value through profit or loss;
- held-to-maturity;
- loans and receivables; and
- available-for-sale financial assets.

The Hospital classifies its other financial assets between current and non-current assets based on the purpose for which the assets were acquired. Management determines the classification of its other financial assets at initial recognition. The Hospital assesses at each balance sheet date whether a financial asset or group of financial assets is impaired. All financial assets, except those measured at fair value through profit or loss are subject to annual review for impairment. Refer to Note 7.1 for the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised in respect of investments and other financial assets.

In the current financial year end, the Hospital received 1,125,000 shares in Epi-Minder. These shares were at no cost in consideration for the Hospital relinquishing its interest in royalties associated with the Intellectual Property. The shares were valued at \$1 per share.

Fair value measurement hierarchy for financial assets as at 30 June 2018	Carrying amounts as at 30 June 2018	Fair Value Measurement at End of Reporting Period		
		Level 1	Level 2	Level 3
<b>Financial Assets at Fair Value through Profit and Loss</b>				
Other financial assets	72,440	72,440		
Shares in Epi-Minder	1,125		1,125	
<b>Total Financial Assets</b>	<b>73,565</b>	<b>72,440</b>	<b>1,125</b>	<b>-</b>

Fair value measurement hierarchy for financial assets as at 30 June 2017	Carrying amounts as at 30 June 2018	Fair Value Measurement at End of Reporting Period		
		Level 1	Level 2	Level 3
<b>Financial Assets at Fair Value through Profit and Loss</b>				
Other financial assets	69,003	69,003		
<b>Total Financial Assets</b>	<b>69,003</b>	<b>69,003</b>	<b>-</b>	<b>-</b>

There have been no transfers between levels during the period.



## Note 4.2: Property, Plant and Equipment

### (a) Gross carrying amount and accumulated depreciation

	Total 2018 \$'000	Total 2017 \$'000
<b>Leasehold Improvements</b>		
Leasehold Improvements at Cost	156,277	148,857
Less Accumulated Depreciation	(61,973)	(54,114)
<b>Total Leasehold Improvements</b>	<b>94,304</b>	<b>94,743</b>
<b>Plant and Equipment</b>		
Plant and Equipment at Cost	27,287	26,873
Less Accumulated Depreciation	(19,847)	(17,889)
<b>Total Plant and Equipment</b>	<b>7,440</b>	<b>8,984</b>
<b>Medical Equipment</b>		
Major Medical at Cost	75,792	71,091
Less Accumulated Depreciation	(59,171)	(54,420)
<b>Total Medical Equipment</b>	<b>16,621</b>	<b>16,671</b>
<b>Computers and Communication</b>		
Computers and Communication at Cost	10,386	9,487
Less Accumulated Depreciation	(8,163)	(7,199)
<b>Total Computers and Communications</b>	<b>2,223</b>	<b>2,288</b>
<b>Furniture and Fittings</b>		
Furniture and Fittings at Cost	3,309	3,172
Less Accumulated Depreciation	(2,668)	(2,514)
<b>Total Furniture and Fittings</b>	<b>641</b>	<b>658</b>
<b>Motor Vehicles</b>		
Motor Vehicles at Cost	3,662	3,769
Less Accumulated Depreciation	(3,316)	(3,170)
<b>Total Motor Vehicles</b>	<b>346</b>	<b>599</b>
<b>Cultural Assets</b>		
Cultural Assets at Fair Value <sup>^</sup>	3,256	3,062
<b>Total Cultural Assets</b>	<b>3,256</b>	<b>3,062</b>
<b>Leased Assets</b>		
Leasehold improvements at Cost	38,722	38,722
Plant and Equipment at Cost	29,882	29,742
Less Accumulated Amortisation	(58,736)	(54,169)
<b>Total Leased Assets</b>	<b>9,868</b>	<b>14,295</b>
<b>Works in Progress at Cost *</b>	<b>16,638</b>	<b>16,053</b>
<b>Total</b>	<b>151,337</b>	<b>157,353</b>

<sup>^</sup> Cultural Assets were revalued at 30 June 2018 by Dwyer Fine Arts.

\* Long term capital projects of leasehold improvements and plant and equipment are initially costed to "Works in Progress". When the project is completed and the new asset commissioned for use, the cost of the project is re-classified to the appropriate class of asset.

### Property, Plant and Equipment

Plant, equipment and vehicles are measured at cost less accumulated depreciation and impairment losses. Cultural assets are initially measured at cost and subsequently valued at fair value with increments and decrements being reflected through a reserve where decrements have not previously been recognised through the profit and loss. Decrements that offset previous increments in the same class of asset are charged against an asset revaluation reserve directly in equity and other decreases are charged to the profit and loss.

#### (b) Reconciliations of the carrying amounts of each class of asset

	Leasehold \$'000	Plant & Equipment \$'000	Medical Equipment \$'000	Computers & Comms \$'000	Furniture & Fittings \$'000	Motor Vehicles \$'000	Cultural Assets \$'000	Leased Assets \$'000	Works in Progress \$'000	Total \$'000
Balance at 1 July 2016	96,464	8,819	18,253	3,347	752	856	3,041	17,934	9,328	158,794
Additions	546	1,365	4,192	199	81	107	9	630	12,245	19,374
Transfers	5,346	856	(868)	(328)	-	-	-	(9)	(5,520)	(523)
Disposals	-	(4)	(38)	(24)	-	(55)	-	-	-	(121)
Revaluation	-	-	-	-	-	-	12	-	-	12
Depreciation	(7,613)	(2,052)	(4,868)	(906)	(175)	(309)	-	(4,260)	-	(20,183)
Balance at 1 July 2017	94,743	8,984	16,671	2,288	658	599	3,062	14,295	16,053	157,353
Additions	3,444	531	4,799	903	143	28	215	140	7,352	17,555
Transfers	3,975	-	-	-	-	-	-	-	(6,767)	(2,792)
Disposals	-	(6)	(21)	-	-	(60)	-	-	-	(87)
Revaluation	-	-	-	-	-	-	(21)	-	-	(21)
Depreciation	(7,858)	(2,069)	(4,828)	(968)	(160)	(221)	-	(4,567)	-	(20,671)
Balance at 30 June 2018	94,304	7,440	16,621	2,223	641	346	3,256	9,868	16,638	151,337

#### (c) Fair value measurement hierarchy for assets as at 30 June 2018

	Carrying amounts as at 30 June 2018	Fair value measurement at end of reporting period using (i)		
		Level 1	Level 2	Level 3
Cultural Assets at Fair Value	3,256		3,256	
Total	3,256		3,256	

#### Fair value measurement hierarchy for assets as at 30 June 2017

	Carrying amounts as at 30 June 2017	Fair value measurement at end of reporting period using (i)		
		Level 1	Level 2	Level 3
Cultural Assets at Fair Value	3,062		3,062	
Total	3,062		3,062	

(i) Classified in accordance with the fair value hierarchy

There have been no transfers between levels during the period.

### Cultural Assets

Cultural Assets are valued using the market approach. Under this valuation method, the assets are compared to recent comparable sales or sales of comparable assets which are considered to have nominal or no added improvement value.

For artwork, an independent valuation was performed by independent valuers "Fine Dwyer Arts" to determine the fair value using the market approach. Valuation of the assets is determined by a comparison to similar examples of the artist's work in existence throughout Australia and research on price paid for similar examples offered at auction or through art galleries in recent years.

To the extent that artworks do not contain significant, unobservable adjustments, these assets are classified as Level 2 under the market approach.

#### (d) Fair value determination

Asset class	Examples of types of assets	Expected fair value level	Likely valuation approach	Significant inputs (Level 3 only)
Non-specialised land	In areas where there is an active market: - vacant land - land not subject to restrictions as to use or sale	Level 2	Market approach	N/A
Specialised land	Land subject to restrictions as to use and/or sale  Land in areas where there is not an active market	Level 3	Market approach	CSO adjustments
Non-specialised buildings	For general/commercial buildings that are just built	Level 2	Market approach	N/A
Specialised buildings <sup>(i)</sup>	Specialised buildings with limited alternative uses and/or substantial customisation e.g. prisons, hospitals, and schools	Level 3	Depreciated replacement cost approach	Cost per square metre Useful life
Dwellings <sup>(i)</sup>	Social/public housing/employee housing	Level 2, where there is an active market in the area  Level 3, where there is no active market in the area	Market approach  Depreciated replacement cost approach	N/A Cost per square metre Useful life
Infrastructure	Any type	Level 3	Depreciated replacement cost approach	Cost per square metre Useful life
Road, infrastructure and earthworks	Any type	Level 3	Depreciated replacement cost approach	Cost per square metre Useful life
Plant and equipment <sup>(i)</sup>	Specialised items with limited alternative uses and/or substantial customisation	Level 3	Depreciated replacement cost approach	Cost per square metre Useful life
Vehicles	If there is an active resale market available;  If there is no active resale market available	Level 2  Level 3	Market approach  Depreciated replacement cost approach	N/A Cost per square metre Useful life
Cultural assets	Items for which there is an active market and there are operational uses for the item	Level 2	Market approach	N/A
Cultural assets	Items for which there is no active market and/or for which there are limited uses	Level 3	Depreciated replacement cost approach	Cost per square metre Useful life

<sup>(i)</sup> Newly built / acquired assets could be categorised as Level 2 assets as depreciation would not be a significant unobservable input (based on the 10% materiality threshold)

## Note 4.3: Depreciation and Amortisation

	Total 2018 \$'000	Total 2017 \$'000
<b>Depreciation</b>		
Plant and Equipment	2,069	2,052
Medical Equipment	4,828	4,868
Computers and Communication	968	906
Furniture and Fittings	160	175
Motor Vehicles	221	309
Leasehold Improvements	7,858	7,613
Leased Assets – Plant and Equipment	4,567	4,260
<b>Total Depreciation – Property, Plant and Equipment</b>	<b>20,671</b>	<b>20,183</b>
<b>Amortisation</b>		
<b>Intangible Assets</b>		
Computer Software & Development Costs	3,114	1,955
<b>Total Amortisation – Intangible Assets</b>	<b>3,114</b>	<b>1,955</b>
<b>Total Depreciation and Amortisation</b>	<b>23,785</b>	<b>22,138</b>

### Depreciation

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

### Amortisation

Amortisation is allocated to intangible assets with finite useful lives and is the systematic allocation of the depreciable amount of an asset over its useful life. Amortisation begins when the asset is available for use, that is, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at the end of each annual reporting period. In addition, an assessment is made at each reporting date to determine whether there are indicators that the intangible asset concerned is impaired. If so, the assets concerned are tested as to whether their carrying value exceeds their recoverable amount.

Intangible assets with indefinite useful lives are not amortised. The useful lives of intangible assets that are not being amortised are reviewed each period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset. In addition, the Hospital tests all intangible assets with indefinite useful lives for impairment by comparing their recoverable amounts with their carrying amounts:

- annually, and
- whenever there is an indication that the intangible asset may be impaired.

Any excess of the carrying amount over the recoverable amount is recognised as an impairment loss.

Assets with a cost in excess of \$1,000 are capitalised and depreciation or amortisation has been provided on depreciable assets so as to allocate their cost (or valuation) over their estimated useful lives using the straight-line method. Estimates of the remaining useful lives and depreciation method for all assets are reviewed at least annually. This depreciation charge is not funded by the Department.

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

	2018	2017
Leasehold Improvements	10 to 40 years	10 to 40 years
Plant and Equipment	4 to 15 years	4 to 15 years
Medical Equipment	4 to 10 years	4 to 10 years
Computers and Communications	4 to 10 years	4 to 10 years
Motor Vehicles	6.6 years	6.6 years
Furniture and Fittings	6 to 18 years	6 to 18 years
Leased Assets	4 to 10 years	4 to 10 years
Computer Software	4 to 10 years	4 to 10 years

The basis for leasehold improvements amortisation is determined in accordance with the receipt of letters from:

- the parent company advising of extension of the ground lease, and
- The Department advising of the proposed usage of the Hospital for public hospital services beyond 2018 and has allowed continuing application of the above expected useful lives of non-current assets.

#### Note 4.4: Intangible Assets

##### a) Gross carrying amount and accumulated depreciation

	Total 2018 \$'000	Total 2017 \$'000
Computer Software and Development at cost	28,980	21,293
Less Accumulated Amortisation	(17,353)	(14,239)
	<b>11,627</b>	<b>7,054</b>
Bed Licences at Fair Value	3,375	3,375
<b>Total Written Down Value</b>	<b>15,002</b>	<b>10,429</b>

##### b) Fair value measurement hierarchy for Intangible Assets as at 30 June 2018

	Carrying amounts as at 30 June 2018	Fair value measurement at end of reporting period using (i)		
		Level 1	Level 2	Level 3
Bed Licences at Fair Value	3,375		3,375	
<b>Total</b>	<b>3,375</b>		<b>3,375</b>	

##### Fair value measurement hierarchy for Intangible Assets as at 30 June 2017

	Carrying amounts as at 30 June 2017	Fair value measurement at end of reporting period using (i)		
		Level 1	Level 2	Level 3
Bed Licences at Fair Value	3,375		3,375	
<b>Total</b>	<b>3,375</b>		<b>3,375</b>	

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

There have been no transfers between levels during the period.

**c) Reconciliation of the carrying amounts of intangible assets at the beginning and end of the previous and current financial year.**

	Computer Software & Development \$'000	Bed Licences \$'000	Total \$'000
Balance at 1 July 2016	8,129	3,375	11,504
Additions	357	-	357
Transfers	523	-	523
Disposals	-	-	-
Depreciation/Amortisation	(1,955)	-	(1,955)
Balance at 1 July 2017	7,054	3,375	10,429
Additions	4,896	-	4,896
Transfers	2,791	-	2,791
Disposals	-	-	-
Depreciation/Amortisation	(3,114)	-	(3,114)
Balance as at 30 June 2018	11,627	3,375	15,002

Intangible assets represent identifiable non-monetary assets without physical substance such as Aged Care bed licences, computer software and development costs. Intangible assets are recognised at fair value. Costs incurred subsequent to initial acquisition are capitalised when it is expected that additional future economic benefits will flow to the Hospital.

**Note 4.5: Investment Properties**

**a) Movements in carrying value for investment properties as at 30 June 2018**

	Total 2018 \$'000	Total 2017 \$'000
Balance at Beginning of Period	2,400	2,260
Net gain from Fair Value adjustments	239	140
Balance at End of Period	2,639	2,400

**b) Fair value measurement hierarchy for investment properties as at 30 June 2018**

	Carrying amounts as at 30 June 2018	Fair value measurement at end of reporting period using (i)		
		Level 1	Level 2	Level 3
Investment properties	2,639		2,639	
Total	2,639		2,639	

**Fair value measurement hierarchy for investment properties as at 30 June 2017**

	Carrying amounts as at 30 June 2017	Fair value measurement at end of reporting period using (i)		
		Level 1	Level 2	Level 3
Investment properties	2,400		2,400	
Total	2,400		2,400	

(i) Classified in accordance with the fair value hierarchy

There have been no transfers between levels during the period. There were no changes in valuation techniques throughout the period to 30 June 2018.

The fair value of the Hospital's property 26-28 Gertrude St at 30 June 2018 has been arrived on the basis of Managerial Revaluation Assessment based on the Valuer-General Victoria indices.

**Investment properties**

Investment properties represent properties held to earn rentals or for capital appreciation or both. Investment properties exclude properties held to meet service delivery objectives of the State of Victoria.

Investment properties are initially recognised at cost. Costs incurred subsequent to initial acquisition are capitalised when it is probable that future economic benefits in excess of the originally assessed performance of the asset will flow to the Hospital.

Subsequent to initial recognition at cost, investment properties are re-valued to fair value with changes in the fair value recognised as revenue or expenses in the period that they arise. Fair values are determined based on a market comparable approach that reflects recent transaction prices for similar properties. The properties are not depreciated nor tested for impairment.

The Gertrude Street investment property is held for the purposes of long term capital gain and is not occupied by the Hospital. Nominal rental revenue (\$1p.a.) was received from an unrelated party until 31 December 2017. The rental revenue received is recognised in the Statement of Comprehensive Income in the periods in which it is receivable, as this represents the pattern of service rendered through the provision of the property. At balance date there is no commitment for expenditure relating to this property.

## **Note 5: Other assets and liabilities**

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

### **Structure**

5.1 Receivables

5.2 Inventories

5.3 Other liabilities

5.4 Other non-financial assets

5.5 Payables



## Note 5.1: Receivables

	Total 2018 \$'000	Total 2017 \$'000
<b>Current - Contractual</b>		
Trade Debtors	11,854	12,299
Patient Fees	6,006	6,022
Doctors' Fee Revenue	4,746	4,852
Accrued Revenue		
- Department of Health and Human Services	568	4,884
- Other	9,573	8,942
Loan – St Vincent's Healthcare Ltd (refer note 8.5)	47	3,689
<b>Sub-Total</b>	<b>32,794</b>	<b>40,688</b>
<b>Less: Provision for Doubtful Debts</b>		
Trade Debtors	(375)	(606)
Patient Fees	(594)	(397)
Other Debtors	(746)	(755)
<b>Sub-Total</b>	<b>(1,715)</b>	<b>(1,758)</b>
<b>Current - Statutory</b>		
GST Receivable	1,793	2,178
<b>Sub-Total</b>	<b>1,793</b>	<b>2,178</b>
<b>Total Current</b>	<b>32,872</b>	<b>41,108</b>
<b>Non-Current – Contractual</b>		
Loan – St Vincent's Healthcare Ltd (refer note 8.5)	332	445
<b>Sub-Total</b>	<b>332</b>	<b>445</b>
<b>Non-Current – Statutory</b>		
Department of Health and Human Services - Long Service Leave	32,493	27,066
<b>Sub-Total</b>	<b>32,493</b>	<b>27,066</b>
<b>Total Non-Current</b>	<b>32,825</b>	<b>27,511</b>
<b>TOTAL RECEIVABLES</b>	<b>65,697</b>	<b>68,619</b>

## Movement in the Allowance for Doubtful Debts

	Total 2018 \$'000	Total 2017 \$'000
Balance at beginning of year	1,758	1,265
Amounts written off during the year	(971)	(372)
Increase in allowance recognised in net result	928	865
<b>Balance at end of the year</b>	<b>1,715</b>	<b>1,758</b>

## Receivables Recognition

Receivables consist of:

- contractual receivables, which includes mainly debtors in relation to goods and services, loans to third parties and accrued investment income; and
- statutory receivables, which includes predominantly amounts owing from the Victorian Government and Goods and Services Tax ("GST") input tax credits recoverable.

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

Trade receivables are initially recognised at fair value and are due for settlement within 30 days from the date of recognition. Collectability of trade debtors is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Hospital will not be able to collect all amounts due according to the original terms of receivables. Bad debts are written off when identified.

## Note 5.2: Inventories

	Total 2018 \$'000	Total 2017 \$'000
<b>Current</b>		
Drug Supplies	2,903	3,710
Medical and Surgical Lines	3,834	3,416
Food Supplies	74	108
Biomedical Supplies	186	146
<b>Total</b>	<b>6,997</b>	<b>7,380</b>

Inventories include goods held for distribution at no or nominal cost in the ordinary course of business operations. It excludes depreciable assets. Inventories held for distribution are measured at the lower of cost and net realisable value. Cost for all inventories is measured on the basis of weighted average cost.

## Note 5.3: Other Liabilities

	Total 2018 \$'000	Total 2017 \$'000
<b>Current</b>		
Monies held in Trust		
– Security Deposits	250	250
– Salary Packaging Employees	2,898	3,005
– Patient Monies held in Trust	88	105
– Accommodation Bonds	5,943	5,748
– Other Monies Held in Trust	90	-
<b>Total Monies held in Trust</b>	<b>9,269</b>	<b>9,108</b>
<b>Represented by the following Assets</b>		
Cash and Cash Equivalents (Note 6.3)	9,269	9,108
	<b>9,269</b>	<b>9,108</b>
Deferred Revenue		
– Department of Health and Human Services	2,159	1,556
– Other	2,675	1,932
Other Liabilities	894	638
<b>Total Deferred Revenue</b>	<b>5,728</b>	<b>4,126</b>
<b>Total Current</b>	<b>14,997</b>	<b>13,234</b>

#### Note 5.4: Other non-financial assets

	Total 2018 \$'000	Total 2017 \$'000
<b>Current</b>		
Prepayments	1,373	1,522
<b>Total</b>	<b>1,373</b>	<b>1,522</b>

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

#### Note 5.5: Payables

	Total 2018 \$'000	Total 2017 \$'000
<b>Current – Contractual - Unsecured</b>		
Trade Creditors	30,038	38,524
Accrued Expenses	13,306	11,063
	<b>43,344</b>	<b>49,587</b>
<b>Current – Statutory - Unsecured</b>		
GST Payable	3,292	2,022
	<b>3,292</b>	<b>2,022</b>
<b>Total Current Payables</b>	<b>46,636</b>	<b>51,609</b>

Payables consist of:

- contractual payables are classified as financial instruments and measured at amortised cost. Accounts payable representing liabilities for goods and services provided to the Hospital prior to the end of the financial year that are unpaid; and
- Statutory payables are recognised and measured similarly to contractual payables, but are not classified as financial instruments and not included in the category of financial liabilities at amortised cost, because they do not arise from a contract.

#### Note 5.5 (a) Maturity analysis of financial liabilities as at 30 June

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

Maturity of Financial Instruments						
	1 year or less \$'000	Over 1 to 2 years \$'000	Over 2 to 5 years \$'000	Over 5 years \$'000	Total contractual cash flows \$'000	Carrying Amounts \$'000
<b>2018</b>						
<b>Financial Liabilities</b>						
Trade and other Payables (current)	43,344	-	-	-	43,344	43,344
Bank loans (current and non-current)	-	-	-	-	-	-
Other loans (current and non-current)	7,512	10,704	2,521	2,436	23,173	23,173
<b>Total</b>	<b>50,856</b>	<b>10,704</b>	<b>2,521</b>	<b>2,436</b>	<b>66,517</b>	<b>66,517</b>
<b>2017</b>						
<b>Financial Liabilities</b>						
Trade and other Payables (current)	49,585	-	-	-	49,585	49,585
Bank loans (current and non-current)	6,948	-	-	-	6,948	6,948
Other loans (current and non-current)	17,071	5,353	6,180	354	28,958	28,958
<b>Total</b>	<b>73,604</b>	<b>5,353</b>	<b>6,180</b>	<b>354</b>	<b>85,491</b>	<b>85,491</b>

Ageing analysis excludes statutory financial instruments

## Note 6: How we finance our operations

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

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

### Structure

- 6.1 Interest bearing liabilities
- 6.2 Non-cash financing and investing activities
- 6.3 Cash and cash equivalents
- 6.4 Commitments for expenditure

## Note 6.1: Interest Bearing Liabilities

	Total 2018 \$'000	Total 2017 \$'000
<b>Current</b>		
– AIB Bond Holders	-	3,711
– Commonwealth Bank of Australia (CBA)	-	1,295
– Finance Leases	3,979	4,675
– St Vincent's Healthcare Ltd	3,533	8,685
<b>Total Current</b>	<b>7,512</b>	<b>18,366</b>
<b>Non-Current</b>		
– AIB Bond Holders	-	-
– Commonwealth Bank of Australia (CBA)	-	5,653
– Finance Leases	6,214	10,045
– St Vincent's Healthcare Ltd	9,447	1,842
<b>Total Non-Current</b>	<b>15,661</b>	<b>17,540</b>
<b>Total Interest Bearing Liabilities</b>	<b>23,173</b>	<b>35,906</b>

During the year, the AIB Bond Holder liability matured during the financial year. The CBA loan facility was repaid in full upon maturity and was funded by related party loan to St Vincent's Healthcare Ltd. In comparison, in the previous financial year, the Hospital had AIB Bond Holders which were secured (refer to Note 8.12 for nature of security and repayment terms thereon) and the CBA loan facility that was also secured by the mortgage over the borrower's interest in the Victoria Parade car park and its operating agreement.

Finance costs of the Hospital incurred during the year are accounted for as finance costs recognised as expenses were \$2,713,000 (2017: \$6,108,000).

### (a) Maturity analysis of borrowings

Refer to Note 5.5 (a) for ageing analysis of Interest bearing liabilities.

### (b) Defaults and breaches

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

### (c) Finance Lease Liabilities

	Minimum future lease payments (i)		Present value of minimum future lease payments	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
<b>Other Finance Lease Liabilities Payable (ii)</b>				
Not longer than one year	4,474	5,391	3,979	4,639
Longer than one year but not longer than five years	6,693	10,685	6,214	9,728
Longer than five years	-	361	-	353
<b>Minimum future lease payments</b>	<b>11,167</b>	<b>16,437</b>	<b>10,193</b>	<b>14,720</b>
Less future finance charges	(974)	(1,717)	-	-
<b>Present value of minimum lease payments</b>	<b>10,193</b>	<b>14,720</b>	<b>10,193</b>	<b>14,720</b>
<b>Included in the Financial Statements as:</b>				
Current Borrowings Lease Liabilities	3,979	4,675	3,979	4,675
Non-Current Borrowings Lease Liabilities	6,214	10,045	6,214	10,045
<b>Total</b>	<b>10,193</b>	<b>14,720</b>	<b>10,193</b>	<b>14,720</b>

(i) Minimum future lease payments include the aggregate of all base payments and any guaranteed residual.

(ii) Other finance lease liabilities include obligations that are recognised on the balance sheet; the future payments related to operating and lease commitments are disclosed in Note 6.4.

The weighted average interest rate implicit in leases is 5.61% (2017 – 5.71%)

### Finance Leases

Finance leases are recognised as assets and liabilities at amounts equal to the fair value of the lease property or, if lower, the present value of the minimum lease payment, each determined at the inception of the lease. The lease assets under the PPP arrangement are accounted for as a non-financial physical asset and is depreciated over the term of the lease plus five years. Minimum lease payments are apportioned between reduction of the outstanding lease liability, and the periodic finance expense which is calculated using the interest rate implicit in the lease, and charged directly to the Comprehensive Operating Statement. Contingent rentals associated with finance leases are recognised as an expense in the period in which they are incurred.

### Borrowings

All borrowings are initially recognised at fair value of the consideration received, less directly attributable transaction costs. The measurement basis subsequent to initial recognition depends on whether the Hospital has categorised its borrowings as either, financial liabilities designated at fair value through profit or loss, or financial liabilities at amortised cost. Any difference between the initial recognised amount and the redemption value is recognised in net result over the period of the borrowings using the effective interest method. The classification depends on the nature and purpose of the borrowing. The Hospital determines the classification of its borrowing at initial recognition.

## Note 6.2: Non-cash financing and investing activities

	Total 2018 \$'000	Total 2017 \$'000
<b>Current</b>		
Acquisition of plant and equipment by means of Finance Lease	140	630
<b>Total Non-Cash Financing and Investing Activities</b>	<b>140</b>	<b>630</b>

## Note 6.3: Cash and Cash Equivalents

Cash and cash equivalents recognised on the Balance Sheet comprise cash on hand and in banks and short-term deposits which are readily convertible to cash on hand, and are subject to an insignificant risk of change in value, net of outstanding bank overdrafts.

For cash flow statement purposes, cash and cash equivalents include bank overdrafts, which are included as liabilities on the balance sheet.

	Total 2018 \$'000	Total 2017 \$'000
<b>Cash at Bank and on Hand</b>		
Cash on Hand	34	35
Cash at Bank	12,622	12,070
<b>Cash at 30 June</b>	<b>12,656</b>	<b>12,105</b>
<b>Represented by:</b>		
Cash for Operations (as per Cash Flow Statement)	3,387	2,997
Cash for Monies Held in Trust (Note 5.3)	9,269	9,108
<b>Cash at 30 June</b>	<b>12,656</b>	<b>12,105</b>

#### Note 6.4: Commitments for expenditure

	Total 2018 \$'000	Total 2017 \$'000
<b>Capital Expenditure Commitments</b>		
Payable		
Leasehold Improvements	3,531	3,042
Intangible assets	2,033	3,089
Other	956	921
<b>Total Capital Commitments</b>	<b>6,520</b>	<b>7,052</b>
Not later than 1 year	2,611	5,543
Later than 1 years but not later than 5 years	3,909	1,509
Later than 5 years	-	-
<b>Total</b>	<b>6,520</b>	<b>7,052</b>
<b>Operating Commitments</b>		
Orders placed for goods and services	1,898	1,780
<b>Total Operating Commitments</b>	<b>1,898</b>	<b>1,780</b>
Not later than one year	1,898	1,780
Later than 1 year but not later than 5 years	-	-
Later than 5 years	-	-
<b>Total</b>	<b>1,898</b>	<b>1,780</b>
<b>Lease Commitments</b>		
Commitments in relation to leases contracted for at the reporting date:		
Operating Leases	114	438
Finance Leases	10,193	14,720
<b>Total Lease Commitments</b>	<b>10,307</b>	<b>15,158</b>
<b>Operating Leases</b>		
<b>Cancellable</b>		
Not later than 1 year	114	324
Later than 1 year but not later than 5 years	-	114
Later than 5 years	-	-
<b>Total</b>	<b>114</b>	<b>438</b>
<b>Finance Leases</b>		
<b>Non Cancellable</b>		
Not later than 1 year	3,979	4,639
Later than 1 years but not later than 5 years	6,214	9,728
Later than 5 years	-	353
<b>Sub Total</b>	<b>10,193</b>	<b>14,720</b>
<b>Total</b>	<b>10,307</b>	<b>15,158</b>
<b>Total Commitments</b>	<b>18,725</b>	<b>23,990</b>

Commitments for future expenditure include operating and capital commitments arising from contracts. These commitments are disclosed at their nominal value and are inclusive of the GST payable.

## **Note 7: Risks, contingencies & valuation uncertainties**

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

### **Structure**

- 7.1 Financial instruments
- 7.2 Net gain/ (loss) on disposal of non-financial assets
- 7.3 Contingent assets and contingent liabilities



## Note 7.1: Financial Instruments

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

### a) Categorisation of Financial Instruments

	Note	Carrying Amounts 2018 \$'000	Carrying Amounts 2017 \$'000
<b>Financial Assets</b>			
Cash and cash equivalents	6.3	12,656	12,105
Held to Maturity Investments	4.1	714	681
Designated at Fair Value through Profit or Loss	4.1	73,565	69,003
Loans and Receivables	5.1	31,411	39,375
<b>Total Financial Assets</b>		<b>118,346</b>	<b>121,164</b>
<b>Financial Liabilities</b>			
At Amortised Cost	5.5a	66,517	85,491
<b>Total Financial Liabilities</b>		<b>66,517</b>	<b>85,491</b>

Note that financial assets and liabilities exclude statutory receivables and payables

### b) Net holding gain/(loss) on financial instruments by category

	Net holding gain/(loss) 2018 \$'000	Net holding gain/(loss) 2017 \$'000
<b>Financial Assets</b>		
Cash and cash equivalents (i)	723	835
Designated at Fair Value through Profit or Loss (iii)	901	1,115
Held to Maturity Investments	25	24
Loans and Receivables	1,606	3,842
<b>Total Financial Assets</b>	<b>3,255</b>	<b>5,816</b>
<b>Financial Liabilities</b>		
At Amortised Cost (ii)	(2,713)	(6,108)
<b>Total Financial Liabilities</b>	<b>(2,713)</b>	<b>(6,108)</b>

- (i) For cash and cash equivalents, loans or receivables and available-for-sale financial assets, the net gain or loss is calculated by taking the movement in the fair value of the asset, interest revenue, plus or minus foreign exchange gains or losses arising from revaluation of the financial assets, and minus any impairment recognised in the net result;
- (ii) For financial liabilities measured at amortised cost, the net gain or loss is calculated by taking the interest expense, plus or minus foreign exchange gains or losses arising from the revaluation of financial liabilities measured at amortised cost; and
- (iii) For financial assets and liabilities that are held-for-trading or designated at fair value through profit or loss, the net gain or loss is calculated by taking the movement in the fair value of the financial asset or liability.

### **(c) Significant Terms and Conditions**

On 9 December 1992, the Hospital raised an amount of \$80 million (face value) by an issue of Annuity Indexed Bonds which are supported by way of a guarantee approved by the Department and the Treasurer of the State of Victoria pursuant to Section 30 of the *Health Services Act 1988*. The repayments to bondholders under this arrangement were cash-flowed by Department on a quarterly basis up to November 2017 as part of the 25 year Health Services Agreement (Note 8.12). This program has concluded within this financial year with all bondholders repaid in full.

#### **Initial recognition and measurement**

Financial instruments are recognised when the entity becomes a party to the contractual provisions of the instrument being equivalent to the date that the company commits itself to either purchase or sell the asset (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified at fair value through profit or loss in which case transaction costs are expensed to profit or loss immediately.

Dividend revenue is recognised on a receivable basis. Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

#### **Classification and subsequent measurement**

Financial instruments are subsequently measured at either fair value, amortised cost using the effective interest rate method or cost. Fair value represents the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties. Where available quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Amortised cost is calculated as: (i) the amount at which the financial asset or financial liability is measured at initial recognition; (ii) less principal repayments; (iii) plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognised and the maturity amount calculated using the effective interest method; and (iv) less any reduction for impairment.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

#### **Financial assets at fair value through profit or loss**

Financial assets are classified at 'fair value through profit or loss' when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

#### **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

Loans and receivables are included in current assets, except for those which are not expected to mature within 12 months after the end of the reporting period, which will be classified as non-current assets.

#### **Held-to-maturity investments**

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Hospital's intention to hold these investments to maturity. They are subsequently measured at amortised cost.

Held-to-maturity investments are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period, which will be classified as current assets.

The Hospital makes limited use of this classification because any sale or reclassification of more than an insignificant amount of held to maturity investments not close to their maturity, would result in the whole category being reclassified as available for sale.

#### Financial liabilities at amortised cost

Financial instrument liabilities are initially recognised on the date they are originated. They are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial instruments are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit and loss over the period of the interest-bearing liability, using the effective interest rate method.

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

#### Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

#### Impairment

At the end of each reporting period, the Hospital assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the statement of comprehensive income.

#### Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expire or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

#### Note 7.2: Net gain / (loss) on disposal of non-financial assets

	Total 2018 \$'000	Total 2017 \$'000
<b>Proceeds from Disposal of Non-Current Assets</b>		
- Plant & Equipment	-	33
- Medical Equipment	10	10
- Computers and Communication	-	38
- Motor Vehicles	60	27
<b>Total Proceeds from Disposal of Non-Current Assets</b>	<b>70</b>	<b>108</b>
<b>Less: Written Down Value of Assets Sold</b>		
- Plant and Equipment	(6)	(4)
- Medical Equipment	(21)	(38)
- Computers and Communication	-	(24)
- Motor Vehicles	(60)	(55)
<b>Total Written Down Value of Non-Current Assets Sold</b>	<b>(87)</b>	<b>(121)</b>
<b>Net Gain/(Losses) on Disposal of Non-Current Assets</b>	<b>(17)</b>	<b>(13)</b>

#### Disposal of non-financial assets

Any gain or loss on the sale of non-financial assets is recognised in the comprehensive operating statement.

#### Impairment of Non-Financial Assets

Intangible assets that have indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they may be impaired. All other non-financial assets are reviewed annually for indications of impairment except for:

- Inventories, and
- financial instrument assets.

If there is an indication of impairment, the assets concerned are tested as to whether their carrying value exceeds their recoverable amount. Where an asset's carrying value exceeds its recoverable amount, the difference is written-off by a charge to the operating statement except to the extent that the write-down can be debited to an asset revaluation reserve amount applicable to that class of asset.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is measured at the higher of an asset's fair value less costs to sell and depreciated replacement cost. Recoverable amount for assets held primarily to generate net cash inflows is measured at the higher of the present value of future cash flows expected to be obtained from the asset and fair value less costs to sell.

For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or group of assets (cash-generating units). Where there are indicators of impairment and an asset's carrying value exceeds its recoverable amount, the difference is written-off by a charge to the operating statement except to the extent that the write-down can be debited to an asset revaluation reserve amount applicable to that class of asset.

The recoverable amount for most assets is measured at the higher of depreciated replacement cost and fair value less costs to sell. Recoverable amount for assets held primarily to generate net cash inflows is measured at the higher of the present value of future cash flows expected to be obtained from the asset and fair value less costs to sell. It is deemed that, in the event of the loss of an asset, the future economic benefits arising from the use of the asset will be replaced unless a specific decision to the contrary has been made.

### Note 7.3: Contingent assets and contingent liabilities

The Hospital has no contingent assets and contingent liabilities as at 30 June 2018.

## Note 8: Other Disclosures

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

### Structure

- 8.1 Equity
- 8.2 Reconciliation of net result for the year to net cash inflow/(outflow) from operating activities
- 8.3 Responsible persons disclosures
- 8.4 Executive officer disclosures
- 8.5 Related parties
- 8.6 Payments to other personnel (i.e. contractors with significant management responsibilities)
- 8.7 Remuneration of auditors
- 8.8 Ex-gratia expenses
- 8.9 AASBs issued that are not yet effective
- 8.10 Events occurring after the balance sheet date
- 8.11 Controlled entities
- 8.12 Redevelopment of the Hospital (1996)
- 8.13 Alternative presentation of comprehensive operating statement
- 8.14 Glossary of terms and style conventions

## Note 8.1: Equity

	Total 2018 \$'000	Total 2017 \$'000
<b>a) SURPLUSES</b>		
<b>Restricted Specific Purpose Surplus</b>		
Balance at the beginning of the reporting period	30,399	29,732
Transfer to and from Restricted Purpose Surplus	192	667
Balance at the end of the reporting period	30,591	30,399
<b>Asset Revaluation Surplus</b>		
Balance at the beginning of the reporting period	626	614
Revaluation during the period	(21)	12
Balance at the end of the reporting period	605	626
<b>AIB Surplus</b>		
Balance at the beginning of the reporting period	5,979	5,891
Transfer to and from AIB Surplus	88	88
Balance at the end of the reporting period	6,067	5,979
<b>General Purpose Surplus</b>		
Balance at the beginning of the reporting period	445	1,200
Transfer to and from General Purpose Surplus	(280)	(755)
Balance at the end of the reporting period	165	445
<b>Funds Held in Perpetuity</b>		
Balance at the beginning of the reporting period	250	250
Transfer to and from Funds held in Perpetuity	-	0
Balance at the end of the reporting period	250	250
<b>Total Reserves</b>	<b>37,678</b>	<b>37,699</b>
<b>b) ACCUMULATED SURPLUSES</b>		
Balance at the beginning of the reporting period	25,902	27,147
Net Result for the Year	(659)	(1,245)
Partial deconsolidation of jointly controlled operation	-	-
Transfer to and from Surpluses	-	-
Balance at the end of the reporting period	25,243	25,902
<b>c) CONTRIBUTED CAPITAL</b>		
Balance at the beginning of the reporting period	25,850	25,850
Balance at the end of the year	25,850	25,850
<b>d) EQUITY</b>		
Total Equity at the beginning of the reporting period	89,451	90,684
Total changes in Equity Recognised in the Statement of Comprehensive Income	(680)	(1,233)
Reduction of Entity Equity Upon Admission of New Member to Joint Venture	-	-
<b>Total Equity</b>	<b>88,771</b>	<b>89,451</b>

The company is limited by guarantee. If the Company is wound up, the Constitution states that each member is required to contribute a maximum of \$100 each towards meeting any outstanding obligations of the company. At 30 June 2018 the company had 1 member (2017: 1 member).

### Contributed Capital

Consistent with Australian Accounting Interpretation 1038 Contributions by Owners Made to Wholly-Owned Public Sector Entities and FRD119A Contributions by Owners, appropriations for additions to the net asset base have been designated as contributed capital. Other transfers that are in the nature of contributions or distributions or have been designated as contributed capital are also treated as contributed capital.

Transfers of net assets arising from administrative restructurings are treated as contributions by owners. Transfers of net liabilities arising from administrative restructures are to go through the Comprehensive Operating Statement.

### Property, Plant and Equipment Revaluation Surplus

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

### Specific Restricted Purpose Surplus

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

## Note 8.2: Reconciliation of Net Result for the Year to Net Cash Inflow from Operating Activities

	Total 2018 \$'000	Total 2017 \$'000
<b>Net Result for the Year</b>	<b>(659)</b>	<b>(1,245)</b>
<b>Non-cash movements:</b>		
Depreciation and Amortisation	23,785	22,138
Revaluation of Investment Property	(239)	(140)
Provision for Doubtful Debts	(42)	492
Assets Received Free of Charge	(1,340)	(8)
Income from Investments Reinvested	(2,439)	(1,510)
<b>Movements included in Investing and Financing Activities:</b>		
Net (Gain)/Loss on Disposal of Non-Current Assets	17	13
<b>Change in Operating Assets and Liabilities</b>		
(Increase)/Decrease in Inventories	383	(200)
Increase/(Decrease) in Creditors	(7,224)	1,764
Increase/(Decrease) in Employee Entitlements	17,112	10,976
Increase/(Decrease) in Accrued Expenses	2,244	1,574
Increase/(Decrease) in Prepaid Revenue	1,692	1,267
(Increase)/Decrease in Patient Fees Receivable	16	(60)
(Increase)/Decrease in Receivables	3,917	(7,764)
(Increase)/Decrease in Prepaid Expenses	149	(83)
<b>Net Cash Inflow from Operating Activities</b>	<b>37,372</b>	<b>27,214</b>

## Note 8.3: Responsible Persons Disclosures

### a) Responsible Persons

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

#### Responsible Ministers

The Hon Jill Hennessy, Minister for Health, Minister for Ambulance Services	01/07/17 – 30/06/18
The Hon Martin Foley, Minister for Housing, Disability and Ageing, Minister for Mental Health	01/07/17 – 30/06/18

#### Governing Board

The Directors of the Hospital during the year were:

Mr P Robertson AM (Chair)	01/07/17 – 30/06/18
Ms P Faulkner AO (Deputy Chair)	01/07/17 – 30/06/18
Ms A McDonald	01/07/17 – 30/06/18
Prof M Confoy RSC	01/07/17 – 30/06/18
Prof S Crowe AM	01/07/17 – 30/06/18
Mr B Earle	01/07/17 – 30/06/18
Mr P McClintock AO	01/07/17 – 30/06/18
Sr M Wright IBVM	01/07/17 – 30/06/18
Dr M Coote	01/07/17 – 30/06/18
Ms S McPhee AM	01/10/17 – 30/06/18

#### Accountable Officer

Ms S O'Neill (01/07/2017 – 19/11/2017)
Ms A Nolan (20/11/2017 – 30/06/2018)



#### b) Remuneration of Responsible Persons

Directors of the St Vincent's Health Australia Board (also sitting as the St Vincent's Hospital (Melbourne) Board), received payment for their roles as Directors of the SVHA group. These amounts were paid and accounted for by St Vincent's Health Australia Limited and not St Vincent's Hospital (Melbourne) Limited.

Those Responsible persons who held Executive positions within the Hospital and those directors who received remuneration for their management or professional duties, are shown in the relevant income bands below.

	Total Remuneration		Base Remuneration	
	2018	2017	2018	2017
	No.	No.	No.	No.
\$0 - \$9,999		2		2
\$30,000 - \$39,999				
\$40,000 - \$49,999	1	1	1	1
\$60,000 - \$69,999	4	4	4	4
\$70,000 - \$79,999	3	2	3	2
\$80,000 - \$89,999	1	1	1	1
\$110,000 - \$119,999				
\$140,000 - \$149,999	1	1	1	1
\$200,000 - \$209,000			1	
\$210,000 - \$219,999			1	
\$220,000 - \$229,000	1			
\$250,000 - \$259,000	1			
\$380,000 - \$389,000				1
\$400,000 - \$409,999		1		
<b>Total</b>	<b>12</b>	<b>12</b>	<b>12</b>	<b>12</b>
<b>Total Remuneration \$'000</b>	<b>\$1,243</b>	<b>\$1,095</b>	<b>\$1,189</b>	<b>\$1,095</b>

#### c) Retirement Benefits of Responsible Persons

There were no retirement benefits paid by the Hospital in connection with the retirement of Responsible Persons of St Vincent's Hospital (Melbourne) Limited.

### Note 8.4: Executive Officer Disclosures

#### Executive Officer Remuneration

The number of Executive Officers, other than the Minister and the Accountable Officer, and their total remuneration during the reporting period is shown in the table below.

A number of executive officers resigned in 2017. This has had an impact on total remuneration comparative figures between years due to the inclusion of annual leave and long service leave payments.

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

##### *Short-term Employee Benefits*

Salaries and wages, annual leave or sick leave that are usually paid or payable on a regular basis, as well as non-monetary benefits such as allowances and free or subsidised goods or services.

##### *Post-employment Benefits*

Pensions and other retirement benefits paid or payable on a discrete basis when employment has ceased.

*Other Long-term Benefits*

Long service leave, other long-service benefit or deferred compensation.

*Termination Benefits*

Termination of employment payments, such as severance packages.

Total remuneration payable to executives during the year included additional executive officers and a number of executives who received bonus payments during the year. These bonus payments depend on the terms of individual employment contracts.

<b>Compensation</b>	<b>2018 \$'000</b>	<b>2017 \$'000</b>
Short-term employee benefits	1,999	2,051
Post-employment benefits	181	159
Other long-term benefits	260	174
Termination benefits	11	111
<b>Total</b>	<b>2,451</b>	<b>2,495</b>
<b>Total Number of Executives (i)</b>	<b>14</b>	<b>16</b>
<b>Total Annualised Employee Equivalent (ii)</b>	<b>9.3</b>	<b>10.5</b>

- (i) The total number of executive officers includes persons who meet the definition of Key Management Personnel (KMP) of the Hospital under AASB 124 Related Party Disclosures and are also reported within Note 8.5 Related Parties.
- (ii) Annualised employee equivalent is based on working 38 ordinary hours per week over the reporting period.

## Note 8.5: Related parties

The hospital is a wholly owned and controlled entity of the St Vincent's Health Australia group. Related parties of the hospital include:

- all key management personnel and their close family members;
- all cabinet ministers and their close family members; and
- all other entities within the wholly-owned group

All related party transactions have been entered into on an arm's length basis.

Key management personnel (KMP) of the hospital include the Portfolio Ministers and Cabinet Ministers and KMP as determined by the hospital. The compensation detailed below excludes the salaries and benefits the Portfolio Ministers receive. The Minister's remuneration and allowances is set by the *Parliamentary Salaries and Superannuation Act 1968*, and is reported within the Department of Parliamentary Services' Financial Report.

<b>Compensation</b>	<b>2018 \$'000</b>	<b>2017 \$'000</b>
Short-term employee benefits	5,505	6,110
Post-employment benefits	329	343
Other long-term benefits	269	288
Termination benefits	11	111
Share based payments	-	-

<b>Total</b>	<b>6,114</b>	<b>6,852</b>
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#### **Transactions with key management personnel and other related parties**

Given the breadth and depth of State government activities, related parties transact with the Victorian public sector in a manner consistent with other members of the public e.g. stamp duty and other government fees and charges. Further employment of processes within the Victorian public sector occur on terms and conditions consistent with the *Public Administration Act 2004* and Codes of Conduct and Standards issued by the Victorian Public Sector Commission. Procurement processes occur on terms and conditions consistent with the Victorian Government Procurement Board requirements. Outside of normal citizen type transactions with the department, there were no related party transactions that involved key management personnel and their close family members. No provision has been required, nor any expense recognised, for impairment of receivables from related parties.

#### **Significant transactions with government-related entities**

The Hospital received funding from the Department of Health and Human Services of \$515.85million (2017: \$472.38 million).

Other significant transactions with government related entities were with Victorian Managed Insurance Authority (VMIA) \$5.11million (2017: \$4.68million) and WorkSafe Victoria \$3.71million (2017: \$2.99million).

#### **Transactions with entities in the wholly-owned group**

St Vincent's Hospital (Melbourne) Limited is part of a wholly owned group. Transactions between St Vincent's Hospital (Melbourne) Limited and other entities in the wholly owned group during the year ended 30 June 2018 consist of:

- i) Recoveries by St Vincent's Hospital (Melbourne) Limited for the provision of management and administrative services
- ii) Recoveries by St Vincent's Hospital (Melbourne) Limited for the provision of other health services at cost
- iii) Payment to St Vincent's Health Australia Limited Group levy and other service costs
- iv) Repayment of loans (including interest) and payment of a car park lease to St Vincent's Healthcare Ltd

### Transactions with entities in the wholly-owned group

	2018 \$'000	2017 \$'000
Aggregate amounts included in the determination of operating profit that resulted from transactions with entities in the wholly-owned group:		
Health Service carpark, group levy, ICT shared services and costs charged by St Vincent's Health Australia Ltd and St Vincent's Healthcare Limited	13,216	11,083
Campus Lease charge by St Vincent's Healthcare Ltd	5,253	10,407
Interest revenue received from St Vincent's Healthcare Ltd	1,542	4,334
Facility Lease charge by St Vincent's Healthcare Ltd	66	66
Aggregate amounts receivable from, and payable to, entities in the wholly owned group at Statement of Financial Position date:		
Current receivables due from St Vincent's Healthcare Ltd and St Vincent's Health Australia Ltd	47	3,689
Non-Current receivables due from St Vincent's Healthcare Ltd and St Vincent's Health Australia Ltd	332	445
Current payables owing to St Vincent's Healthcare Ltd and St Vincent's Health Australia Ltd	11,486	8,605
Non-current payable owing to St Vincent's Healthcare Ltd and St Vincent's Health Australia Ltd	9,447	1,842
Aggregate amounts included in the determination of operating profit that resulted from transactions with each class of other related parties:		
Recoveries for the provision of management and administrative services to St Vincent's Private Hospitals Ltd	3,459	3,674
Costs charged for the provision of other health services by St Vincent's Private Hospitals Ltd	569	552
Aggregate amounts receivable from, and payable to, with each class of other related parties, at Statement of Financial Position date:		
Current receivables from St Vincent's Private Hospitals Ltd	5	840
Current Payables to St Vincent's Private Hospitals Ltd	211	7

Pursuant to a Loan and Restructure Agreement between the Trustees of the Sisters of Charity and St Vincent's Healthcare Ltd, land and building assets, including leasehold improvements, have been transferred to St Vincent's Healthcare Ltd as at 1 January 2003 at written down value. Accordingly, no profit or loss has been recorded on this transaction and an interest free loan has been established between St Vincent's Hospital (Melbourne) Limited and St Vincent's Healthcare Ltd. Due to the introduction of A-IFRS this transaction had a significant impact on reported assets and the on-going operational result.

This arises because of the requirement to discount the interest free loan to an arm's length market value and to treat the non-cash loan repayments from St Vincent's Healthcare Ltd as comprising separately identifiable interest and principal components.

### Note 8.6: Payments to other personnel (i.e. contractors with significant management responsibilities)

	2018 \$'000	2017 \$'000
Expense Base		
\$140,000 - 149,999	-	1
Ex gratia expenses	-	149

In accordance with FRD 21C the following disclosures are made in relation to other personnel of St Vincent's Hospital (Melbourne) Limited, i.e. contractors charged with significant management responsibilities.

### Note 8.7: Remuneration of Auditors

	2018 \$'000	2017 \$'000
<b>Victorian Auditor-General's Office</b>		
Audit fees paid or payable for audit of the St Vincent's Hospital (Melbourne) Limited's financial statements	90	90
<b>Other Service Providers</b>		
HLB Mann Judd	3	2
<b>Total Remuneration</b>	<b>93</b>	<b>92</b>

### Note 8.8: Ex gratia expenses

	2018 \$'000	2017 \$'000
Payments made to terminated employees	507	407
<b>Ex gratia expenses</b>	<b>507</b>	<b>407</b>

### Note 8.9: AASs issued that are not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for the year ended 30 June 2018. The Hospital's assessment of the impact of those new standards and interpretations which are applicable to the Hospital is set out below.

Standard/Interpretation	Summary	Applicable for annual reporting periods beginning on	Impact on the Hospital's financial statements
AASB 9 Financial instruments	AASB 9 (December 2014) is a new Principal standard which replaces AASB 139. This new Principal version supersedes AASB 9 issued in December 2009 (as amended) and AASB 9 (issued in December 2010) and includes a model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting.	1 Jan 2018	Subject to AASB's further modifications to AASB 9, together with the anticipated changes resulting from the staged projects on impairments and hedge accounting, details of impacts will be assessed.  No material change to the Hospital's financial statements is expected to arise from initial application of this standard.
AASB 15 Revenue from Contracts with Customers	The core principle of AASB 15 requires an entity to recognise revenue when the entity satisfies a performance obligation by transferring a promised good or service to a customer.	1 Jan 2019	The changes in revenue recognition requirements in AASB 15 may result in changes to the timing and amount of revenue recorded in the financial statements.

Standard/interpretation	Summary	Applicable for annual reporting periods beginning on	Impact on the Hospital's financial statements
AASB 16 Leases	The key changes introduced by AASB 16 include the recognition of most operating leases (which are currently not recognised) on balance sheet.	1 Jan 2019	<p>The assessment has indicated that as most operating leases will come on balance sheet, recognition of lease assets and lease liabilities will cause net debt to increase.</p> <p>Depreciation of lease assets and interest on lease liabilities will be recognised in the income statement with marginal impact on the operating surplus.</p> <p>The amounts of cash paid for the principal portion of the lease liability will be presented within financing activities and the amounts paid for the interest portion will be presented within operating activities in the cash flow statement.</p>
AASB 1058 Income of Not-for-Profit Entities	This standard replaces AASB 1004. Contributions and establishes revenue recognition principles for transactions where the consideration to acquire an asset is significantly less than fair value to enable to not-for-profit entity to further its objectives.	1 Jan 2019	The assessment has indicated that revenue from capital grants that are provided under an enforceable agreement that have sufficiently specific obligations, will now be deferred and recognised as performance obligations are satisfied. As a result, the timing recognition of revenue will change.

#### Note 8.10: Events Occurring After Balance Sheet Date

There have been no significant events occurring after the balance sheet date that have any material impact on the results of the Hospital as reported in these financial statements.

## Note 8.11: Jointly Controlled Operations

Name of Entity	Principal Activity	Ownership interest	
		2018	2017
Victorian Comprehensive Cancer Centre	The member entities have committed to the establishment of a world leading comprehensive cancer centre in Parkville, Victoria, through the Joint Venture, with a view to saving lives through the integration of cancer research, education and training and patient care.	10.0%	10.0%

The Hospital's interest in assets employed in the above jointly controlled operations and assets is detailed below. The amounts are included in the Hospital's financial statements for the year ended 30 June 2018 under respective asset categories.

	Total 2018 \$'000	Total 2017 \$'000
<b>Current Assets</b>		
Cash and Cash Equivalents	1,586	566
Receivables	8	3
Prepayments	101	-
<b>Total Current Assets</b>	<b>1,695</b>	<b>569</b>
<b>Non-Current Assets</b>		
Financials Assets	1	1
Property, Plant and Equipment	18	3
<b>Total Non-Current Assets</b>	<b>19</b>	<b>4</b>
<b>Total Assets</b>	<b>1,714</b>	<b>573</b>
<b>Current Liabilities</b>		
Accrued Expenses	18	10
Payables	26	10
Prepaid Revenue	-	3
Provisions – LSL and Annual Leave	11	8
<b>Total Current Liabilities</b>	<b>55</b>	<b>31</b>
<b>Non-Current Liabilities</b>		
Provisions – LSL	10	6
<b>Total Non-Current Liabilities</b>	<b>10</b>	<b>6</b>
<b>Total Liabilities</b>	<b>65</b>	<b>37</b>
<b>Net Assets</b>	<b>1,649</b>	<b>536</b>

The Hospital's interest in revenue and expenses resulting from jointly controlled operations and assets is detailed below:

	Total 2018 \$'000	Total 2017 \$'000
<b>Revenue</b>		
Grants and Other Revenue	1,410	534
Interest	21	9
<b>Total Revenue</b>	<b>1,431</b>	<b>543</b>
<b>Expenses</b>		
Employee Benefits	242	142
Other Expenses from Continuing Operations	75	32
Depreciation and Amortisation	2	1
<b>Total Expenses</b>	<b>319</b>	<b>175</b>
<b>Net Result</b>	<b>1,112</b>	<b>368</b>

### **Investments in jointly controlled assets and operations**

In respect of any interest in jointly controlled assets, the Hospital recognises in the financial statements:

- its share of jointly controlled assets;
- any liabilities that it has incurred;
- its share of liabilities incurred jointly by the joint venture;
- any income earned from the selling or using of its share of the output from the joint venture; and
- any expenses incurred in relation to being an investor in the joint venture.

The hospital holds a one tenth interest in the Victorian Comprehensive Cancer Centre joint venture (VCCC). The VCCC has been established to bring together experts in cancer to build on and strengthen collaborations in cancer research, cancer education and training and cancer treatment and care to ensure the best possible outcomes for the benefit of people affected by cancer.

### **Contingent liabilities and capital commitments**

There are no known contingent liabilities or capital commitments held by the jointly controlled operations at balance date.

## **Note 8.12: Redevelopment of the Hospital (1996)**

### **Conclusion of the Hospital Development Agreement**

The Hospital agreed with NBA Leasing Proprietary Limited to develop a minimum 350 bed inpatient facility for the sum of \$146 million in accordance with the agreed plans and specifications. The agreement provided that the Hospital should fund from its own resources any sum by which the Construction Cost exceeded the agreed Redevelopment Cost of \$135.3 million. In June 1996 the development was completed. Total costs for the development were \$144.3 million. The following financial arrangements were entered into to fund the development of the hospital facility.

### **Borrowings**

The Hospital issued Inflation Indexed Annuities of \$80.0 million (face value) on 9 December 1992. Payments are by quarterly instalments over a 25 year period with the first instalment made on 20 February 1993. The annuity has a quarterly base payment of \$1,414,400 which is adjusted quarterly by the movement in the Consumer Price Index. The total payment made to the annuity holders represents a progressive repayment of their loans plus interest. Repayments are secured by a guarantee given by the Treasurer of the State of Victoria under Section 30 of the *Health Services Act* and are funded by the twenty five year Health Services Agreement. At 30 June 2018, the amount outstanding under this agreement is \$nil (2017: \$3,711,000 – reported in the Balance Sheet as an Obligation to provide Public Hospitals' Services which has a corresponding receivable asset of \$nil (2017: \$3,711,000) reported in the Balance Sheet as Debtor – Department of Health and Human Services.

### **Conclusion of the 25 Year Health Services Agreement**

The Hospital entered into a twenty five year Health Services Agreement with the Victorian Department of Health on 11 August 1992 which provides for instalments of a Business and Occupancy Allowance to be paid to the Hospital of \$7.0 million per annum (indexed) over that period. The Department also provides an annual operating payment to cover the realistically attainable efficient cost of supplying public hospital services. This agreement ceased on 11 August 2017.

### **20 Year Health Services Agreement**

On 30 June 2016, a new 20 year Health Services Agreement (HSA) was executed between the Department of Health and Human Services and St Vincent's Hospital Melbourne.

### **Escrow Account**

The Escrow account is represented by investments and for the year ended 30 June 2018 the balance was \$6,067,000 (2017: \$5,979,000). The compounding interest that was reinvested in the facility was \$87,736 (2017: \$87,000). The balances of investments held are disclosed in Note 4.1 as 'Guaranteed Bill Index Deposits in Escrow'.



### Note 8.13: Alternative presentation of comprehensive operating statement

The alternative presentation reflects the format required for reporting to the Department of Treasury and Finance, which differs to the disclosures of certain transactions, in particular revenue and expenses, in the hospital's annual report.

	Note	2018 \$'000	2017 \$'000
Grants			
Operating	2.1	567,486	556,279
Capital	2.1	19,489	19,489
Interest and Dividends	2.1	1,591	2,442
Sales of Goods and Services	2.1	172,469	168,933
Other Income			
Other capital income	2.1	8,867	16,682
Assets received free of charge	2.2	1,340	8
<b>Revenue from Transactions</b>		<b>771,242</b>	<b>763,833</b>
Employee Expenses	3.1	504,591	479,503
Operating Expenses			
Supplies and consumables	3.1	141,130	160,042
Non-salary labour costs	3.1	7,958	6,959
Maintenance costs	3.1	12,196	12,291
Other	3.1	72,107	65,515
Non-Operating Expenses			
Finance costs	3.3	2,713	6,108
Campus lease	3.1	5,253	10,407
Other capital expenses	3.1	1,449	2,111
Depreciation and Amortisation	4.3	23,785	22,138
<b>Expenses from Transactions</b>		<b>771,182</b>	<b>765,074</b>
<b>Net Result from Transactions</b>		<b>60</b>	<b>(1,241)</b>
<b>Other economic flows included in net result</b>			
Revaluation of Investment Property		239	140
Revaluation of Long Service Leave		(30)	721
Movement in Provision for Doubtful Debts		(928)	(865)
<b>Net Result for the Year</b>		<b>(659)</b>	<b>(1,245)</b>
<b>Items that will not be reclassified to net result</b>			
Revaluation on Non-Current Assets	8.1	(21)	12
<b>Comprehensive Result</b>		<b>(680)</b>	<b>(1,233)</b>

## Note 8.14: Glossary of terms and style convention

### **Actuarial gains or losses on superannuation defined benefit plans**

Actuarial gains or losses are changes in the present value of the superannuation defined benefit liability resulting from:

- (a) experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred); and
- (b) the effects of changes in actuarial assumptions.

### **Amortisation**

Amortisation is the expense which results from the consumption, extraction or use over time of a non-produced physical or intangible asset.

### **Comprehensive result**

The net result of all items of income and expense recognised for the period. It is the aggregate of operating result and other comprehensive income.

### **Commitments**

Commitments include those operating, capital and other outsourcing commitments arising from non-cancellable contractual or statutory sources.

### **Depreciation**

Depreciation is an expense that arises from the consumption through wear or time of a produced physical or intangible asset. This expense reduces the 'net result for the year'.

### **Employee benefits expenses**

Employee benefits expenses include all costs related to employment including wages and salaries, fringe benefits tax, leave entitlements, redundancy payments, defined benefits superannuation plans, and defined contribution superannuation plans.

### **Ex gratia expenses**

Ex-gratia expenses mean the voluntary payment of money or other non-monetary benefit (e.g. a write off) that is not made either to acquire goods, services or other benefits for the entity or to meet a legal liability, or to settle or resolve a possible legal liability, or claim against the entity.

### **Financial asset**

A financial asset is any asset that is:

- (a) cash;
- (b) an equity instrument of another entity;
- (c) a contractual or statutory right:
  - to receive cash or another financial asset from another entity; or
  - to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or
- (d) a contract that will or may be settled in the entity's own equity instruments and is:
  - a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or
  - a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

### **Financial instrument**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets or liabilities that are not contractual (such as statutory receivables or payables that arise as a result of statutory requirements imposed by governments) are not financial instruments.

### **Financial liability**

A financial liability is any liability that is:

- (a) A contractual obligation:
  - (i) to deliver cash or another financial asset to another entity; or
  - (ii) to exchange financial assets or financial liabilities with another entity under conditions

that are potentially unfavourable to the entity; or

- (b) A contract that will or may be settled in the entity's own equity instruments and is:
- (i) a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or
  - (ii) a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.

### **Financial statements**

A complete set of financial statements comprises:

- (a) A statement of financial position as at the end of the period;
- (b) A statement of profit or loss and other comprehensive income for the period;
- (c) A statement of changes in equity for the period;
- (d) A statement of cash flows for the period;
- (e) Notes, comprising a summary of significant accounting policies and other explanatory information;
- (f) Comparative information in respect of the preceding period as specified in paragraph 38 of AASB 101 Presentation of Financial Statements; and
- (g) A statement of financial position at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements in accordance with paragraphs 41 of AASB 101.

### **Grants and other transfers**

Transactions in which one unit provides goods, services, assets (or extinguishes a liability) or labour to another unit without receiving approximately equal value in return. Grants can either be operating or capital in nature.

While grants to governments may result in the provision of some goods or services to the transferor, they do not give the transferor a claim to receive directly benefits of approximately equal value. For this reason, grants are referred to by the AASB as involuntary transfers and are termed non-reciprocal transfers. Receipt and sacrifice of approximately equal value may occur, but only by coincidence. For example, governments are not obliged to provide commensurate benefits, in the form of goods or services, to particular taxpayers in return for their taxes. Grants can be paid as general purpose grants which refer to grants that are not subject to conditions regarding their use. Alternatively, they may be paid as specific purpose grants which are paid for a particular purpose and/or have conditions attached regarding their use.

### **Interest expense**

Costs incurred in connection with the borrowing of funds includes interest on bank overdrafts and short-term and long-term liabilities, amortisation of discounts or premiums relating to liabilities, interest component of finance leases repayments, and the increase in financial liabilities and non-employee provisions due to the unwinding of discounts to reflect the passage of time.

### **Interest income**

Interest income includes unwinding over time of discounts on financial assets and interest received on bank term deposits and other investments.

### **Joint ventures**

Joint ventures are contractual arrangements between the Hospital and one or more other parties to undertake an economic activity that is subject to joint control. Joint control only exists when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

### **Net acquisition of non-financial assets (from transactions)**

Purchases (and other acquisitions) of non-financial assets less sales (or disposals) of non-financial assets less depreciation plus changes in inventories and other movements in non-financial assets. It includes only those increases or decreases in non-financial assets resulting from transactions and therefore excludes write-offs, impairment write-downs and revaluations.

### **Net result**

Net result is a measure of financial performance of the operations for the period. It is the net result of items of income, gains and expenses (including losses) recognised for the period, excluding those that are classified as 'other comprehensive income'.

Net result from transactions or net operating balance is a key fiscal aggregate and is income from transactions minus expenses from transactions. It is a summary measure of the ongoing sustainability of operations. It excludes gains and losses resulting from changes in price levels and other changes in the volume of assets.

#### **Net worth**

Assets less liabilities, which is an economic measure of wealth.

#### **Non-financial assets**

Non-financial assets are all assets that are not 'financial assets'. It includes inventories, land, buildings, infrastructure, road networks, land under roads, plant and equipment, investment properties, cultural and heritage assets, intangible and biological assets.

#### **Payables**

Includes short and long term trade debt and accounts payable, grants, taxes and interest payable.

#### **Receivables**

Includes amounts owing from government through appropriation receivable, short and long term trade credit and accounts receivable, accrued investment income, grants, taxes and interest receivable.

#### **Sales of goods and services**

Refers to income from the direct provision of goods and services and includes fees and charges for services rendered, sales of goods and services, fees from regulatory services and work done as an agent for private enterprises. It also includes rental income under operating leases and on produced assets such as buildings and entertainment, but excludes rent income from the use of non-produced assets such as land. User charges includes sale of goods and services income.

#### **Supplies and services**

Supplies and services generally represent cost of goods sold and the day-to-day running costs, including maintenance costs, incurred in the normal operations of the Hospital.

#### **Transactions**

Revised Transactions are those economic flows that are considered to arise as a result of policy decisions, usually an interaction between two entities by mutual agreement. They also include flows in an entity such as depreciation where the owner is simultaneously acting as the owner of the depreciating asset and as the consumer of the service provided by the asset.

Taxation is regarded as mutually agreed interactions between the government and taxpayers. Transactions can be in kind (e.g. assets provided/given free of charge or for nominal consideration) or where the final consideration is cash.

#### **Style conventions**

Figures in the tables and in the text have been rounded. Discrepancies in tables between totals and sums of components reflect rounding. Percentage variations in all tables are based on the underlying unrounded amounts.

The notation used in the tables is as follows:

- zero, or rounded to zero

(xxx.x) negative numbers

200x year period

200x-0x year period

# Independent Auditor's Report

## To the Board of St Vincent's Hospital (Melbourne) Limited

<b>Opinion</b>	<p>I have audited the financial report of St Vincent's Hospital (Melbourne) Limited (the health service) which comprises the:</p> <ul style="list-style-type: none"> <li>• balance sheet as at 30 June 2018</li> <li>• comprehensive operating statement for the year then ended</li> <li>• statement of changes in equity for the year then ended</li> <li>• cash flow statement for the year then ended</li> <li>• notes to the financial statements, including significant accounting policies</li> <li>• board members and accountable officer's declaration.</li> </ul> <p>In my opinion the financial report is in accordance with Part 7 of the Financial Management Act 1994 and Division 60 of the <i>Australian Charities and Not-for-profits Commission Act 2012</i>, including:</p> <ul style="list-style-type: none"> <li>• giving a true and fair view of the financial position of the health service as at 30 June 2018 and of its financial performance and its cash flows for the year then ended</li> <li>• complying with Australian Accounting Standards and Division 60 of the <i>Australian Charities and Not-for-profits Commission Regulations 2013</i>.</li> </ul>
<b>Basis for Opinion</b>	<p>I have conducted my audit in accordance with the <i>Audit Act 1994</i> which incorporates the Australian Auditing Standards. I further describe my responsibilities under that Act and those standards in the <i>Auditor's Responsibilities for the Audit of the Financial Report</i> section of my report.</p> <p>My independence is established by the <i>Constitution Act 1975</i>. My staff and I are independent of the health service in accordance with the auditor independence requirements of the <i>Australian Charities and Not-for-profits Commission Act 2012</i> and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 <i>Code of Ethics for Professional Accountants</i> (the Code) that are relevant to my audit of the financial report in Australia. My staff and I have also fulfilled our other ethical responsibilities in accordance with the Code.</p> <p>I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.</p>
<b>Other information</b>	<p>My opinion on the financial report does not cover the Other Information and accordingly, I do not express any form of assurance conclusion on the Other Information. However, in connection with my audit of the financial report, my responsibility is to read the Other Information and in doing so, consider whether it is materially inconsistent with the financial report or the knowledge I obtained during the audit, or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude there is a material misstatement of the Other Information, I am required to report that fact. I have nothing to report in this regard.</p>
<b>Board's responsibilities for the financial report</b>	<p>The Board of the health service is responsible for the preparation of a financial report that gives a true and fair view in accordance with Australian Accounting Standards, the <i>Financial Management Act 1994</i> and the <i>Australian Charities and Not-for-profits Commission Act 2012</i>, and for such internal control as the Board determines is necessary to enable the preparation of a financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.</p> <p>In preparing the financial report, the Board is responsible for assessing the health service's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is inappropriate to do so.</p>

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

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

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

- identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the health service's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board
- conclude on the appropriateness of the Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the health service's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the health service to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

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

I also provide the Board with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

MELBOURNE  
30 August 2018



Ron Mak  
*as delegate for the Auditor-General of Victoria*