



**PEGASUS HEALTH (CHARITABLE) LTD
PRIMARY HEALTH ORGANISATION
FUNCTION**

Special Purpose Financial Statements
for the Year Ended 30 June 2014

CONTENTS

Directory	2
Directors' Report	3
Audit Report	4
Special Purpose Statement of Financial Position	5
Special Purpose Statement of Comprehensive Income	6
Special Purpose Statement of Changes In Equity	7
Special Purpose Statement of Cash Flows	8
Notes to the Special Purpose Financial Statements	9

DIRECTORY

The Directors are pleased to present the special purpose financial statements of Pegasus Health (Charitable) Ltd's Primary Health Organisation Function for the year ended 30 June 2014.

REGISTERED OFFICE

Pegasus Health (Charitable) Ltd
Unit 4, 567 Wairakei Road
Christchurch

DIRECTORS

Dr M Bellamy
Dr H H Chima
Dr J P Coughlan
Dr A H B Gray (Appointed 30 October 2013)
Prof A R Hornblow
Ms J C Huria
Dr A M Manning (Resigned 30 October 2013)
Ms N M Scott
Dr M R Seers (Chair)
Prof L J Toop (Deputy Chair)
Mr P R Townsend

AUDITOR

BDO
Christchurch

LEGAL ADVISORS

Lane Neave

SPECIAL PURPOSE AUDIT REPORT TO THE SHAREHOLDERS OF PEGASUS HEALTH (CHARITABLE) LIMITED**Report on the Special Purpose Financial Statements**

We have audited the accompanying financial statements of Pegasus Health (Charitable) Limited on pages 5 to 17, which comprise the statement of financial position as at 30 June 2014, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the period then ended, and a summary of significant accounting policies and other explanatory information. The financial statements have been prepared based on the financial reporting obligations under the PHO Services Agreement and the requirements of the Ministry of Health and Canterbury District Health Board as set out in the Operating Policy Framework Guidance on the Management and Use of PHO Cash Balances.

Directors' Responsibilities for the Financial Statements

The Directors' are responsible for the preparation of these financial statements in accordance with the financial reporting obligations under the PHO Services Agreement and the requirements of the Ministry of Health and Canterbury District Health Board as set out in the Operating Policy Framework Guidance on the Management and Use of PHO Cash Balances, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the special purpose financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the special purpose financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of special purpose financial statements 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 company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the special purpose financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, Pegasus Health (Charitable) Limited.

Unqualified Opinion

In our opinion the financial statements on pages 5 to 17 of Pegasus Health (Charitable) Limited for the period ending 30 June 2014 are prepared, in all material respects, in accordance with the financial reporting obligations under the PHO Services Agreement and the requirements of the Ministry of Health and Canterbury District Health Board as set out in the Operating Policy Framework Guidance on the Management and Use of PHO Cash Balances.

Basis of Accounting and Restriction on Distribution and Use

Without modifying our opinion, we draw attention to Note 1.1 to the financial statements, which describe the basis of accounting. The financial statements have been prepared based on the financial reporting obligations under the PHO Services Agreement and to satisfy the requirements of the Ministry of Health and Canterbury District Health Board as set out in the Operating Policy Framework Guidance on the Management and Use of PHO Cash Balances. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for Pegasus Health (Charitable) Limited and should not be distributed to or used by parties other than Pegasus Health (Charitable) Limited.



BDO Christchurch
27 August 2014
Christchurch

SPECIAL PURPOSE STATEMENT OF FINANCIAL POSITION

as at 30 June 2014

	Note	2014 \$	2013 \$
Assets			
Trade and other receivables	3	1,449,522	2,397,528
Cash and cash equivalents	4	3,575,081	3,652,984
Total current assets		5,024,603	6,050,512
Total assets		5,024,603	6,050,512
Equity			
Retained earnings		267,432	80,479
Total equity		267,432	80,479
Liabilities			
Trade and other payables	7	2,340,108	2,778,427
Contract funding received in advance	8	2,009,426	2,741,313
Project residual reserve	13	407,637	450,293
Total current liabilities		4,757,171	5,970,033
Total liabilities		4,757,171	5,970,033
Total equity and liabilities		5,024,603	6,050,512

FOR AND ON BEHALF OF THE BOARD



Dr Martin Seers
Chair
27 August 2014



Prof L J Toop
Deputy Chair
27 August 2014

SPECIAL PURPOSE STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2014

	Note	2014 (year) \$	2013 (4 months) \$
Revenue			
Delivery of health services		2,286,584	763,624
Other income		32	22,000
Project residual funds		32,656	-
Total revenue		2,319,272	785,624
General operating expenses	2	(43,715)	(20,812)
Governance expenses	2	(121,644)	(30,411)
Programme contracts, financial management & community engagement		(886,955)	(328,796)
Programme service funding		(1,703,600)	(548,518)
Project residual expenses		(32,656)	-
Operating profit/(loss) before interest income		(469,298)	(142,913)
Interest income		87,756	30,382
Transferred from programmes		568,495	193,010
Profit/(loss) for the period		186,953	80,479
Total other comprehensive income for the period		-	-
Total comprehensive income/(expense) for the period		186,953	80,479

SPECIAL PURPOSE STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2014

	Retained Earnings	Total
	\$	\$
Opening balance 1 March 2013	-	-
Profit (Loss) for the period	80,479	80,479
Other comprehensive income for the period	-	-
Total comprehensive income (expense) for the year	80,479	80,479
Closing balance 30 June 2013	80,479	80,479
Profit (Loss) for the year	186,953	186,953
Other comprehensive income for the year	-	-
Total comprehensive income (expense) for the year	186,953	186,953
Closing balance 30 June 2014	267,432	267,432

SPECIAL PURPOSE STATEMENT OF CASH FLOWS

for the year ended 30 June 2014

	Note	2014 (year) \$	2013 (4 months) \$
Cash flows from operating activities			
Cash receipts from customers		75,955,432	25,420,993
Cash paid to suppliers and employees		(76,109,892)	(25,140,090)
Net cash from operating activities	11	(154,460)	280,903
Cash flows from investing activities			
Fixed asset disposal/(additions)		-	27,340
Interest received		76,557	14,015
Net cash from investing activities		76,557	41,355
Net increase/(decrease) in cash and cash equivalents		(77,903)	322,258
Cash and cash equivalents at 1 July	4	3,652,984	3,330,726
Cash and cash equivalents at 30 June	4	3,575,081	3,652,984

NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS

for the year ended 30 June 2014

1. SIGNIFICANT ACCOUNTING POLICIES

1.1 Special Purpose Financial Statements

Pegasus Health (Charitable) Limited (the Company) is domiciled and incorporated in New Zealand and registered under the Companies Act 1993. Its principal place of business is at 160 Bealey Avenue, Christchurch.

Pegasus Health (Charitable) Ltd is primarily involved in the delivery of health services. On 1 March 2013 the Company took on the function of a Primary Health Organisation.

This function is separately reported upon in these special purpose financial statements, which are an extract from the full financial statements of the Company, and cover the year ended 30 June 2014.

The special purpose of these financial statements is to fulfil the Company's reporting obligations under the PHO Services Agreement and to satisfy the requirements of the Ministry of Health and Canterbury District Health Board as set out in the Operating Policy Framework Guidance on the Management and Use of PHO Cash Balances.

The financial statements were approved by the Directors on 27 August 2014.

1.2 Basis of Preparation

A special purpose report is not governed by mandatory reporting standards; however the financial statements have been prepared on the basis that New Zealand Generally Accepted Accounting Practice (NZ GAAP) represents best practice in the areas where it does not conflict with the special purpose set out in 1.1 above. To this extent the financial statements:

- comply with NZ IFRS, and other applicable Financial Reporting Standards, as appropriate for public benefit entities, and
- comply with the Financial Reporting Act 1993.

The financial statements are presented in New Zealand dollars (\$), which is the Company's functional currency. All financial information presented in New Zealand dollars has been rounded to the nearest dollar.

The financial statements are prepared on the historical cost basis.

1.3 Non-Derivative Financial Instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, and trade and other payables.

A financial instrument is recognised if the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Company's contractual rights to the cash flows from the financial assets expire, or if the Company transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Financial liabilities are derecognised if the Company's obligations specified in the contract expire or are discharged.

Non-derivative financial instruments are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

Trade and Other Receivables

Due to the short term nature of trade and other receivables, these are measured at cost less impairment losses.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances, call deposits, and registered bank term deposits which are measured at cost subsequent to initial recognition.

Trade and Other Payables

Trade and other payables are measured at cost.

1.4 Impairments

Financial assets

The Company assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar characteristics.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. Receivables with a short duration are not discounted. For trade receivables, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy, and default in payments are considered indicators that the receivable is impaired.

When the receivable is uncollectible, it is written off against the allowance account for receivables.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

1.5 Agency Payments

The Company acts as agent for various funding parties, and in that capacity pays a variety of claims to general practices and other parties, for which it is reimbursed. These receipts and payments do not flow through the Statement of Comprehensive Income but are included in the operating cash flows. The net balance at year end is recognised as Contract funding received in advance, a current liability.

1.6 Provisions

A provision is recognised when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market rates and, where appropriate, the risks specific to the liability.

1.7 Revenue

Revenue from services rendered is recognised at the fair value of consideration received or receivable, including related profits or losses in proportion to the stage of completion of the transaction at the reporting date.

The Company operates within the health services sector. The stage of completion of different types of revenue is assessed as follows:

Significant Agreements

Where the service involves an indeterminate number of acts over a specified period of time, revenue is recognised on a straight line basis over the specified period unless there is evidence that another method better represents the stage of completion. Where the contract delivery is subject to significant seasonality variations, the revenue is recognised on the basis of service delivery patterns. Revenue that

compensates the Company for expenses incurred is recognised on a systematic basis matching the pattern of the related expenses.

Satisfactory on-going contractual arrangements for PHO Function activity have been agreed with CDHB for the year ending 30 June 2014.

Some contracts are on the basis that they can be terminated during the year by funders with thirty days notice. This is primarily to allow flexible introduction of transformational changes that are agreed within the Canterbury Clinical Network (CCN) work programme. The Company contributes to the CCN work programme discussions and these termination provisions are not regarded as a threat to the future viability of the company.

1.8 Interest Income

Interest income is recognised in the Statement of Comprehensive Income as it accrues, using the effective interest method.

1.9 Deferred Tax

Deferred tax is recognised on the differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. It is accounted for using the balance sheet liability method.

As the Company is a registered charity (charity registration number CC29755) it is not required to pay income tax. Any deferred tax is therefore calculated at a rate of zero percent.

1.10 Goods and Services Tax

All amounts are shown exclusive of Goods and Services Tax (GST), except for receivables and payables that are stated inclusive of GST.

1.11 Use of Estimates and Judgements

The preparation of financial statements requires the directors to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described as follows:

Judgements

In the process of applying the entity's accounting policies, the Directors have made the following judgements that have had the most significant effect on the amounts recognised in the financial statements:

- The Directors have judged that the Company is a public benefit entity (PBE). They believe that the charitable objects of the Company are consistent with the PBE requirements. Any equity has been provided with a view to supporting these charitable objects rather than for a financial return to equity holders.

1.12 New Accounting Standards and Interpretations

Where they do not conflict with the special purpose of these financial statements, all mandatory standards, amendments and interpretations have been adopted in the current year. None had a material impact on these financial statements. There are no new amendments or new standards applicable to PBEs in the current financial year. The Company will adopt the Not for Profit PBE standards for the period beginning after 1 April 2015. The Company expects to adopt these when they become mandatory. None are expected to result in a material impact on the company's financial statements.

2. OPERATING EXPENSES

The following items of expenditure are included in operating expenses:

	2014 (year) \$	2013 (4 months) \$
Remuneration to BDO comprises:		
Audit fees	12,000	8,000
Total auditors remuneration	12,000	8,000
Directors fees	25,500	5,500

3. TRADE AND OTHER RECEIVABLES

	2014 \$	2013 \$
Trade receivables	1,421,956	2,381,141
Other receivables	27,566	16,387
Trade and other receivables	1,449,522	2,397,528

Receivables are shown net of provision for impairment losses amounting to \$nil and arising from amounts where management have judged that a loss has been incurred.

During the year ended 30 June 2014 impairment losses relating to trade receivables of \$nil were recognised in operating expenses in the income statement.

4. CASH, CASH EQUIVALENTS AND TERM DEPOSITS

	2014 \$	2013 \$
Call and trading bank account balances	2,075,081	1,152,984
Short term deposits	1,500,000	2,500,000
Cash and Cash Equivalents	3,575,081	3,652,984

5. CAPITAL MANAGEMENT

Capital comprises retained earnings.

The Company's PHO Function capital policy is to maintain sufficient capital base to sustain future development and delivery of its PHO Function.

The Company's constitution precludes the distribution of its earnings to shareholders.

The Company's policies in respect of capital and treasury management are reviewed regularly by the Finance, Audit and Risk Committee of the Board of Directors.

The Company's treasury policy provides the framework for all treasury, investment, borrowing and related risk management activities.

The Company is not subject to externally imposed capital requirements.

6. FINANCIAL INSTRUMENTS

The company has non derivative financial instruments which include:

Assets: Trade and other receivables and cash and cash equivalents
 Liabilities: Trade and other payables

2014	Loans and Receivables	At Fair value through Profit or Loss	Available For Sale	Liabilities at Amortised Cost	Total
	2014	2014	2014	2014	2014
	\$	\$	\$	\$	\$
<u>Financial assets</u>					
Trade and other receivables	1,449,522	-	-	-	1,449,522
Cash and cash equivalents	3,575,081	-	-	-	3,575,081
Total as at 30 June	5,024,603	-	-	-	5,024,603
<u>Financial Liabilities</u>					
Trade and other payables	-	-	-	2,340,108	2,340,108
Total as at 30 June	-	-	-	2,340,108	2,340,108

2013	Loans and Receivables	At Fair value through Profit or Loss	Available For Sale	Liabilities at Amortised Cost	Total
	2013	2013	2013	2013	2013
	\$	\$	\$	\$	\$
<u>Financial assets</u>					
Trade and other receivables	2,397,528	-	-	-	2,397,528
Cash and cash equivalents	3,652,984	-	-	-	3,652,984
Total as at 30 June	6,050,512	-	-	-	6,050,512
<u>Financial Liabilities</u>					
Trade and other payables	-	-	-	2,778,427	2,778,427
Total as at 30 June	-	-	-	2,778,427	2,778,427

Interest received per category of financial instruments:	2014 (year) \$	2013 (4 months) \$
Cash and cash equivalents	87,756	30,382
Loans and receivables	-	-
Total interest expense and bank fees	87,756	30,382

Interest expense and bank fees paid per category of financial instruments:	2014 (year) \$	2013 (4 months) \$
Cash and cash equivalents	665	234
Fair value through profit or loss	-	-
Total interest expense and bank fees	665	234

6.1 Risk Management

The PHO Function cash balances are held in separate accounts to those relating to the other activities of the Company.

Liquidity Risk and Maturity Profile

Liquidity risk represents the Company's ability to meet its PHO Function contractual obligations. The Company evaluates these liquidity requirements on an ongoing basis. The Company generates sufficient cash flows from its PHO Function activities to meet its obligations arising from its PHO Function financial liabilities.

Trade and other payables are short term and are repayable in the normal operating cycles. No interest is incurred.

The table below analyses the financial liabilities by the relevant contracted maturity groupings based on the remaining period as at 30 June 2014.

30 June 2014	Carrying Amount	Total contractual cash flows	0-1 year	1-2 years	2-5 years	> 5 years
Financial Liabilities	\$	\$	\$	\$	\$	\$
Accounts payable, accruals and other liabilities	2,340,108	2,340,108	2,240,108	-	-	-
Total as at 30 June	2,340,108	2,340,108	2,340,108	-	-	-

30 June 2013	Carrying Amount	Total contractual cash flows	0-1 year	1-2 years	2-5 years	> 5 years
Financial Liabilities	\$	\$	\$	\$	\$	\$
Accounts payable, accruals and other liabilities	2,778,427	2,778,427	2,778,427	-	-	-
Total as at 30 June	2,778,427	2,778,427	2,778,427	-	-	-

All financial assets, which include cash and cash equivalents and accounts receivable, are immediately due or due not later than one month.

Interest Risk

The Company's PHO Function interest exposure is to cash and cash equivalents. These are held on call and as fixed interest deposits. There is no sensitivity to interest risk as all cash and cash equivalents are held at amortised cost are at fixed interest rates.

The Company has no exposure to foreign exchange rates.

Credit Risk

The Company's PHO Function maximum exposure to credit risk is represented by the value of trade and other receivables, cash and cash equivalents at balance sheet date.

Debtors relate to funding to be received from the Canterbury District Health Board which is considered a low credit risk. There are no concentrations of credit risk beyond the above exposure.

The Company also has credit risk exposure to financial institutions through its banking arrangements. The investments are only in liquid securities, are placed with counterparties that are registered banks with an AA-or higher credit rating. To ensure appropriate diversification the total exposure limit for each counterparty is further capped. Investments are protected by the operation of the Company's Treasury Policy.

Fair Value

Carrying value is a reasonable approximation of fair value for short term receivables and payables.

Fair Value Estimation

NZ IFRS 7 requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices);

Level 3: Inputs for the asset or liability that is not based on observable market data (that is unobservable input).

The company holds no financial instruments that fall within the fair value measurement hierarchy as at 30 June 2014.

7. TRADE AND OTHER PAYABLES

	2014	2013
	\$	\$
Trade payables	2,005,724	2,503,216
Non-trade payables and accrued expenses	334,384	275,211
Trade and other payables measured at amortised cost	2,340,108	2,778,427
Less than one year	2,340,108	2,778,427
Between two and five years	-	-
	2,340,108	2,778,427

8. CONTRACT FUNDING RECEIVED IN ADVANCE

	2014	2013
	\$	\$
Care Plus	(10,953)	(32,821)
Health Promotion	(10,982)	(5,307)
Services to Improve Access	(12,984)	(89,335)
PHO Performance Programme	399,870	422,818
Rural Retention / Rural Roster	10,885	8,929
CDHB Additional Services	258,167	253,853
CDHB Other Services	1,205,645	2,018,123
Maori Health	5,184	5,390
Healthy Eating, Healthy Activity	103,277	86,206
Project Management for CDHB	14,038	6,455
Non-CDHB Contracts	47,279	67,002
Total contract funding received in advance	2,009,426	2,741,313

The contract funds received in advance represent income received for funding contracts that have yet to be completely spent. As there is a contractual obligation to spend the contract funds of the designated funding stream, the contract funds have been recognised as a liability as at 30 June 2014.

9. CAPITAL COMMITMENTS

The PHO Functions have no capital commitments at balance date (2013: Nil).

10. INTERCOMPANY AND RELATED PARTY TRANSACTIONS

Transaction between the PHO Function and the operating divisions of the Company are governed by the Company's Services Contracting Policy. The value of funding from the PHO Function to the Company's operating divisions was \$7,765,124 for the year, and balance outstanding at 30 June 2014 totalled \$388,394.

A number of directors hold PHO Agreements for the provision of first level services; these are on standard terms and conditions. Capitation funding was paid in bulk from the PHO Function bank account to the Canterbury GP Group Capitated Funding Trust Limited (Trustee Company), which was not controlled by the Company during the period. The Trustee Company independently oversaw the distribution of capitation funding to practitioners and practices.

The PHO Function has no other related party transactions.

11. RECONCILIATION OF PROFIT FOR THE PERIOD WITH NET CASH FROM OPERATING ACTIVITIES

	2014 (year)	2013 (4 months)
	\$	\$
Profit/(loss) for the period	186,953	80,479
Adjustments for		
Interest received	(87,756)	(30,382)
Cash changes in working capital items		
Change in trade and other receivables	227,317	118,986
Change in trade and other payables	(480,974)	111,820
Net cash from operating activities	(154,460)	280,903

12. CONTINGENT ASSETS AND LIABILITIES

At 30 June 2014 the Company has no contingent assets or liabilities (2013: Nil).

13. PROJECT RESIDUAL RESERVE

The Directors of the Company and The Trustees of Partnership Health Canterbury PHO Te Kei o Te Waka (Partnership Health) agreed to the amalgamation of the two entities on 1 March 2013. This was enacted by way of the assets and liabilities of Partnership Health being transferred to the Company on that date. The value of the net assets transferred (**Project residual reserve**) was \$450,293 of which \$407,637 remains as at 30 June 2014.

The Directors represent that in accordance with the deed of implementation the accumulated funds of Partnership Health Canterbury are assigned to specific projects and are not to be used by Pegasus Health (Charitable) Limited within the ordinary course of its operations, and it is therefore appropriate to recognise these funds as a liability within the financial statements.