

7.0 FINANCIAL STATEMENTS



Professor Kwun Fong

\$1m grant to establish centre at TPCH for lung cancer early detection

The Prince Charles Hospital (TPCH) and The University of Queensland (UQ) will lead a new centre dedicated to the early detection of lung cancer following a grant of \$1 million from the Australian Cancer Research Foundation (ACRF).

The new Australian Cancer Research Foundation Centre for Lung Cancer Early Detection will be based at TPCH.

Professor Kwun Fong, Director of UQ's Thoracic Research Centre at TPCH, said the centre would focus on the discovery and development of innovative methods for early stage detection of lung cancer.

“Lung cancer remains the biggest cause of cancer deaths in Australia and worldwide and has a very low five-year survival rate in comparison to many other common cancer types. Early detection can therefore significantly improve health and treatment outcomes for patients with lung cancer,” Professor Fong said.

The centre will have major collaborations across key Australian and international sites. Due to the clinical focus of the research, the team will be able to translate findings directly into daily clinical practice.

7.1 General information

The Metro North Hospital and Health Service is a Queensland Government statutory body established under the *Hospital and Health Boards Act 2011* and its registered name is “Metro North Hospital and Health Service”.

The Metro North Hospital and Health Service is controlled by the State of Queensland which is the ultimate parent entity.

The head office and principal place of business of the Metro North Hospital and Health Service is:

Level 14, Block 7
Royal Brisbane and Women's Hospital
Herston QLD 4029

For information in relation to the health service's financial statements please call 07 3647 9508, email MD16-MetroNorthHHS@health.qld.gov.au or visit our internet site <http://www.health.qld.gov.au/metronorth/>

Statement of Comprehensive Income	60
Statement of Financial Position	61
Statement of Changes in Equity	62
Statement of Cash Flows	63
Management Certificate	95
Independent Auditor's Report	96

7.0 FINANCIAL STATEMENTS

Statement of Comprehensive Income for the year ended 30 June 2016

Operating result

	Notes	2016 Actual \$'000	2015 Actual \$'000
Income from continuing operations			
User charges and fees	A1-1	243,992	188,731
Funding for the provision of public health services	A1-2	2,152,035	1,948,327
Grants and other contributions		21,932	24,189
Other revenue		40,249	34,076
Total revenue		2,458,208	2,195,323
Expenses from continuing operations			
Gain on disposal/re-measurement of assets		2,606	56
Total income from continuing operations		2,460,814	2,195,379
Expenses from continuing operations			
Employee expenses	A2-1	1,720,390	1,542,890
Supplies and services	A3-1	637,726	561,967
Grants and subsidies		1,607	1,422
Depreciation and amortisation	B5-1	90,590	80,772
Impairment losses		3,613	5,953
Other expenses	A3-2	6,724	6,791
Total expenses from continuing operations		2,460,650	2,199,795
Operating result from continuing operations		164	(4,416)
Other comprehensive income			
Items that will not be reclassified subsequent to operating result:			
Increase/(decrease) in asset revaluation surplus	B7-1	53,525	-
Total other comprehensive income		53,525	-
Total comprehensive income		53,689	(4,416)

The accompanying notes form part of these statements.

Statement of Financial Position as at 30 June 2016

	Notes	2016 Actual \$'000	2015 Actual \$'000
Current assets			
Cash and cash equivalents	B1-1	73,049	130,367
Receivables	B2-1	117,867	60,086
Inventories	B3-1	23,424	15,582
Other assets		8,852	4,104
Total current assets		223,192	210,139
Non-current assets			
Property, plant and equipment	B5-1	1,223,008	1,199,075
Intangible assets	B4-1	11,005	3,161
Other assets		126	172
Total non-current assets		1,234,139	1,202,408
Total assets		1,457,331	1,412,547
Current liabilities			
Payables	B6-1	78,643	55,835
Accrued employee benefits	A2-1	61,682	64,465
Unearned revenue		1,295	1,208
Total current liabilities		141,620	121,508
Total liabilities		141,620	121,508
Net assets		1,315,711	1,291,038
Equity			
Contributed equity		1,170,990	1,200,006
Accumulated surplus (deficit)		73,795	73,631
Asset revaluation surplus	B7-1	70,926	17,401
Total equity		1,315,711	1,291,038

The accompanying notes form part of these statements.

Statement of Changes in Equity For the year ended 30 June 2016

	Notes	Accumulated Surplus/ (deficit)	Asset Revaluation Surplus	Contributed Equity	Total Equity
		\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2014		78,047	17,401	1,255,445	1,350,893
Operating result from continuing operations		(4,416)	–	–	(4,416)
<i>Other comprehensive income</i>					
Increase in asset revaluation surplus		–	–	–	–
Total comprehensive income for the year		(4,416)	–	–	(4,416)
<i>Transactions with owners as owners</i>					
Equity injections – Minor Capital Funding		–	–	22,791	22,791
Equity withdrawals – depreciation and amortisation	(B4, B5-1)	–	–	(80,752)	(80,752)
Non-appropriated equity asset transfers		–	–	2,522	2,522
Net transactions with owners as owners		–	–	(55,439)	(55,439)
Balance as at 30 June 2015		73,631	17,401	1,200,006	1,291,038

	Notes	Accumulated Surplus/ (deficit)	Asset Revaluation Surplus	Contributed Equity	Total Equity
		\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2015		73,631	17,401	1,200,006	1,291,038
Operating result from continuing operations		164	-	-	164
<i>Other comprehensive income</i>					
Increase in asset revaluation surplus		-	53,525	-	53,525
Total comprehensive income for the year		164	53,525	-	53,689
<i>Transactions with owners as owners</i>					
Equity injections – Minor Capital Funding		-	-	44,630	44,630
Equity withdrawals – depreciation and amortisation	(Note B4, B5-1)	-	-	(90,588)	(90,588)
Non-appropriated equity asset transfers		-	-	16,942	16,942
Net transactions with owners as owners		-	-	(29,016)	(29,016)
Balance as at 30 June 2016		73,795	70,926	1,170,990	1,315,711

The accompanying notes form part of these statements.

Statement of Cash Flows

For the year ended 30 June 2016

	Notes	2016 Actual \$'000	2015 Actual \$'000
Cash flows from operating activities			
<i>Inflows</i>			
User charges		226,480	187,417
Funding for the provision of public health services		2,019,233	1,862,959
Grants and other contributions		21,482	21,748
Interest received		749	682
Other revenue		37,925	33,319
GST collected from customers		5,531	5,878
GST input tax credits from Australian Taxation Office		30,372	27,806
<i>Outflows</i>			
Employee expenses		(1,723,173)	(1,553,199)
Supplies and services		(627,376)	(585,330)
Grants and subsidies		(2,007)	(1,422)
Other expenses		(5,749)	(5,437)
GST paid to suppliers		(29,508)	(28,189)
GST remitted to Australian Taxation Office		(5,277)	(5,873)
Net cash provided by (used in) operating activities	CF-1	(51,318)	(39,641)
Cash flows from investing activities			
<i>Inflows</i>			
Sales of property, plant and equipment		458	199
<i>Outflows</i>			
Payments for property, plant and equipment		(43,614)	(21,566)
Payments for intangible assets		(8,727)	(1,633)
Net cash provided by (used in) investing activities		(51,883)	(23,001)
Cash flows from financing activities			
<i>Inflows</i>			
Equity transferred		45,883	25,311
Net cash provided by (used in) financing activities		45,883	25,311
Net increase/(decrease) in cash and cash equivalents		(57,318)	(37,331)
Cash and cash equivalents at the beginning of the financial year		130,367	167,698
Cash and cash equivalents at the end of the financial year	B1-1	73,049	130,367

The accompanying notes form part of these statements.

Notes to the statement of cash flow

For the year ended 30 June 2016

	2016	2015
	\$'000	\$'000
CF-1 Reconciliation of surplus to net cash from operating activities		
Surplus for the year	164	(4,416)
Adjustments for:		
Non-cash equity withdrawal - depreciation funding	(90,588)	(80,752)
Depreciation and amortisation expense	90,590	80,772
Property, plant and equipment revaluation (increment)/ decrement	(1,477)	-
Impairment loss	3,613	5,953
(Gain)/ Loss on sale of property, plant and equipment	206	1,200
Changes in assets and liabilities:		
(Increase)/decrease in trade receivables	(62,512)	(7,788)
(Increase)/decrease in GST receivables	1,118	(378)
(Increase)/decrease in inventories	(7,842)	(1,252)
(Increase)/decrease in recurrent prepayments	(4,702)	(1,081)
Increase/(decrease) in unearned revenue	87	(657)
Increase/(decrease) in accrued salaries and wages	(4,726)	16,923
Increase/(decrease) in other employee benefits	1,943	(27,232)
Increase/(decrease) in payables	22,808	(20,851)
Increase/(decrease) in other payables	-	(82)
Net cash from operating activities	(51,318)	(39,641)

General information

Metro North Hospital and Health Service was established on 1 July 2012, as a not-for-profit statutory body under the *Hospital and Health Boards Act 2011*. Metro North Hospital and Health Service is responsible for providing primary health, community and public health services in the area assigned under the *Hospital and Health Boards Regulation 2012*.

The Metro North Hospital and Health Service is controlled by the State of Queensland which is the ultimate parent entity.

The head office and principal place of business of the Metro North Hospital and Health Service is:

Level 14, Block 7
Royal Brisbane and Women's Hospital
Herston QLD 4029

Statement of compliance

Metro North Hospital and Health Service has prepared these financial statements in compliance with section 62(1) of the *Financial Accountability Act 2009* (QLD) and section 43 of the *Financial and Performance Management Standard 2009* (QLD).

These financial statements are general purpose financial statements and have been prepared on an accrual basis in accordance with Australian Accounting Standards and Interpretations. In addition, the financial statements comply with Queensland Treasury's Minimum Reporting Requirements for the year ending 30 June 2016 and other authoritative pronouncements.

With respect to compliance with Australian Accounting Standards and Interpretations, the Metro North Hospital and Health Service has applied those requirements applicable to a not-for-profit entity, as the Metro North Hospital and Health Service is a not-for-profit entity. Except where stated, the historical cost convention is used.

The reporting entity

The financial statements include the value of all income, expenses, assets, liabilities and equity of the Metro North Hospital and Health Service.

Presentation matters

Currency and Rounding

Amounts included in the financial statements are in Australian dollars and rounded to the nearest \$1,000 or, where that amount is \$500 or less, to zero, unless disclosure of the full amount is specifically required.

Comparatives

The comparative information has been restated where necessary to be consistent with disclosures in the current reporting period and to improve transparency across the years.

Current/Non-Current Classification

Assets and liabilities are classified as either current or non-current in the Statement of Financial Position and associated notes.

Assets are classified as current where their carrying amount is expected to be realised within 12 months after the reporting date. Liabilities are classified as current when they are due to be settled within 12 months after the reporting date, or the Metro North Hospital and Health Service does not have an unconditional right to defer settlement to beyond 12 months after the reporting date.

All other assets and liabilities are classified as non-current.

Authorisation of financial statements for issue

The financial statements are authorised for issue by the Chair of the Metro North Hospital and Health Board and the Health Service Chief Executive and Chief Finance Officer at the date of signing the Management Certificate.

A1. Revenue

	2016	2015
	\$'000	\$'000
A1-1 User charges and fees		
Hospital fees	122,581	110,763
Sales of good and services	121,411	77,968
Total	243,992	188,731

Accounting Policy – User Charges and Fees

User charges and fees are recognised as revenue when earned and can be measured reliably with a sufficient degree of certainty. This involves either invoicing for related goods/services and/or the recognition of accrued revenue.

Revenue in this category primarily consists of hospital fees (patients who elect to utilise their private health cover) and sales of goods and services which includes reimbursements of pharmaceutical benefits.

	2016	2015
	\$'000	\$'000
A1-2 Funding for the provision of public health services		
Activity based funding	1,805,327	1,651,769
Block funding	141,610	136,434
Other	205,098	160,124
Total	2,152,035	1,948,327

Accounting Policy – Funding for the Provision of Public Health Services

Funding is provided predominantly from the Department of Health for specific public health services purchased by the Department from Metro North Hospital and Health Service in accordance with a service agreement. The Australian Government pays its share of National Health funding directly to the Department of Health, for on forwarding to the Hospital and Health Service. The service agreement is reviewed periodically and updated for changes in activities and prices of services delivered by Metro North Hospital and Health Service. The funding from the Department of Health is received fortnightly in advance. At the end of the financial year, a financial adjustment may be required where the level of services provided is above or below the agreed level.

The service agreement between the Department of Health and the Metro North Hospital and Health Service dictates that depreciation and amortisation charges that are incurred by the Metro North Hospital and Health Service are funded by the Department of Health via non-cash grant revenue. This transaction is shown in the Statement of Changes in Equity as a non-appropriated equity withdrawal.

A2 Employee Expenses

	2016	2015
	\$'000	\$'000
Employee expenses		
Employee benefits		
Wages and salaries	1,364,234	1,221,325
Employer superannuation contributions	140,133	125,640
Annual leave levy/expense	161,573	144,947
Long service leave levy/expense	28,472	25,663
Termination Payments	1,618	2,850
Employee related expenses		
Workers compensation premium	12,190	11,357
Payroll tax	4	(45)
Other employee related expenses	12,166	11,153
Total	1,720,390	1,542,890
Full-Time Equivalent Employees	14,478	13,545

Accounting Policy – Employee Benefits

Employer superannuation contributions, annual leave levies and long service leave levies are regarded as employee benefits.

Payroll tax and workers' compensation insurance are a consequence of employing employees, but are not counted in an employee's total remuneration package. They are not employee benefits and are recognised separately as employee related expenses.

Wages and salaries due but unpaid at reporting date are recognised in the Statement of Financial Position at current salary rates.

As Metro North Hospital and Health Service expects such liabilities to be wholly settled within 12 months of reporting date, the liabilities are recognised at undiscounted amounts.

Under the Queensland Government's Annual Leave Central Scheme (ALCS) and Long Service Leave Scheme, a levy is made on the Metro North Hospital and Health Service to cover the cost of employees' annual leave (including leave loading and on-costs) and long service leave. The levies are expensed in the period in which they are payable. Amounts paid to employees for annual leave are claimed from the scheme quarterly in arrears. Non-vesting employee benefits, such as sick leave, are recognised as an expense when taken.

Employer superannuation contributions are paid to QSuper for all employees and include superannuation contributions to a number of self-managed superannuation funds for Board members. QSuper is the superannuation scheme for Queensland Government employees, and the rates are determined by the Treasurer on the advice of the State Actuary. The QSuper scheme had defined benefit and defined contribution categories. Contributions are expensed in the period in which they are paid or payable and the Metro North Hospital and Health Service's obligation is limited to its contribution to QSuper and the self-managed superannuation funds.

The provisions for annual leave, long service leave and superannuation are reported on a whole-of government basis pursuant to *AASB 1049 Whole of Government and General Government Sector Financial Reporting*.

A2-2 Key Management Personnel Disclosures

Board remuneration

The Metro North Hospital and Health Service is independently and locally controlled by the Hospital and Health Board (Board). The Board appoints the Health Service Chief Executive and exercises significant responsibilities at a local level, including controlling the financial management of the Service and the management of the Service's land and buildings (section 7 Hospital and Health Boards Act 2011).

Position and Name	Responsibilities (as at 30 June 2016)	Contract classification and appointment authority	Date appointed to position (Date ceased from position)
Board Chair – Professor Robert Stable AM	Provide strategic leadership, guidance and effective oversight of management, operations and financial performance. <i>Committee Memberships:</i> Chair of the Board Executive committee	Chairperson <i>Hospital and Health Boards Act 2011</i> Section 25 (1) (a)	18/5/2016
Board Chair – Dr Paul Alexander AO	Provide strategic leadership, guidance and effective oversight of management, operations and financial performance. <i>Committee Memberships:</i> Chair of the Board Executive committee Acting Chair of the Board Risk and Audit committee (4/11/2015-17/05/2016)		1/7/2012 (17/5/2016)
Deputy Board Chair	Vacant (from 17/5/2016 to 30/6/2016)		
Deputy Board Chair – Mr Vaughan Howell	Provide strategic leadership, guidance and effective oversight of management, operations and financial performance. <i>Committee Memberships:</i> Chair of the Board Finance committee Member of the Board Risk and Audit committee Member of the Board Executive committee	Deputy Chairperson <i>Hospital and Health Boards Act 2011</i> Section 25 (1) (b)	1/7/2012 (17/5/2016)
Board Member – Ms Bonny Barry	Provide strategic leadership, guidance and effective oversight of management, operations and financial performance. <i>Committee Memberships:</i> Member of the Board Finance committee Member of the Board Executive committee		18/5/2016
Board Member – Mr Philip Davies	Provide strategic leadership, guidance and effective oversight of management, operations and financial performance. <i>Committee Memberships:</i> Member of the Board Risk and Audit committee Member of the Board Executive committee	Board Member <i>Hospital and Health Boards Act 2011</i> Section 23 (1)	18/5/2016
Board Member – Professor Helen Edwards OAM	Provide strategic leadership, guidance and effective oversight of management, operations and financial performance. <i>Committee Memberships:</i> Member of the Board Safety and Quality committee Member of the Board Finance committee		7/9/2012
Board Member – Professor Nicholas Fisk	Provide strategic leadership, guidance and effective oversight of management, operations and financial performance. <i>Committee Memberships:</i> Member of the Board Safety and Quality committee		7/9/2012 (17/5/2016)

Position and Name	Responsibilities (as at 30 June 2016)	Contract classification and appointment authority	Date appointed to position (Date ceased from position)
Board Member – Professor Mary-Louise Fleming	Provide strategic leadership, guidance and effective oversight of management, operations and financial performance. <i>Committee Memberships:</i> Member of the Board Safety and Quality committee	Board Member <i>Hospital and Health Boards Act 2011</i> Section 23 (1)	18/5/2016
Board Member – Dr Kim Forrester	Provide strategic leadership, guidance and effective oversight of management, operations and financial performance. <i>Committee Memberships:</i> Chair of the Board Safety and Quality committee Member of the Board Executive committee Member of the Board Risk and Audit committee		18/5/2013
Board Member – Mr Mike Gilmour	Provide strategic leadership, guidance and effective oversight of management, operations and financial performance. <i>Committee Memberships:</i> Member of the Board Finance committee Member of the Board Risk and Audit committee		18/5/2016
Board Member – Mr Geoff Hardy	Provide strategic leadership, guidance and effective oversight of management, operations and financial performance. <i>Committee Memberships:</i> Member of the Board Risk and Audit committee Member of the Board Finance committee		18/5/2016
Board Member – Associate Professor Cliff Pollard AM	Provide strategic leadership, guidance and effective oversight of management, operations and financial performance. <i>Committee Memberships:</i> Member of the Board Safety and Quality committee Member of the Board Executive committee		7/9/2012
Board Member – Mr Leonard Scanlan	Provide strategic leadership, guidance and effective oversight of management, operations and financial performance. <i>Committee Memberships:</i> Chair of the Board Risk and Audit committee Member of the Board Finance committee Member of the Board Executive committee		7/9/2012 (30/10/2015)
Board Member – Dr Margaret Steinberg AM	Provide strategic leadership, guidance and effective oversight of management, operations and financial performance. <i>Committee Memberships:</i> Member of the Board Safety and Quality committee Member of the Board Risk and Audit committee Member of the Board Finance committee Member of the Board Executive committee		1/7/2012

A2-2 Key Management Personnel and Remuneration Expense (continued)

Details of Key Management Personnel

The following details for key management personnel include those positions that had authority and responsibility for planning, directing and controlling the activities of the Metro North Hospital and Health Service during 2015-16.

Incumbent	Contract Classification and Appointment Authority	Date of Initial Appointment (Date ceased from position)
Chief Executive		
The Health Service Chief Executive is responsible for the strategic direction and the efficient, effective and economic administration of the health service.		
Adjunct Professor Ken Whelan	<i>Hospital and Health Boards Act 2011, 10S24/S70 01</i>	11/5/2015
Executive Director, Operations		
Provide operational leadership, direction and day to day management, including infrastructure, of the Metro North Hospital and Health Service to optimise quality health care and business outcomes.		
Mr Shaun Drummond	<i>Hospital and Health Boards Act 2011, HES4</i>	8/12/2014
Chief Finance Officer		
Responsible for developing, implementing, managing and monitoring the financial framework, corporate financial systems, controls and budget administration of the health service.		
Mr James Kelaher, BA, MBA, FCPA, Member of RMIA	<i>Hospital and Health Boards Act 2011, HES3</i>	12/10/2015
Mr Robert Dubery, FCPA, FCMA, CGMA, GAICD	<i>Hospital and Health Boards Act 2011, HES3</i>	13/03/2013 (19/10/2016)
Executive Director, Clinical Services		
Responsible for monitoring and strategically directing the budgetary and activity performance of the Metro North Hospital and Health Service's clinical streams and assist the Health Service Chief Executive and other Executive Directors in effective management of not only the Clinical Streams but also Metro North Hospital and Health Service as an entity.		
Dr Elizabeth Whiting, BA, MB BCH BAO, FRACP, FRANZSGM	Medical Officers' (Queensland Health) Certified Agreement (No.3) 2012, MMOI4	1/9/2014
Executive Director, Clinical Governance, Safety, Quality and Risk		
Provide strategic leadership, direction and day to day management of the Metro North Hospital and Health Service's governance, quality and risk functions to optimise quality health care, statutory and policy compliance and continuously improving business outcomes.		
Ms Linda Hardy, RN	<i>Hospital and Health Boards Act 2011, HES3</i>	29/06/2015
Executive Director, Organisational Development, Strategy and Implementation		
Responsible for the delivery of key initiatives in response to strategic and operational plans and imperatives including sustainability of services, patient flow initiatives and the design of new services.		
Mr Luke Worth	<i>Hospital and Health Boards Act 2011, HES2</i>	28/09/2015
Executive Director, Royal Brisbane and Women's Hospital		
Responsible for the management of the efficient, effective and economic administration of the operations of the Royal Brisbane and Women's Hospital.		
Dr Amanda Dines	Medical Officers' (Queensland Health) Certified Agreement (No.4) 2015, MMOI2	17/08/2015
Adjunct Associate Professor Alanna Geary (acting)	Nurses and Midwives (Queensland Health) Certified Agreement (EB8) 2012, NRG12-1	2/6/2016 (16/08/2015)
Executive Director, The Prince Charles Hospital		
Responsible for the management of the efficient, effective and economic administration of the operations of the Prince Charles Hospital.		
Mr Anthony Williams	<i>Hospital and Health Boards Act 2011, HES2</i>	30/03/2015

Incumbent	Contract Classification and Appointment Authority	Date of Initial Appointment (Date ceased from position)
Executive Director, Caboolture and Kilcoy Hospitals		
Responsible for the management of the efficient, effective and economic administration of the operations of the Caboolture and Kilcoy Hospitals.		
Dr Lance LeRay, MBBS MPH FRACGP FRACMA	Medical Officers' (Queensland Health) Certified Agreement (No.3) 2012, MMOI2	21/11/2014
Executive Director, Redcliffe Hospital		
Responsible for the management of the efficient, effective and economic administration of the operations of the Redcliffe Hospital.		
Ms Lexie Spehr	Nurses and Midwives (Queensland Health) Certified Agreement (EB8) 2012, NRG12-1	1/03/2013
Ms Gayle Sutherland (acting)	<i>Hospital and Health Boards Act 2011, HES2</i>	9/05/2016
Executive Director, Community, Indigenous and Subacute Services		
Responsible for the management of the efficient, effective and economic administration of the operations of primary health, community health and aged care within the health service.		
Mr Christopher Seiboth, BSocSc, AssocDAppSc	<i>Hospital and Health Boards Act 2011, HES2</i>	3/08/2015
Ms Mary Slattery	<i>Hospital and Health Boards Act 2011, HES2</i>	9/8/2013 (9/8/2015)
Executive Director, Mental Health Services		
Responsible for providing sustainable and appropriate mental health care across the health service through efficient, effective and economic administration.		
Associate Professor Brett Emmerson, MBBS, MHA, FRANZCP, FRACMA	Medical Officers' (Queensland Health) Certified Agreement (No.3) 2012, MMOI4	15/05/2013
Executive Director, Oral Health Services		
Responsible for providing sustainable and appropriate oral health care across the health service through efficient, effective and economic administration.		
Mr Andrew McAuliffe, GDipSocSc(Health), BAppSc (Phty)	<i>Hospital and Health Boards Act 2011, HES2</i>	6/07/2015
Executive Director, Medical Imaging		
Responsible for the strategic direction, professional development and quality of medical imaging services within the health service.		
Ms Noelle Cridland	<i>Hospital and Health Boards Act 2011, HES2</i>	7/10/2015
Executive Director, Medical Services		
Responsible for the strategic direction, professional development and quality of medical services within the health service.		
Dr Donna O'Sullivan, MBBS BHA MPH FRACMA	Medical Officers' (Queensland Health) Certified Agreement (No.4) 2015, MMOI3	1/04/2013
Dr Judy Graves (acting)	Medical Officers' (Queensland Health) Certified Agreement (No.4) 2015, MMOI2	3/04/2015 (17/01/2016)
Executive Director, Nursing and Midwifery Services		
Responsible for the strategic direction, professional development and quality of nursing services within the health service.		
Adjunct Associate Professor Alanna Geary	Nurses and Midwives (Queensland Health) Certified Agreement (EB8) 2012, NRG12-1	16/03/2015
Adjunct Associate Professor Robyn Fox	Nurses and Midwives (Queensland Health) Certified Agreement (EB8) 2012, NRG12-1	2/06/2015 (14/08/15)
Executive Director, Allied Health Services		
Responsible for the strategic direction, professional development and quality of allied health services within the health service.		
Mr Mark Butterworth, BAppSc, GradDipBA	Health Practitioners' (Queensland Health) Certified Agreement (No. 2) 2011 HP8-4	2/02/2013

Key Management Personnel and Remuneration Expense (continued)

Remuneration Policies

Section 74(1) of the *Hospital and Health Boards Act 2011* provides that each person appointed as a health executive must enter into a contract of employment. The Health Service Chief Executive must enter into the contract of employment with the Chair of the Board for the Hospital and Health Service and a Health Executive employed by a Hospital and Health Service must enter into a contract of employment with the Health Service Chief Executive. The contract of employment must state the term of employment (no longer than 5 years per contract), the person's functions and any performance criteria as well as the person's classification level and remuneration entitlements.

Remuneration packages for key executive management personnel comprise the following components:

- Short term employee expenses include:
 - o salaries, allowances and leave entitlements earned and expensed for the entire year or for that part of the year during which the employee occupied the specified position
 - o Non-monetary benefits – consisting of provision of vehicle and expense payments together with fringe benefits tax applicable to the benefit.
- Long term employee expenses include long service leave accrued.
- Post employment expenses includes expenses in respect of employer superannuation obligations.
- Termination benefits are not provided for within individual contracts of employment. Contracts of employment provide only for notice periods or payment in lieu on termination, regardless of the reason for termination.
- Performance bonuses are not paid under the contracts in place.

Total expenses and termination benefits are calculated on a 'total cost' basis and includes the monetary and non-monetary expenses, long term employee expenses and post employment expenses.

Board Remuneration Expense

Remuneration paid, or owing, to board members during **2015-16** was as follows:

	Short term employee expenses		Post employment expenses	Total expenses
	Monetary expenses	Non-monetary expenses		
Board Members	\$'000	\$'000	\$'000	\$'000
Board Chair – Dr Paul Alexander AO	84	-	9	93
Board Chair – Emeritus Professor Robert Stable AM	7	-	1	8
Deputy Chair – Mr Vaughan Howell	50	-	5	55
Mr Leonard Scanlan	19	-	2	21
Dr Clifford Pollard AM	46	-	12	58
Dr Margaret Steinberg AM	51	-	5	56
Professor Helen Edwards OAM	48	-	5	53
Professor Nicholas Fisk	41	-	4	45
Dr Kim Forrester	51	-	5	56
Mr Philip Davies	4	-	-	4
Mr Mike Gilmour	4	-	-	4
Ms Bonny Barry	4	-	-	4
Professor Mary-Louise Fleming	5	-	1	6
Mr Geoff Hardy	3	-	-	3
Total Remuneration	417	-	49	466

The Metro North Hospital and Health Service has reimbursed board members a total of \$83.91 for out-of-pocket expenses incurred whilst travelling on approved board business including attendance at board meetings.

Remuneration paid, or owing, to board members during **2014-15** was as follows:

	Short term employee expenses		Post employment expenses	Total expenses
	Monetary expenses	Non-monetary expenses		
Board Members	\$'000	\$'000	\$'000	\$'000
Board Chair – Dr Paul Alexander AO	93	-	9	102
Deputy Chair – Mr Vaughan Howell	57	-	6	63
Mr Leonard Scanlan	54	-	5	59
Dr Clifford Pollard AM	50	-	5	55
Dr Margaret Steinberg AM	53	-	5	58
Professor Helen Edwards OAM	47	-	5	52
Professor Nicholas Fisk	43	-	5	48
Dr Kim Forrester	49	-	5	54
Total Remuneration	446	-	45	491

Key Management Personnel (KMP) Remuneration Expense

The following disclosures focus on the expenses incurred by Metro North Hospital and Health Service that are attributable to key management positions during the respective reporting periods. Therefore, the amounts disclosed reflect expenses recognised in the Statement of Comprehensive Income.

2015-16

Position	Short term employee expenses		Long term expenses	Post employment expenses	Termination benefits	Total expenses
	Monetary expenses	Non-monetary expenses				
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Chief Executive	479	-	9	48	-	536
Executive Director, Operations	257	13	5	27	-	302
Chief Finance Officer	242	-	4	22	58	326
Executive Director, Clinical Services	511	1	10	38	-	560
Executive Director, Clinical Governance, Safety, Quality and Risk	201	1	4	20	-	226
Executive Director, Organisational Development, Strategy and Implementation	163	-	3	17	-	183
Executive Director, Royal Brisbane and Women's Hospital	413	1	8	33	-	455
Executive Director, The Prince Charles Hospital	199	-	4	20	-	223
Executive Director, Redcliffe Hospital	229	-	4	23	-	256
Executive Director, Caboolture and Kilcoy Hospitals	449	-	9	33	-	491

2015-16 continued

	Short term employee expenses		Long term expenses	Post employment expenses	Termination benefits	Total expenses
	Monetary expenses	Non-monetary expenses				
Position	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Executive Director, Community, Indigenous and Subacute Services	225	-	4	18	132	379
Executive Director, Mental Health	475	1	9	35	-	520
Executive Director, Oral Health	187	-	4	19	-	210
Executive Director, Medical Imaging	232	-	4	22	-	258
Executive Director, Medical Services	690	1	13	46	-	750
Executive Director, Nursing and Midwifery Services	251	-	4	23	-	278
Executive Director, Allied Health	219	1	4	20	-	244
Total Remuneration	5,422	19	102	464	190	6,197

2014-15

	Short term employee expenses		Long term expenses	Post employment expenses	Termination benefits	Total expenses
	Monetary expenses	Non-monetary expenses				
Position	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Chief Executive	567	13	10	51	210	851
Chief Operating Officer (from 1/7/2014 to 24/7/2014)	21	-	-	1	-	22
Acting Executive Director, Operations (from 10/11/2014 to 30/6/2015)	152	19	3	16	-	190
Chief Finance Officer	228	-	4	23	-	255
Executive Director, Clinical Services (1/9/2014 to 30/6/2015)	418	-	8	30	-	456
Executive Director, Clinical Governance, Safety, Quality and Risk	138	-	3	16	-	157
Acting Executive Director, Royal Brisbane and Women's Hospital	409	-	7	32	39	487
Acting Executive Director, The Prince Charles Hospital	204	-	4	17	-	225
Executive Director, Redcliffe Hospital	221	-	4	17	-	242
Acting Executive Director, Caboolture and Kilcoy Hospitals (from 1/7/2014 to 31/8/2014 and 24/11/2014 to 30/6/2015)	338	-	7	27	-	372

2014–15 continued

Position	Short term employee expenses		Long term expenses	Post employment expenses	Termination benefits	Total expenses
	Monetary expenses	Non-monetary expenses				
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Executive Director, The Prince Charles, Caboolture and Kilcoy Hospitals (from 1/9/2014 to 23/11/2014)	89	-	2	5	-	96
Executive Director, Mental Health Services	425	1	8	32	-	466
Executive Manager and Director of Nursing, Community, Indigenous and Subacute Services	174	-	3	16	-	193
Executive Director, Oral Health Services	113	-	2	12	-	127
Executive Director, Nursing Services	236	-	3	6	-	245
Executive Director, Medical Services	528	1	11	40	-	580
Executive Director, Allied Health Services	172	-	3	19	-	194
Executive Director, Corporate Services and Performance (from 1/7/2014 to 19/3/2015)	151	1	2	6	185	345
Acting Executive Director, Systems Support Services (from 16/02/2015 to 30/6/2015)	78	-	1	8	-	87
Total	4,662	35	85	374	434	5,590

A3 - Other Expenses

A3-1 Supplies and services

Accounting Policy – Services Received Free of Charge or for Nominal Value

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

The Metro North Hospital and Health Service receives corporate services support from the Department of Health for no cost. Corporate services include accounts payable services, payroll services, taxation services, some supply services and information system support services. As the fair value of these services is unable to be estimated reliably, no associated revenue and expense is recognised in the Financial Statements of the Metro North Hospital and Health Service.

Accounting Policy – Insurance

Metro North Hospital and Health Service is covered by the Department of Health's insurance policy with the Queensland Government Insurance Fund (QGIF) and pays a fee to the Department of Health as a fee for service arrangement.

QGIF covers property and general losses above a \$10,000 threshold and health litigation payments above a \$20,000 threshold and associated legal fees. Premiums are calculated by QGIF on a risk assessment basis.

	2016	2015
	\$'000	\$'000
A3-1 Supplies and services		
Consultants and contractors	19,498	21,736
Electricity and other energy	19,104	17,809
Patient travel	9,973	9,732
Other travel	4,330	3,948
Water	3,370	3,696
Building services	2,468	2,731
Computer services	12,149	14,771
Insurance	21,948	19,618
Motor vehicles	867	778
Communications	20,709	18,492
Repairs and maintenance	46,588	49,877
Minor works including plant and equipment	3,227	2,644
Operating lease rentals	4,134	4,803
Drugs	134,067	91,569
Clinical supplies and services	179,858	160,233
Catering and domestic supplies	42,899	42,902
Pathology, blood and parts	98,897	82,105
Other	13,640	14,523
Total	637,726	561,967

A3-2. Other Expenses

Audit Expenses

Total audit fees paid to the Queensland Audit Office relating to the 2015-16 financial year are \$320,000 (2015:\$330,000). There are no non-audit services included in this amount.

Accounting Policy – Special payments

Special payments include ex-gratia expenditure and other expenditure that the Metro North Hospital and Health Service is not contractually or legally obligated to make to other parties. In compliance with the *Financial and Performance Management Standard 2009*, the Metro North Hospital and Health Service maintains a register setting out the details of all special payments greater than \$5,000. The total of all special payments (including those of \$5,000 or less) is within the category of Other Expenses in the financial statements. In 2015-16, ex-gratia payments of \$33,173 (2015:\$80,000) were made, consisting of three reportable payments totalling \$16,150 (2015:\$62,558) and a number of smaller non-reportable payments. Two reportable payments totalling \$10,000 relate to patient medical claims and one payment of \$6,150 was made to a patient for loss of personal property.

B. Notes about our financial position

	2016	2015
	\$'000	\$'000
B1. Cash and cash equivalents		
Cash at bank and on hand	54,164	111,581
QTC cash funds	18,885	18,786
	73,049	130,367

Cash on deposit with QTC represents cash contributions from external entities and other benefactors in the form of gifts, donations and bequests for specific purposes. These funds are deposited with Queensland Treasury Corporation and set aside for specific purposes underlying the contribution. Cash on deposit is at call and is subject to floating interest rates. The annual effective interest rate is 2.85% (2015:2.84%).

Accounting Policy – Cash and Cash Equivalents

For the purpose of the Statement of Financial Position and the Statement of Cash Flows, cash assets include all cash and cheques receipted but not banked as at 30 June as well as deposits at call with financial institutions. Metro North Hospital and Health Service's bank account is grouped within the Whole-of-Government set-off arrangement with the Queensland Treasury Corporation and, as a result, does not earn interest on its surplus funds nor is it charged interest or fees for accessing its approved cash overdraft facility. Interest earned on the aggregate set-off arrangement balance accrues to the consolidated fund.

B2. Receivables

	2016	2015
	\$'000	\$'000
B2-1 Receivables		
Trade receivables	67,251	50,919
Less: Allowance for impairment	(8,882)	(9,311)
Accrued Interest and Other	3	78
	58,372	41,686
GST receivable	3,027	3,891
GST payable	(863)	(609)
	2,164	3,282
Funding public health services	57,331	15,118
Total	117,867	60,086
Movements in the allowance for impairment loss		
Balance at beginning of the year	9,311	7,388
Amounts written off during the year	(4,043)	(4,030)
Increase/(decrease) in allowance recognised in operating result	3,614	5,953
Total	8,882	9,311

Accounting Policy – Receivables

Trade receivables are measured at their carrying amount less any impairment, which approximates fair value at reporting date. Trade receivables are initially recognised at the amounts due at time of sale or service delivery and are generally settled within 30-120 days, while some other trade receivables may take longer than twelve months to settle.

The maximum exposure to credit risk at balance date for receivables is the gross carrying amount of those assets inclusive of any provisions for impairment. Credit risk management strategies are disclosed in Note C2-2.

B2-2. Impairment of Receivables**(i) Accounting Policy - Impairment of receivables**

Throughout the year, Metro North Hospital and Health Service assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. Objective evidence includes financial difficulties of the debtor, changes in debtor credit ratings and current outstanding accounts over 120 days. The allowance for impairment reflects Metro North Hospital and Health Service's assessment of the credit risk associated with receivables balances and is determined based on historical rates of bad debts (by category) over the past three years and management judgement. All known bad debts are written-off when identified.

The allowance for impairment reflects the occurrence of loss events. If no loss events have arisen in respect of a particular debtor, or group of debtors, no allowance for impairment is made in respect of that debt/group of debtors. If Metro North Hospital and Health Service determines that an amount owing by such a debtor does become uncollectible (after appropriate range of debt recovery actions), that amount is recognised as a bad debt expense and written-off directly against receivables. In other cases where a debt becomes uncollectible but the uncollectible amounts exceeds the amount already allowed for impairment of that debt, the excess is recognised directly as a bad debt expense and written-off directly against receivables.

Impairment loss expense for the current year regarding the Metro North Hospital and Health Service's receivables is \$3.61M (2015:\$5.95M).

Ageing of trade receivables

	Neither past due nor impaired	Past due but not Impaired	Impaired	Gross receivables	Allowance for impairment	Net receivable
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
2016 Trade Receivables						
Less than 30 days	28,187	6,905	705	35,797	(705)	35,092
30 to 60 days	-	4,954	785	5,739	(785)	4,954
61 to 90 days	-	4,422	665	5,087	(665)	4,422
Greater than 90 days	-	13,901	6,727	20,628	(6,727)	13,901
Total overdue	28,187	30,182	8,882	67,251	(8,882)	58,369

	Neither past due nor impaired	Past due but not Impaired	Impaired	Gross receivables	Allowance for impairment	Net receivable
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
2015 Trade Receivables						
Less than 30 days	17,032	5,931	358	23,321	(358)	22,963
30 to 60 days	-	4,593	336	4,929	(336)	4,593
61 to 90 days	-	2,606	195	2,801	(195)	2,606
Greater than 90 days	-	11,446	8,422	19,868	(8,422)	11,446
Total overdue	17,032	24,576	9,311	50,919	(9,311)	41,608

B3. Inventories

	2016	2015
	\$'000	\$'000
Inventories held for distribution - at cost		
Medical supplies and equipment	23,115	15,352
Catering and domestic	375	294
	23,490	15,646
Less: Loss of service potential	(135)	(135)
	23,355	15,511
Other	69	71
Total	23,424	15,582

Accounting Policy – Inventories

Inventories consist mainly of medical supplies and equipment, drugs and other pharmaceuticals held for distribution to, and consumption by, hospitals.

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is measured at their weighted average cost including expenditure incurred in acquiring them and bringing them to their existing location and condition and is adjusted for loss of service potential. These supplies are expensed on issue from the Metro North Hospital and Health Service's main storage facilities.

B4. Intangible Assets

	Software purchased	Software generated	Software work in progress	Total
30 June 2016	\$'000	\$'000	\$'000	\$'000
Cost	3,994	5,239	8,555	17,788
Less: Accumulated amortisation	(1,957)	(4,826)	-	(6,783)
Carrying amount at 30 June 2016	2,037	413	8,555	11,005
<i>Represented by movements in the carrying amount</i>				
Carrying amount at 1 July 2015	2,520	641	-	3,161
Additions	172	-	8,555	8,727
Amortisation expense	(654)	(229)	-	(883)
Carrying amount at 30 June 2016	2,038	412	8,555	11,005

	Software purchased	Software generated	Software work in progress	Total
30 June 2015	\$'000	\$'000	\$'000	\$'000
Cost	3,822	5,239	-	9,061
Less: Accumulated amortisation	(1,302)	(4,598)	-	(5,900)
Carrying amount at 30 June 2015	2,520	641	-	3,161
<i>Represented by movements in the carrying amount</i>				
Carrying amount at 1 July 2014	1,526	253	34	1,813
Additions	1,634	-	24	1,658
Transfers to HHSs	-	617	-	617
Write-off to Software Work in Progress	-	-	(58)	(58)
Amortisation expense	(640)	(229)	-	(869)
Carrying amount at 30 June 2015	2,520	641	-	3,161

Accounting Policy – Intangibles

Intangible assets with a cost or other value equal to or greater than \$100,000 are recognised in the financial statements. Items with a lesser value are expensed. The residual value is zero for all the Metro North Hospital and Health Service's intangible assets.

The assets are recognised and carried at cost less accumulated amortisation and accumulated impairment losses.

Amortisation

Intangible assets are amortised on a straight-line basis over their estimated useful life with a residual value of zero. The estimated useful life and amortisation method are reviewed periodically, with the effect of any changes in estimate being accounted for on a prospective basis. The useful life for the Hospital and Health Services (HHS's) software is 5 years.

B5 Property Plant and Equipment

B5-1 Property, Plant and Equipment - Balances and Reconciliations of Carrying Amount

	Land	Buildings	Buildings	Plant and Equipment	Capital works in Progress	Total
30 June 2016						
	Level 2*	Level 3**	Level 2**			
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Gross	365,725	1,368,917	930	336,405	9,116	2,081,093
Less: Accumulated depreciation	-	(646,135)	(420)	(211,530)	-	(858,085)
Carrying amount at 30 June 2016	365,725	722,782	510	124,875	9,116	1,223,008
<i>Represented by movements in carrying amount:</i>						
Carrying amount at 1 July 2015	318,079	758,162	518	122,070	246	1,199,075
Transfers in from other Queensland Government entities	-	15,293	-	396	-	15,689
Acquisitions	-	1,295	-	33,412	8,907	43,614
Disposals	-	-	-	(665)	-	(665)
Transfers between classes	-	37	-	-	(37)	-
Net revaluation increments/ (decrements)	47,646	6,823	16	517	-	55,002
Depreciation expense	-	(58,828)	(24)	(30,855)	-	(89,707)
Carrying amount at 30 June 2016	365,725	722,782	510	124,875	9,116	1,223,008

	Land	Buildings	Buildings	Plant and Equipment	Capital works in Progress	Total
30 June 2015						
	Level 2*	Level 3**	Level 2**			
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Gross	318,079	1,072,454	540	318,826	246	1,710,145
Less: Accumulated depreciation	-	(314,292)	(22)	(196,756)	-	(511,070)
Carrying amount at 30 June 2015	318,079	758,162	518	122,070	246	1,199,075
<i>Represented by movements in carrying amount:</i>						
Carrying amount at 1 July 2014	318,079	805,003	540	133,386	2,384	1,259,392
Acquisitions major infrastructure transfers	-	-	-	18,415	526	18,941
Transfers in from other Queensland Government entities	-	1,851	-	65	-	1,916
Donated assets	-	-	-	341	-	341
Disposals	-	-	-	(1,225)	(387)	(1,612)
Transfers between classes	-	2,277	-	-	(2,277)	-
Depreciation expense	-	(50,969)	(22)	(28,912)	-	(79,903)
Carrying amount at 30 June 2015	318,079	758,162	518	122,070	246	1,199,075

*Level 2 land assets comprise land with an active market

**Level 3 building assets are special purpose built and have no active market. Level 2 building assets are buildings with an active market.

B5-2 Accounting Policies - Property, Plant and Equipment

Items of property, plant and equipment with a cost or other value equal to or in excess of the following thresholds and with a useful life of more than one year are recognised for financial reporting purposes in the year of acquisition. Items with a lesser value are expensed in the year of acquisition.

Class	Threshold
Land	\$1
Buildings and Land Improvements*	\$10,000
Plant and Equipment	\$5,000

*Land improvements undertaken by Metro North Hospital and Health Service are included with buildings.

Initial measurement

Property, plant and equipment are initially recorded at consideration plus any other costs directly incurred in bringing the asset to the condition ready for use.

Where assets are received free of charge from another Queensland Government entity, the acquisition cost is recognised as the gross carrying amount in the books of the transferor immediately prior to the transfer together with any accumulated depreciation. Assets acquired at no cost or for nominal consideration, other than from an involuntary transfer from another Queensland Government entity, are recognised at their fair value at date of acquisition in accordance with *AASB 116 Property, Plant and Equipment*.

Subsequent expenditure is only capitalised when it is probable that future economic benefits associated with the expenditure will flow to the Metro North Hospital and Health Service. Ongoing repairs and maintenance are expensed as incurred.

Plant and equipment is measured at cost in accordance with Queensland Treasury's Non-Current Asset Policies for the Queensland Public Sector. The carrying amounts for such plant and equipment at cost should not materially differ from their fair value.

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

These assets are reported at their revalued amounts, being the fair value at the date of valuation, less any subsequent accumulated depreciation and impairment losses where applicable.

Key judgement and estimate: In respect of the abovementioned asset classes, the cost of items acquired during the financial year has been judged by management of the Metro North Hospital and Health Service to materially represent their fair value at the end of the reporting period.

Revaluation of property, plant and equipment at fair value

To ensure the carrying amounts of the land and buildings asset classes reflect their fair value, land and buildings asset classes are revalued on an annual basis. The concept of materiality is considered in determining whether only those material assets within the class, rather than all assets of the class, are revalued. In applying the concept of materiality to asset revaluations, the Metro North Hospital and Health Service has an appropriately robust policy for identifying those assets to be included or excluded as part of the revaluation process. For financial reporting purposes, the revaluation process is managed by Financial Control with input from the Chief Finance Officer (CFO). The appointment of the independent valuer was undertaken following recommendations to, and endorsement by, the Risk and Audit Committee. The outcome of the annual valuation process is reported to the Metro North Hospital and Health Service Risk and Audit Committee.

The annual valuation process for a class of land or buildings carried at fair value may incorporate either one or both of the following revaluation methodologies:

- Appraisals undertaken by independent professional valuer or internal expert; or
- Use of appropriate and relevant indices.

Revaluations using independent professional valuers are undertaken with sufficient regularity to ensure assets are carried at fair value. However, if a class of asset experiences significant and volatile changes in fair value (i.e. where indicators such as property market and construction cost movements suggest that the value of the class of assets may have changed significantly from one reporting period to the next), it is subject to such revaluations in the reporting period.

The fair values reported by Metro North Hospital and Health Service are based on appropriate valuation techniques that maximises the use of available and relevant observable inputs and minimises the use of unobservable inputs (refer to Note B5-3).

The valuer supplies the indices used for the various types of assets. Such indices are either publicly available, or are derived from market information available to the valuer. The valuer provides assurance of their robustness, validity and appropriateness for application to the relevant assets.

Any revaluation increments arising from the revaluation of an asset is credited to the asset revaluation surplus of the appropriate asset class, except to the extent it reverses a revaluation decrement for the class previously recognised as an expense. A decrease in the carrying amount on revaluation is charged as an expense, to the extent it exceeds the balance, if any, in the revaluation surplus relating to that asset class.

Buildings are revalued using a cost valuation method known as depreciated replacement cost. Accumulated depreciation is adjusted to equal the difference between the gross amount and the carrying amount, after taking into account accumulated impairment losses and changes in remaining useful life. This is generally referred to as the 'gross method'.

Depreciation

Property, plant and equipment are depreciated on a straight-line basis so as to allocate the net cost or revalued amount of each asset, less its estimated residual value, progressively over its estimated useful life to the Metro North Hospital and Health Service. Annual depreciation is based on fair value and Metro North Hospital and Health Service's assessments of the remaining useful life of individual assets. Land is not depreciated as it has an unlimited useful life.

Assets under construction (work-in-progress) are not depreciated until they reach service delivery capacity.

Key Judgement: Buildings are recognised and depreciated as one asset using a weighted average of the remaining useful lives of the building's significant parts.

Key Judgement: Any expenditure that increases the originally assessed capacity or service potential of an asset is capitalised and the new depreciable amount is depreciated over the remaining useful life of the asset.

Key Estimates: The estimated useful lives of the assets are reviewed annually and where necessary, are adjusted to better reflect the pattern of consumption of the asset. In reviewing the useful life of each asset, factors such as asset usage and the rate of technical obsolescence are considered. Metro North Hospital and Health Service has assigned nil residual values to all depreciable assets.

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

Class	Depreciation rates
Buildings	2.5% – 3.33%
Plant and equipment	5.0% – 20.0%

Impairment of non-current assets

Key judgement and estimate: All non-current and intangible assets are assessed for indicators of impairment on an annual basis. If an indicator of possible impairment exists, Metro North Hospital and Health Service determines the asset's recoverable amount (higher of value-in-use and fair value less costs to sell). Any amount by which the asset's carrying amount exceeds the recoverable amount is considered an impairment loss. An impairment loss is recognised immediately in the Statement of Comprehensive Income, unless the asset is carried at a revalued amount, in which case the impairment loss is offset against the asset revaluation surplus of the relevant class to the extent available.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

B5-3 Valuation of Property, Plant and Equipment including Key Estimates and Judgements

Land

Land is measured at fair value utilising either independent revaluation or applying an interim revaluation methodology, resulting in an index, developed by the State Valuation Service.

The State Valuation Service provides an individual factor change per property derived from the review of market transactions (observable market data). These market movements are determined having regard to the review of land values undertaken for each local government area issued by the Valuer-General Department of Natural Resources and Mines.

During 2015-16, land was comprehensively revalued by State Valuation Service (SVS) effective 30 June 2016. The Herston Campus land parcel was split into two parcels of approximately 5 hectares and 12 hectares. The 5 hectare parcel within the Herston campus is subject to commercial redevelopment, however under current zoning, its highest and best use is that of a hospital precinct.

The valuation methodology takes into consideration specific valuation indicators such as location, size, zoning regulations and recent market data.

The land valuation program for 2015–16 resulted in a valuation increase of \$47.646M (2015:nil) to the carrying amount of land. The revaluation increment reverses a previous revaluation decrement of \$1.477M which was recognised in 2012–13.

Buildings

An independent valuation of the building portfolio was performed during 2015–16 by independent quantity surveyors AECOM using a combination of comprehensive valuation and indexation. All building assets will be comprehensively revalued over a three year period. The methodology used by AECOM takes into account the specialised nature of health service buildings and the fair value is determined by using the depreciated replacement cost method. Depreciated replacement cost is determined as the replacement cost less the cost to bring to current standards.

Key Judgement and Estimate: The methodology applied by the valuer is a financial simulation in lieu of a market-based measurement as these assets cannot be bought and sold on the open market. A replacement or reproduction cost is estimated by creating a cost build up (cost estimate) of the asset through the measurement of key quantities such as:

- Asset type (clinical building, administration, clinic etc.)
- Gross floor area (where high-set residences have been inspected, only the main upper floor has been measured)
- Number of floors
- Girth of the building
- Height of the building
- Number of lifts
- Location

The model developed by the valuer creates an elemental cost plan using these quantities. It can apply to multiple building types and relies on the valuer's experience of managing construction costs.

The cost model is updated each year and tests are done to compare the model outputs on actual recent projects to ensure it produces a true representation of the cost of replacement or reproduction. The costs are at Brisbane prices and published location indices are used to adjust the pricing to suit local market conditions. Live project costs from across the state are also assessed to inform current market changes that may influence the published factors.

The key assumption on the replacement cost is that the estimate is based on replacing the current function of the building with a building of the same form (size and shape). This assumption has a significant impact if an asset's function changes. The cost to bring to current standards is the estimated cost of refurbishing the asset to bring it to current standards.

The cost to bring to current standards or as new condition is a component for establishing the likely 'exit price' of any transaction in the principal market for an asset of this type. For each of the five condition ratings, the estimate is based on professional opinion as well as having regard to historical project costs.

In assessing the cost to bring to current standard or as new condition, a condition rating is applied based upon the following information:

- Visual inspection of the asset;
- Asset condition data and other information provided by Metro North Hospital and Health Service; and
- Previous reports and inspection photographs if available (to show the change in condition over time).

In assessing the condition of a building the following ratings are applied by the valuers:

Category	Condition	Comments
1	Very good condition	Only normal maintenance required
2	Minor defects only	Minor maintenance required (up to 5% of capital replacement costs)
3	Maintenance required to return to accepted level of service	Significant maintenance required (up to 50% of capital replacement cost)
4	Requires renewal	Complete renewal of the internal fit out and engineering services required (up to 70% of capital replacement cost)
5	Assets unserviceable	Complete asset replacement required

The assessment of the condition rating indirectly impacts on the depreciated replacement cost of the buildings.

Where indices are used in the revaluation process, the application of such indices results in a valid estimation of the asset's fair value at reporting date. The Metro North Hospital and Health Service ensures there is sufficient evidence that the index used is robust, valid and appropriate to the assets to which it is being applied. This process includes, but is not limited to:

- obtaining a Metro North Hospital and Health Service specific index from a qualified quantity surveyor, which includes key considerations such as construction cost escalation and changes to building design requirement specific to health care assets;
- assessing the reasonableness of the indices;
- questioning the underlying assumptions used to derive the indices; and
- analysing the trend of change in values over time.

Annually, management assess the relevance and suitability of indices used, based on the Metro North Hospital and Health Service's own particular circumstances.

The gross value is reduced to the written down value using estimates of remaining useful life as assessed by the surveyors. Estimates of remaining life are based on the assumption that the asset remains in its current function and will be maintained. No allowance has been provided for significant refurbishment works in the estimate of remaining life as any refurbishment should extend the life of the asset.

Buildings have been valued on the basis that there is no residual value.

The building valuation program for 2015–16 resulted in a net valuation increase of \$6.839M (2015:nil).

B6 Liabilities

	2016	2015
	\$'000	\$'000
B6-1 Payables		
Trade creditors	72,670	50,397
Other creditors	5,973	5,438
Total	78,643	55,835

Accounting Policy – Payables

Payables are recognised upon receipt of the goods or services ordered and are measured at the agreed purchase/contract price, gross of applicable trade and other discounts. Amounts owing are unsecured and are generally settled within the creditor's normal payment terms.

B7 Equity

	Land	Buildings	Artworks & Books	Total
	\$'000	\$'000	\$'000	\$'000
B7-1 Asset revaluation surplus				
Balance 1 July 2015	-	17,401	-	17,401
Revaluation increments/ (decrements)	47,646	6,839	517	55,002
Reversal of decrement	(1,477)	-	-	(1,477)
Balance 30 June 2016	46,169	24,240	517	70,926

Accounting Policy – Revaluation Surplus

The asset revaluation surplus represents the net effect of revaluation movements in assets.

SECTION C: Notes about risks and other accounting uncertainties

C1-1: Accounting Policies and Basis for Fair Value Measurement

Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly derived from observable inputs or estimated using another valuation technique.

Fair values reported by Metro North Hospital and Health Service are based on valuation techniques that maximise the use of available and relevant observable inputs and minimise the use of unobservable inputs. Observable inputs are publicly available data that are relevant to the characteristics of the assets/liabilities being valued, and include, but are not limited to, published sales data for land and residual dwellings.

Unobservable inputs are data, assumptions and judgements that are not available publicly, but are relevant to the characteristics of the assets/liabilities being valued. Significant unobservable inputs used by Metro North Hospital and Health Service include, but are not limited to, subjective adjustments made to observable data to take account of the specialised

nature of health service buildings and on-hospital-site residential facilities, including historical and current construction contracts (and/or estimates of such costs), and assessments of physical condition and remaining useful life. Unobservable inputs are used to the extent that sufficient relevant and reliable observable inputs are not available for similar assets/liabilities.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefit by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

Fair Value Hierarchy

All Metro North Hospital and Health Service assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the following fair value hierarchy, based on the data and assumptions used in the most recent specific appraisals:

- Level 1: represents fair value measurements that reflect unadjusted quoted market prices in active markets for identical assets and liabilities;
- Level 2: represents fair value measurements that are substantially derived from inputs (other than quoted prices included within level 1) that are observable, either directly or indirectly; and
- Level 3: represents fair value measurements that are substantially derived from unobservable inputs.

None of Metro North Hospital and Health Service's valuations of assets or liabilities are eligible for categorisation into level 1 of the fair value hierarchy. There were no transfers of assets between fair value hierarchy levels during the period.

Categorisation of valuations in the fair value hierarchy is as follows:

- Unrestricted land – level 2 fair value hierarchy
- Buildings – level 2 and 3 fair value hierarchy

Refer to note B5-1 for specific disclosures relating to fair value hierarchy.

Valuations assume a nil residual value. Significant capital works, such as a refurbishment across multiple floors in a building, will result in an improved condition assessment and higher depreciated replacement values.

C2: Financial risk disclosures

C2-1: Financial instrument categories

Metro North Hospital and Health Service has the following categories of financial assets and financial liabilities:

		2016	2015
	Notes	\$'000	\$'000
Category			
Financial assets			
Cash and cash equivalents	B1-1	73,049	130,367
Receivables	B2-1	117,867	60,086
Total		190,916	190,453
Financial liabilities			
Financial liabilities measured at amortised cost:			
Payables	B6-1	78,643	55,835
Total		78,643	55,835

Accounting Policy – Financial Instruments

Financial assets and financial liabilities are recognised in the Statement of Financial Position when the Metro North Hospital and Health Service becomes a party to the contractual provisions of the financial instrument.

The Metro North Hospital and Health Service holds financial instruments in the form of cash and cash equivalents and receivables and payables. Financial instruments are classified and measured as follows:

- cash and cash equivalents – held at fair value;
- receivables – held at amortised cost; and
- payables – held at amortised cost.

C2-2 Financial risk management

Metro North Hospital and Health Services activities expose it to a variety of financial risks - credit risk, liquidity risk and interest rate risk. Financial risk management is implemented pursuant to Government and Metro North Hospital and Health Service policy. These policies focus on the unpredictability of financial markets and seek to minimise potential adverse effects on the financial performance of Metro North Hospital and Health Service.

Metro North Hospital and Health Service measures risk exposure using a variety of methods as follows:

- Credit risk: Ageing analysis, cash inflows at risk
- Liquidity risk: Monitoring of cash flows by active management of accrual accounts
- Interest Rate risk : Interest rate sensitivity analysis.

(a) Credit Risk

Credit risk is the potential for financial loss arising from a counterparty defaulting on its obligations. The maximum exposure to credit risk at balance date is equal to the gross carrying amount of the financial asset, inclusive of any allowance for impairment. The carrying amount of financial assets, which are disclosed in more detail in notes B1 and B2, represents the maximum exposure to credit risk at the reporting date.

No financial assets and financial liabilities have been offset and presented net in the Statement of Financial Position, except for GST. No collateral is held as security and no credit enhancements relate to financial assets held by Metro North Hospital and Health Service.

There are no significant concentrations of credit risk.

(b) Liquidity Risk

Liquidity risk is the risk that Metro North Hospital and Health Service will not have the resources required at a particular time to meet its obligations to settle its financial liabilities.

Metro North Hospital and Health Service is exposed to liquidity risk through its trading in the normal course of business and aims to reduce the exposure to liquidity risk by ensuring that sufficient funds are available to meet employee and supplier obligations at all times. An approved debt facility of \$23M under Whole-of-Government banking arrangements to manage any short-term cash shortfalls has been established. No funds had been withdrawn against this debt facility as at 30 June 2016.

All financial liabilities are current in nature and will be due and payable within twelve months. As such no discounting of cash flows has been made to these liabilities in the Statement of Financial Position.

(c) Interest Rate Risk

Metro North Hospital and Health Service has interest rate exposure on the 24-hour call deposits, however there is no risk on its cash deposits. Metro North Hospital and Health Service does not undertake any hedging in relation to interest rate risk.

Changes in interest rate have a minimal effect on the operating result of Metro North Hospital and Health Service.

(d) Fair value

Cash and cash equivalents are measured at fair value. All other financial assets and liabilities are measured at cost less any allowance for impairment, which, given the short-term nature of these assets, is assumed to represent fair value.

C3. Commitments

(a) Non-cancellable operating lease commitments

Commitments under operating leases at reporting date are exclusive of anticipated GST and are payable as follows:

	2016	2015
	\$'000	\$'000
Operating Leases		
No later than 1 year	1,158	1,036
Later than 1 year but no later than 5 years	3,904	1,789
Later than 5 years	-	322
Total	5,063	3,147

Metro North Hospital and Health Service has non-cancellable operating leases relating predominantly to office and residential accommodation. Lease payments are generally fixed, but with escalation clauses on which contingent rentals are determined. No lease arrangements contain restrictions on financing or other leasing activities.

(b) Capital expenditure commitments

Material classes of capital expenditure commitments exclusive of anticipated GST, contracted for at reporting date but not recognised in the accounts are payable as follows:

	2016	2015
	\$'000	\$'000
Plant and equipment		
No later than 1 year	9,491	5,295
Later than 1 year but no later than 5 years	-	-
Later than 5 years	-	-
Total	9,491	5,295

(c) Accounting policy – Commitments

Due to a change in reporting requirements, expenditure commitments, other than capital expenditure commitments and non-cancellable operating leases, have been excluded from reported commitments. Only non-recoverable GST has been included in calculating the value of these commitments.

C4. Contingencies

As at 30 June 2016, the following cases were filed in the courts naming the State of Queensland acting through the Metro North Hospital and Health Service as defendant:

	2016	2015
	number of cases	number of cases
Supreme Court	3	3
District Court	2	-
Magistrates Court	3	2
Tribunals, commissions and boards	3	14

(a) Litigation in Progress

It is not possible to make a reliable estimate of the final amount payable, if any, in respect of the litigation before the courts at this time. Health litigation is underwritten by the Queensland Government Insurance Fund (QGIF). Metro North Hospital and Health Service's maximum exposure is limited to an excess per insurance event up to \$20,000. The Metro North Hospital and Health Service's net exposure is not material.

C5. Future impact of accounting standards not yet effective

At the date of authorisation of the financial report, the expected impacts of new or amended Australian Accounting Standards issued but with future commencement dates are set out below:

AASB 124 – Related Party Disclosures

From reporting periods beginning on or after 1 July 2016, Metro North Hospital and Health Service will need to comply with the requirements of AASB 124 *Related Party Disclosures*. This accounting standard requires a range of disclosures about the remuneration of key management personnel, transactions with related parties/entities, and relationships between parent and controlled entities. Metro North Hospital and Health Service already discloses information about the remuneration expenses for key management personnel (refer Note A2) in compliance with Queensland Treasury's Financial Reporting Requirements for Queensland Government Agencies. Due to the additional guidance about the KMP definition in the revised AASB 124, Metro North Hospital and Health Service will be assessing whether its responsible Minister should be part of its KMP from 2016-17. If the responsible Minister is assessed as meeting the KMP definition, no associated remuneration figures will be disclosed by Metro North Hospital and Health Service, as it does not provide the Minister's remuneration. Comparative information will continue to be disclosed in respect of KMP remuneration.

The most significant implications of AASB 124 for the Health Service's financial statements will be the disclosures to be made about transactions with related parties. For any such transactions, from 2016-

17, disclosures will include the nature of the related party relationship, as well as information about those transactions' terms/conditions and amounts, any guarantees given/received, outstanding receivables/payables, commitments, and any receivables where collection has been assessed as being doubtful. In respect of related party transactions with other Queensland Government controlled entities, the information disclosed will be more high level, unless a transaction is individually significant. No comparative information is required in respect of related party transactions in the 2016-17 financial statements.

AASB 15 Revenue from Contracts with Customers

This standard will become effective from reporting periods beginning on or after 1 January 2018 and contains much more detailed requirements for the accounting for certain types of revenue from customers. Depending on the specific contractual terms, the new requirements may potentially result in a change to the timing of revenue from sales of the Health Service's goods and services, such that some revenue may need to be deferred to a later reporting period to the extent that the Health Service has received cash, but has not met its associated obligations (such amounts would be reported as a liability (unearned revenue) in the meantime). Metro North Hospital and Health Service is yet to complete its analysis of current arrangements for sale of its goods and services, but at this stage does not expect a significant impact on its present accounting practices.

AASB 9 Financial Instruments and AASB 2014-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)

These standards will become effective from reporting periods beginning on or after 1 January 2018. The main impacts of these standards on Metro North Hospital and Health Service are that they will change the requirements for the classification, measurement, impairment and disclosures associated with Metro North Hospital and Health Service's financial assets. AASB 9 will introduce different criteria for whether financial assets can be measured at amortised cost or fair value.

Metro North Hospital and Health Service has commenced reviewing the measurement of its financial assets against the new AASB 9 classification and measurement requirements. However, as the classification of financial assets at the date of initial application of AASB 9 will depend on the facts and circumstances existing at that date, Metro North Hospital and Health Service's conclusions will not be confirmed until closer to that time. At this stage, and assuming no change in the types of transactions the Health Service enters into, all of Metro North Hospital and Health Service's financial assets are expected to be required to be measured at fair value (instead of measurement classifications presently used in Note B2-1). In the case of Metro North Hospital and Health Service's current receivables, as they are short-term in nature, the carrying amount is expected to be a reasonable approximation of fair value. Changes in the fair value of those assets will be reflected in Metro North Hospital and Health Service's operating result.

Another impact of AASB 9 relates to calculating impairment losses for Metro North Hospital and Health Service's receivables. Assuming no substantial change in the nature of Metro North Hospital and Health Service's receivables, as they do not include a significant financing component, impairment losses will be determined according to the amount of lifetime expected credit losses. On initial adoption of AASB 9, Metro North Hospital and Health Service will need to determine the expected credit losses for its receivables by comparing the credit risk at that time to the credit risk that existed when those receivables were initially recognised.

Metro North Hospital and Health Service will not need to restate comparative figures for financial instruments on adopting AASB 9 from 2018–19. However, changed disclosure requirements will apply from that time. A number of one-off disclosures will be required in the 2018-19 financial statements to explain the impact of adopting AASB 9. Assuming no change in the types of financial instruments that the Health Service enters into, the most likely ongoing disclosure impacts are expected to relate to the credit risk of financial assets subject to impairment.

All other Australian Accounting Standards and interpretations with future commencement dates are either not applicable to Metro North Hospital and Health Service's activities, or have no material impact on Metro North Hospital and Health Service.

C6. Subsequent events

Restoration and Redevelopment of the Herston Quarter

On the 10 July 2015, the Queensland Government announced its plans to progress the redevelopment of the Herston Quarter with the announcement of three proponents for the development work. The Queensland Government has now announced that Australian Unity is the preferred tenderer to develop the five-hectare site adjacent to the Royal Brisbane and Women's Hospital over a 10 year period. The project will deliver a mix of health, aged care, retirement living and residential accommodation to complement and support the current adjacent health, research and education uses. The project will also include a 132-bed public health care facility known as the Specialist Rehabilitation and Ambulatory Care Centre. The Queensland Government has announced that the Herston Quarter redevelopment may result in the transfer of land and buildings to the Queensland Government, for nil consideration.

SECTION D: What we look after on behalf of third parties

D1: Granted private practice

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

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

All monies received for Granted Private Practice are deposited into separate bank accounts that are administered by the Metro North Hospital and Health Service on behalf of the Granted Private Practice Senior Medical Officers. These accounts are not reported in the Metro North Hospital and Health Service Statement of Financial Position.

All assignment option receipts, retention option services fees and service retention fees are included as revenue in the Statement of Comprehensive Income of the Metro North Hospital and Health Service on an accrual basis. The funds are then subsequently transferred from the Granted Private Practice bank accounts into the Metro North Hospital and Health Service operating account and general trust bank account (for the service retention fee portion).

	2016	2015
	\$'000	\$'000
Receipts		
Billings - (Doctors and Visiting Medical Officers)	63,446	60,011
Interest	110	110
Total receipts	63,556	60,121
Payments		
Payments to medical practitioners	15,918	16,828
Hospital and Health Service recoverable administrative costs	43,352	40,841
Hospital and Health Service education/travel fund	3,385	4,031
Total payments	62,655	61,700
Closing balance of bank account under a trust fund arrangement not yet disbursed and not restricted cash	5,969	5,068

D2: Fiduciary trust transactions and balances

The Metro North Hospital and Health Service acts in a fiduciary capacity in relation to a number of Patient Trust bank accounts. Consequently, these transactions and balances are not recognised in the financial statements. Although patient funds are not controlled by the HHS, trust activities are included in the audit performed by the Auditor-General of Queensland.

	2016	2015
	\$'000	\$'000
Patient Trust receipts and payments		
Receipts		
Patient trust receipts	5,055	5,444
Total receipts	5,055	5,444
Payments		
Patient trust payments	4,882	5,599
Total payments	4,882	5,599
Increase/decrease in net patient trust assets	173	(155)
Patient trust assets opening balance	186	341
Patient trust assets closing balance	359	186
Patient trust assets		
Current assets		
Cash at bank and on hand	-	-
Patient trust and refundable deposits	359	186
Total	359	186

D3: Restricted Assets

The Metro North Hospital and Health Services receives cash contributions primarily from private practice clinicians and from external entities providing for education, study and research in clinical areas. Contributions are also received from benefactors in the form of gifts, donations and bequests for stipulated purposes. At 30 June 2016, an amount of \$20.7 million (2015: \$18.8 million) in General Trust is set aside for specified purposes defined by the contribution.

SECTION E: Other Information

E1: First year application of new standards or change in accounting policy

Change in Accounting Policy

Metro North Hospital and Health Service did not voluntarily change any of its accounting policies in 2015–16.

Accounting Standards early adopted for 2015-16

Two Australian Accounting Standards have been early adopted for the 2015–16 year as required by Queensland Treasury. These are:

AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101 [AASB 7, AASB 101, AASB 134 & AASB 1049]

The amendments arising from this standard seek to improve financial reporting by providing flexibility as to the ordering of notes, the identification and location of significant accounting policies and the presentation of sub-totals, and provide clarity on aggregating line items. It also emphasises only including material disclosures in the notes.

Metro North Hospital and Health Service has applied this flexibility in preparing the 2015–16 financial statements, including co-locating significant accounting policies with the related breakdowns of financial figures in the notes.

AASB 2015-7 Amendments to Australian Accounting Standards – Fair Value Disclosures of Not-for-Profit Public Sector Entities [AASB 13]

This standard amends *AASB 13 Fair Value Measurement* and provides relief to not-for-profit public sector entities from certain disclosures about property, plant and equipment that is primarily held for its current service potential rather than to generate future net cash inflows. The relief applies to assets under *AASB 116 Property, Plant and Equipment* which are measured at fair value and categorised within Level 3 of the fair value hierarchy (refer to Note C1-1).

As a result, the following disclosures are no longer required for those assets. In early adopting the amendments, the following disclosures have been removed from the 2015–16 financial statements:

- Disaggregation of certain gains/losses on assets reflected in the operating result;
- Quantitative information about the significant unobservable inputs used in the fair value measurement; and
- A description of the sensitivity of the fair value measurement to changes in the unobservable inputs.

Accounting standards applied for the first time in 2015–16

No new Australian Accounting Standards effective for the first time in 2015–16 had any material impact on this financial report.

E2: Taxation

The Metro North Hospital and Health Service is a State body as defined under the *Income Tax Assessment Act 1936* and is exempt from Commonwealth taxation with the exception of Fringe Benefits Tax (FBT) and Goods and Services Tax (GST). FBT and GST are the only Commonwealth taxes recognised by the Metro North Hospital and Health Service.

The Australian Taxation Office has recognised the Department of Health and sixteen Hospital and Health Services as a single taxation entity for reporting purposes. All FBT and GST reporting to the Commonwealth is managed centrally by the department, with payments/receipts made on behalf of Metro North Hospital and Health Service reimbursed to/from the department on a monthly basis. GST credits receivable from, and GST payable to the ATO, are recognised on this basis. Refer to Note B2.

E3: Service Concession Arrangements

Public Private Partnership (PPP) arrangements are a contractual obligation between the Department of Health and the counterparty listed below. These arrangements are located on land that is recognised as an asset in the financial statements of the Metro North Hospital and Health Service (subject to an operating lease with the Department of Health). Public Private Partnership (PPP) arrangements operating for all or part of the financial year are as follows.

Note that all of the following are Build-Own-Operate-Transfer (BOOT) arrangements.

Facility	Counterparty	Term of Agreement	Commencement date
Butterfield Street Car Park	International Parking Group Pty Limited	25 years	January 1998
The Prince Charles Hospital Car Park	International Parking Group Pty Limited	22 years	November 2000
The Prince Charles Hospital Early Education Centre	Queensland Child Care Services Pty Ltd	20 years	April 2007

Butterfield Street Car Park

A \$2.5M up-front payment for rental of land on which the car park has been built was received at the commencement of car park operations in January 1998. This amount was transferred to the Royal Brisbane and Women's Hospital Foundation via a Deed of Assignment in June 1998. Rental income of \$0.3M plus CPI per annum to January 2019 increasing to \$0.6M plus CPI per annum for the remainder of the lease period, as well as other payments when gross car park receipts exceeds particular targets have also been assigned under the same Deed of Assignment to Royal Brisbane and Women's Hospital Foundation.

Metro North Hospital and Health Service does not incur any revenue or expenses relating to this car park. Under the agreement, the Department of Health and the Metro North Hospital and Health Service's staff are entitled to concessional rates when using the car park.

The Prince Charles Hospital Car Park

A \$1.0M up-front payment for rental of land on which the car park has been built was received at the commencement of car park operations in November 2000. This amount was transferred to The Prince Charles Hospital Foundation via a Deed of Assignment. Rental of \$0.05M per annum has also been assigned under the same Deed of Assignment to The Prince Charles Hospital Foundation. Under the agreement, the Department of Health and the Metro North Hospital and Health Service's staff are entitled to concessional rates when using the car park.

The Prince Charles Hospital Early Education Centre

The developer constructed a 150-place early education centre in April 2007 on site at the hospital. The developer operates and maintains the facility at its sole cost and risk. Under the agreement, staff on site are given priority access to child care. Rental of \$0.1M per annum is charged for the land and is adjusted for CPI annually. From the 1st July 2014, the rights to the inflows from this arrangement transferred from the Department of Health to the Metro North Hospital and Health Service due to the legal title transfer of land and buildings. The duration of this arrangement is 20 years, expiring in April 2027, with an option to extend by 10 years. The estimated future cashflows are shown below:

	2016	2015
	\$'000	\$'000
Inflows		
Not later than 1 year	93	91
Later than 1 year but not later than 5 years	400	394
Later than 5 years but not later than 10 years	572	562
Later than 10 years	125	249
Outflows		
Not later than 1 year	-	-
Later than 1 year but not later than 5 years	-	-
Later than 5 years but not later than 10 years	-	-
Later than 10 years	-	-
Estimated Net Cash Flow	1,190	1,296

These facilities are not recorded as assets by the Metro North Hospital and Health Service; however it does receive rights and incurs obligations under these arrangements, including:

- rights to receive the facility at the end of the contractual terms; and
- rights and obligations to receive cash flows in accordance with the respective contractual arrangements, other than those which are received by the respective Hospital Foundations under a Deed of Assignment.

E4: Collocation arrangements

Collocation arrangements are a contractual obligation between the Metro North Hospital and Health Service and the counterparty listed below. These arrangements are located on land that is recognised as an asset in the financial statements of the Metro North Hospital and Health Service. Collocation arrangements operating for all or part of the financial year are as follows.

Facility	Counterparty	Term of Agreement	Commencement date
Caboolture Private Hospital	Affinity Health Ltd	25 years	May 1998
Holy Spirit Northside Private Hospital*	The Holy Spirit Northside Private Hospital Ltd	66 years	September 1999

*Under the terms of the collocation agreement with Holy Spirit Northside Private Hospital, Metro North Hospital and Health Service is entitled to receive a one-off rent payment of \$1.35M as at 30 June 2016, with annual rent payments of \$1.8M indexed for CPI until the expiration of the agreement in November 2065.

The estimated rent income (inclusive of CPI increment of 3% per annum) is shown below:

	2016
	\$'000
Inflows	
Not later than 1 year	1,800
Later than 1 year but not later than 5 years	7,756
Later than 5 years but not later than 10 years	11,079
Later than 10 years	182,399
Total estimated lease income	203,034

SECTION F: Budget vs actual comparison**F1: Budget vs actual comparison – statement of comprehensive income****F1-1: Budget to actual comparison - Statement of Comprehensive Income**

	Actual Result 2016 \$'000	Original Budget 2016 \$'000		% of original budget
Operating result				
Income from continuing operations				
User charges and fees	243,992	205,919	38,073	18%
Funding for the provision of public health services	2,152,035	1,936,242	215,793	11%
Grants and other contributions	21,932	15,215	6,717	44%
Other revenue	40,249	15,918	24,331	153%
Total Revenue	2,458,208	2,173,294	284,914	13%
Gain on disposal/re-measurement of assets	2,606	-	2,606	-%
Total Income from Continuing Operations	2,460,814	2,173,294	287,520	13%
Expenses from continuing operations				
Employee expenses	1,720,390	1,521,139	(199,251)	(13%)
Supplies and services	637,726	550,194	(87,532)	(16%)
Grants and subsidies	1,607	1,147	(460)	(40%)
Depreciation and amortisation	90,590	83,940	(6,650)	(8%)
Impairment losses	3,613	7,005	3,392	48%
Other expenses	6,724	9,869	3,145	32%
Total Expenses from Continuing Operations	2,460,650	2,173,294	(287,356)	(13%)
Operating Results from Continuing Operations	164	-	164	-%
Other Comprehensive Income				
<i>Items that will not be reclassified subsequently to profit or loss</i>				
Increase/(decrease) in asset revaluation surplus	53,525	-	53,525	-%
Other comprehensive income for the year	53,525	-	53,525	-%
Total comprehensive income for the year	53,689	-	53,689	-%

F1-2: Explanation of Major Variances - Statement of Comprehensive Income

User charges and fees exceeded the budget of \$205.9M by \$38.1M (18%). This is due to the impact of new high cost Hepatitis ‘C’ drug cost recoveries. Claim values at the Royal Brisbane and Women’s Hospital have increased by \$37M since the introduction of the Hepatitis drug to the Pharmaceutical Benefits Scheme (PBS) schedule in March 2016. Neither the additional cost nor the recovery, were included in the Metro North Hospital and Health Service 2015–16 Budget.

Funding for the provision of public health services exceeded the budget of \$1.94B, by \$216M (11%). Activity of 394,561 Weighted Activity Units (WAU) was higher than the budget of 360,125 WAU. Additional activity and growth equated to \$87M of funding. In addition, funding received for the enterprise bargaining 2.5% increase as part of the Government’s State wage policy of \$41M was not included in the budget. There was also unbudgeted funding of \$30M for additional public clinic activity and additional depreciation of \$11.4M. Other additional unbudgeted funding for a range of other initiatives, totalling \$51M, included funds to reinvigorate Biala Sexual Health Clinic, Ear Nose Throat (ENT) Long Wait Outpatient reduction, additional graduate nursing positions and funding for a Comprehensive Epilepsy Program.

Other revenue of \$40.2M exceeded budget of \$15.9M by \$24.3M (153%). A revised cost and distribution model for blood products for 2015–16 meant an additional \$5.9M of blood cost recoveries from Children’s Health Queensland. This recovery was offset against expenditure in the budget, as were \$21.4M of other cost recoveries, made up of salary recoveries of \$14.3M and charges to other HHS’s of \$7.1M.

Employee expenses exceeded the budget of \$1.52B, by \$199M (13%). This is due to the enterprise bargaining increase of 2.5%, and additional frontline staff which has increased clinical throughput and enabled access to growth funding.

Supplies and services expenses exceeded the budget of \$550M, by \$87.5M(16%). \$36M of this is due to increased expenditure on Hepatitis ‘C’ high cost drugs which were introduced at Metro North Hospital and Health Service during the 2015-16 financial year, and \$5.9M on blood clotting products, recoverable from Children’s Health Queensland. The other supplies and services budget of \$418.7M was exceeded by \$45.8M due to increased clinical consumables as a result of additional activity.

F2: Budget vs actual comparison – statement of financial position

F2-1: Budget to actual comparison - statement of comprehensive income

	Actual Result 2016	Original Budget 2016	Variance	% of original budget
	\$'000	\$'000	\$'000	
Current assets				
Cash and cash equivalents	73,049	135,729	(62,680)	(46%)
Receivables	117,867	51,584	66,283	128%
Inventories	23,424	14,741	8,683	59%
Other assets	8,852	3,595	5,257	146%
Total Current Assets	223,192	205,649	17,543	9%
Non-Current Assets				
Property, plant and equipment	1,223,008	1,358,631	(135,623)	(10%)
Intangible assets	11,005	295	10,710	3631%
Other assets	126	90	36	40%
Total Non-Current Assets	1,234,139	1,359,016	(124,877)	(9%)
Total Assets	1,457,331	1,564,665	(107,334)	(7%)

F2-1: Budget to actual comparison - statement of comprehensive income continued

	Actual Result 2016 \$'000	Original Budget 2016 \$'000	Variance \$'000	% of original budget
Current Liabilities				
Payables	78,643	79,659	1,016	1%
Accrued Employee Benefits	61,682	54,020	(7,662)	(14%)
Unearned Revenue	1,295	1,866	571	31%
Total Current Liabilities	141,620	135,545	(6,075)	(4%)
Total Liabilities	141,620	135,545	(6,075)	(4%)
Net Assets	1,315,711	1,429,120	(113,409)	(8%)
Equity				
Contributed equity	1,170,990	1,158,479	(12,511)	(1%)
Accumulated surplus/(deficit)	73,795	66,047	(7,748)	(12%)
Asset revaluation surplus	70,926	204,594	133,668	65%
Total Equity	1,315,711	1,429,120	113,409	8%

F2-2: Explanation of Major Variances - Statement of Financial Position

Cash and cash equivalents were \$62.7M (46%) less than budget at the end of the financial year. This was due mainly to the accrued government funding of \$57.3M, for activity related funds not received by Metro North Hospital and Health Service prior to the end of the financial year.

Receivables were \$66.3M (128%) greater than budget at the end of the financial year. This was due mainly to the accrued government funding \$57.3M. Other accrued revenue also included PBS recoveries of \$7M which is \$5M greater than budget.

Inventories were \$8.7M (59%) greater than budget at the end of the financial year. During the financial year additional high cost Hepatitis 'C' drugs were added to the PBS. The inventory of these drugs, held at the end of the year, was not anticipated at the time of the budget being developed.

Property, plant and equipment was \$135.6M (10%) lower than budget at the end of the financial year. This was due to the actual revaluation increase of \$55M being less than anticipated in the budget.

Asset revaluation surplus was \$133.7M (65%) less than budget at the end of the financial year. This was due to the \$55M increase in valuation being less than anticipated in the original budget.

F3: Budget vs actual comparison – statement of cash flows**F3-1: Budget to actual comparison - Statement of Cash Flows**

	Actual Result 2016 \$'000	Original Budget 2016 \$'000	Variance \$'000	% of original budget
Cash flows from operating activities				
<i>Inflows</i>				
User charges and fees	226,480	197,665	28,815	15%
Funding for the provision of public health services	2,019,233	1,936,242	82,991	4%
Grants and other contributions	21,482	15,215	6,267	41%
Interest received	749	634	115	18%
Other revenue	37,925	15,284	22,641	148%
GST collected from customers	5,531	-	5,531	-%
GST input tax credits from ATO	30,372	39,723	(9,351)	(24%)
<i>Outflows</i>				
Employee expenses	(1,723,173)	(1,512,257)	(210,916)	14%
Supplies and services	(627,376)	(551,305)	(76,071)	14%
Grants and subsidies	(2,007)	(1,147)	(860)	75%
Other expenses	(5,749)	(8,945)	3,196	(36%)
GST paid to suppliers	(29,508)	(39,749)	10,241	(26%)
GST remitted to ATO	(5,277)	-	(5,277)	-%
Net cash from/(used by) operating activities	(51,318)	91,360	(142,678)	(156%)
Cash flows from investing activities				
<i>Inflows</i>				
Sales of property, plant and equipment	458	(924)	1,382	(150%)
<i>Outflows</i>				
Payments for property, plant and equipment	(43,614)	(40,364)	(3,250)	8%
Payments for intangible assets	(8,727)	-	(8,727)	-%
Net cash from/(used by) investing activities	(51,883)	(41,288)	(10,595)	26%
Cash flows from financing activities				
<i>Inflows</i>				
Equity transferred	45,883	(43,576)	89,459	(205%)
Net cash from/(used by) financing activities	45,883	(43,576)	89,459	(205%)
Net increase/(decrease) in cash and cash equivalents	(57,318)	6,496	(63,814)	(982%)
Cash & cash equivalents at the beginning of the financial year	130,367	129,233	1,134	1%
Cash & cash equivalents at the end of the financial year	73,049	135,729	(62,680)	(46%)

F3-2: Explanation of Major Variances - Statement of Cash Flows

Cash used for employee expenses exceeded the budget of \$1.51B, by \$211M (14%). This is the cash impact of the increased staffing levels relating to the additional activity, and the 2.5% enterprise bargaining increases and related back-pays during the year.

Cash used for the payment of Supplies and services expenses exceeded the budget of \$551M, by \$76M (14%). This is the cash impact of the increased expenditure on Hepatitis 'C' high cost drugs and blood clotting products. Cash expenditure for other supplies and services also exceeded budget due to increased clinical consumables as a result of additional activity.

Cash flow from equity transferred was \$89.5M (205%) greater than budget for the financial year. Depreciation and amortisation funding of \$83.9M is treated as a cash item (equity withdrawal) in the budget, however depreciation and amortisation of \$90M is a non-cash item and not included in the actual cash flow.

Management Certificate

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

- (a) the prescribed requirement for establishing and keeping the accounts have been complied with in all material respects; and
- (b) the statements have been drawn up to present a true and fair view, in accordance with the prescribed accounting standards, of the transactions of Metro North Hospital and Health Service for the financial year ended 30 June 2016 and of the financial position of the Health Service at the end of the year; and
- (c) these assertions are based on an appropriate system of internal controls and risk management processes being effective, in all material respects, with respect to financial reporting throughout the reporting period.



Professor Robert Stable AM
Board Chair
Date: 29th August 2016

Adjunct Professor Ken Whelan
Chief Executive
Date: 29th August 2016




Mr James Kolzher
FCPA-MIA, BA
Chief Finance Officer
Date: 29th August 2016

Independent Auditor's Report

INDEPENDENT AUDITOR'S REPORT

To the Board of Metro North Hospital and Health Service

Report on the Financial Report

I have audited the accompanying financial report of Metro North Hospital and Health Service, which comprises the statement of financial position as at 30 June 2016, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes to the financial statements including significant accounting policies and other explanatory information, and certificates given by the Board Chair, Chief Executive and Chief Finance Officer.

The Board's Responsibility for the Financial Report

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

Auditor's Responsibility

My responsibility is to express an opinion on the financial report based on the audit. The audit was conducted in accordance with the *Auditor-General of Queensland Auditing Standards*, which incorporate the Australian Auditing Standards. Those standards require compliance with relevant ethical requirements relating to audit engagements and that the audit is planned and performed to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view 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 entity's internal control, other than in expressing an opinion on compliance with prescribed requirements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board, as well as evaluating the overall presentation of the financial report including any mandatory financial reporting requirements approved by the Treasurer for application in Queensland.

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