



**PEGASUS HEALTH (CHARITABLE) LIMITED  
PRIMARY HEALTH ORGANISATION  
FUNCTION  
NOT FOR-PROFIT ENTITY**

Financial Statements  
For the year ended 30 June 2017

**PEGASUS HEALTH (CHARITABLE) LIMITED Primary Health Organisation**  
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## PEGASUS HEALTH (CHARITABLE) LIMITED Primary Health Organisation COMPANY 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 2017.

### REGISTERED OFFICE

Pegasus Health (Charitable) Ltd  
Level 4, 123 Victoria Street  
Christchurch

### DIRECTORS

Dr S E Ashmore  
Dr H H Chima  
Dr J P Coughlan (Deputy Chair)  
Dr A H B Currie (Deputy Chair) (Resigned 7 June 2017)  
Prof A R Hornblow  
Ms J C Huria  
Dr G O'Duffy  
Ms N M Scott  
Prof L J Toop (Chair)  
Mr P R Townsend  
Dr S M H W Thomas (Appointed 07 June 2017)

### AUDITOR

BDO Christchurch

### LEGAL ADVISORS

Lane Neave

**PEGASUS HEALTH (CHARITABLE) LIMITED Primary Health Organisation  
DIRECTORS' REPORT**

A Directors' report is not included in these special purpose financial statements. The Directors' Report for Pegasus Health (Charitable) Limited is included in the Company's financial statements, a copy of which will be provided upon request.



**INDEPENDENT AUDITOR'S REPORT  
TO THE SHAREHOLDERS OF PEGASUS HEALTH (CHARITABLE) LIMITED**

### Opinion

We have audited the special purpose financial statements of Pegasus Health (Charitable) Limited ("the Company") which comprise the Primary Health Organisation Function special purpose statement of financial position as at 30 June 2017, and the special purpose statement of comprehensive revenue and expense, special purpose statement of changes in net assets/equity and cash flow statement for the year then ended, and notes to the special purpose financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying special purpose financial statements present fairly, in all material respects, the special purpose financial position of the Company as at 30 June 2017, and its financial performance and its cash flows for the year then ended 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 for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ("ISAs (NZ)"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

### Emphasis of Matter - Basis of Accounting and Restriction on Distribution and Use

Without modifying our opinion we draw attention to note 1 in the special purpose financial statements, which describe the basis of accounting. The special purpose financial statements are 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 the Shareholders, as a body, and should not be distributed to or used by parties other than the Shareholders'. Our opinion is not modified in respect of this matter.

### Directors' Responsibilities for the Financial Statements

The directors are responsible for the preparation and fair presentation of the special purpose 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 special purpose financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the special purpose financial statements, the directors are responsible for assessing the ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Function or to cease operations, or have no realistic alternative but to do so.

## Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the special purpose financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of these special purpose financial statements.

As part of an audit in accordance with ISAs (NZ), we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the special purpose financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the use of the going concern basis of accounting by the directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the special purpose financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the special purpose financial statements, including the disclosures, and whether the special purpose financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the Company or business activities to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

### Who we Report to

This report is made solely to the Company's Shareholders, as a body. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's Shareholders, as a body, for our audit work, for this report or for the opinions we have formed.



BDO Christchurch  
Christchurch  
New Zealand  
6 September 2017

**PEGASUS HEALTH (CHARITABLE) LIMITED Primary Health Organisation  
SPECIAL PURPOSE STATEMENT OF COMPREHENSIVE REVENUE & EXPENSE  
AS AT 30 JUNE 2017**

|   | Note | 2017<br>\$'000 | 2016<br>\$'000 |
|---|------|----------------|----------------|
| <b>Revenue</b>  |      |                |                |
| - Delivery of health services                                     |      | 2,548          | 2,470          |
| - Project residual funds  |      | 73             | 71             |
| <b>Total Revenue</b>  | 7    | <u>2,621</u>   | <u>2,541</u>   |
| <b>Expenses</b>   |      |                |                |
| General operating expenses  | 8    | (7)            | (69)           |
| Governance expenses   | 8    | (91)           | (89)           |
| Programme contracts, financial management & community engagement  |      | (1,008)        | (891)          |
| Programme service funding   |      | (1,989)        | (1,986)        |
| Project residual expenses   |      | (73)           | (71)           |
| <b>Surplus/(Deficit) before net financing costs</b>               |      | <u>(547)</u>   | <u>(565)</u>   |
| Net finance income/(costs)  |      | 42             | 84             |
| Transferred from programmes                                       |      | 665            | 621            |
| <b>Surplus/(deficit) for the period</b>                           |      | <u>160</u>     | <u>140</u>     |
| <b>Total Other comprehensive revenue and expense for the year</b> |      | -              | -              |
| <b>Total comprehensive revenue and expense for the year</b>       |      | <u>160</u>     | <u>140</u>     |

**PEGASUS HEALTH (CHARITABLE) LIMITED Primary Health Organisation  
SPECIAL PURPOSE STATEMENT OF CHANGES IN NET ASSETS/EQUITY  
AS AT 30 JUNE 2017**

|   | Accumulated<br>revenue and<br>expense | Total             |
|---|---------------------------------------|-------------------|
|   | \$'000                                | \$'000            |
| Balance as at 1 July 2015               | 396                                   | 396               |
| Surplus/(Deficit) for the year          | 140                                   | 140               |
| Other comprehensive income for the year | -                                     | -                 |
| Total comprehensive income for the year | <u>140</u>                            | <u>140</u>        |
| Closing balance 30 June 2016            | <u>536</u>                            | <u>536</u>        |
| Surplus/(Deficit) for the year          | 160                                   | 160               |
| Other comprehensive income for the year | -                                     | -                 |
| Total comprehensive income for the year | <u>160</u>                            | <u>160</u>        |
| Closing balance 30 June 2017            | <u><u>696</u></u>                     | <u><u>696</u></u> |



**PEGASUS HEALTH (CHARITABLE) LIMITED Primary Health Organisation  
SPECIAL PURPOSE STATEMENT OF FINANCIAL POSITION  
AS AT 30 JUNE 2017**

|  | Note | 2017<br>\$'000      | 2016<br>\$'000      |
|--|------|---------------------|---------------------|
| <b>ASSETS</b>                                  |      |                     |                     |
| <b>Current assets</b>                          |      |                     |                     |
| Cash and cash equivalents                      | 9    | 2,256               | 3,972               |
| Receivables (from exchange transactions)       | 10   | 739                 | 1,501               |
| <b>Total current assets</b>                    |      | <u>2,995</u>        | <u>5,473</u>        |
| <b>Non-current assets</b>                      |      |                     |                     |
| Property, plant & equipment                    | 11   | 500                 | -                   |
| <b>Total non-current assets</b>                |      | <u>500</u>          | <u>-</u>            |
| <b>Total assets</b>                            |      | <u><u>3,495</u></u> | <u><u>5,473</u></u> |
| <b>LIABILITIES</b>                             |      |                     |                     |
| <b>Current liabilities</b>                     |      |                     |                     |
| Payables (from exchange transactions)          | 12   | 611                 | 1,805               |
| GST Payable                                    |      | 60                  | 153                 |
| Contract funding received in advance           | 14   | 1,946               | 2,724               |
| Project residual fund                          | 13   | 182                 | 255                 |
| <b>Total current liabilities</b>               |      | <u>2,799</u>        | <u>4,937</u>        |
| <b>Total liabilities</b>                       |      | <u><u>2,799</u></u> | <u><u>4,937</u></u> |
| <b>NET ASSETS / EQUITY</b>                     |      |                     |                     |
| Accumulated revenue and expense                |      | 696                 | 536                 |
| <b>Net assets / equity</b>                     |      | <u>696</u>          | <u>536</u>          |
| <b>Total net assets/equity</b>                 |      | <u><u>696</u></u>   | <u><u>536</u></u>   |
| <b>Total net assets/equity and liabilities</b> |      | <u><u>3,495</u></u> | <u><u>5,473</u></u> |

FOR AND ON BEHALF OF THE BOARD



Prof L. J Toop  
Chair  
30 August 2017



Dr J P Coughlan  
Deputy Chair  
30 August 2017

**PEGASUS HEALTH (CHARITABLE) LIMITED Primary Health Organisation**  
**STATEMENT OF CASH FLOWS**  
**AS AT 30 JUNE 2017**

|  | Note | 2017<br>\$'000      | 2016<br>\$'000      |
|--|------|---------------------|---------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>          |      |                     |                     |
| Proceeds from:                                       |      |                     |                     |
| Proceeds from cash receipts from customers           |      | 83,129              | 78,428              |
| Payments to suppliers and employees                  |      | (84,406)            | (78,566)            |
| Net cash inflow/(outflow) from operating activities  | 19   | <u>(1,276)</u>      | <u>(138)</u>        |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>          |      |                     |                     |
| Interest received                                    |      | 60                  | 109                 |
| Fixed Asset Additions                                |      | (500)               | -                   |
| Net cash inflow/(outflow) from investing activities  |      | <u>(440)</u>        | <u>109</u>          |
| Net increase/(decrease) in cash and cash equivalents |      | <u>(1,716)</u>      | <u>(29)</u>         |
| Cash and cash equivalents at beginning of year       |      | <u>3,972</u>        | <u>4,001</u>        |
| Cash and cash equivalents at the end of year         | 9    | <u><u>2,256</u></u> | <u><u>3,972</u></u> |

# PEGASUS HEALTH (CHARITABLE) LIMITED Primary Health Organisation NOTES TO AND FORMING PART OF THE SPECIAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

## Note 1 - Reporting entity

Pegasus Health (Charitable) Limited is a Tier 1 Public Benefit Entity (the 'controlling entity') and a charity registered under the Charities Act 2005. The entity is domiciled in New Zealand, and is a public benefit entity for the purposes of financial reporting in accordance with the Financial Reporting Act (2013). The controlling entity's registered office is at Level 4, 123 Victoria Street, Christchurch and principle place of business is 401 Madras Street, Christchurch. The controlling entity is a Tier 1 entity as it is publicly accountable for funds held in a fiduciary capacity as part of its primary business, and it is considered large as it has total expenses over \$30 million.

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

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 2017.

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.

These financial statements are for the year ended 30 June 2017 and were approved by the Directors on 30 August 2017.

## Note 2 - Basis of preparation

### (a) Statement of compliance

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). They comply with *Public Benefit Entity Accounting Standards* ("PBE Standards"), as appropriate for Tier 1 not-for-profit public benefit entities.

These financial statements were authorised for issue by the Board of Directors on 30 August 2017.

### (b) Measurement basis

The consolidated financial statements have been prepared on the historical cost basis except for the following material items in statement of financial position, which are measured at fair value:

- Land and Buildings under the revaluation model

### (c) Functional and presentation currency

The financial statements are presented in New Zealand dollars (\$) which is the controlling entity's functional and Company's presentation currency, rounded to the nearest thousand.

There has been no change in the functional currency of the Company during the year.

# PEGASUS HEALTH (CHARITABLE) LIMITED Primary Health Organisation NOTES TO AND FORMING PART OF THE SPECIAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

## Note 3 - Use of judgements and estimates

The preparation of the financial statements requires management 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 those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are 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:

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

### (b) Assumptions and estimation uncertainties

Assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ending 30 June 2017 include the following:

#### Valuation of land and buildings      Note 11

The Company obtains valuations performed by external valuers in order to determine the fair value of its properties. These valuations are based upon assumptions including future rental income, anticipated maintenance costs, future development costs and the appropriate discount rate. The valuers also make reference to market evidence of transaction prices for similar properties. Further information in relation to the valuation of freehold land and buildings is in Note 4.

## Note 4 - Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and have been applied consistently by the PHO.

The significant accounting policies of the PHO are detailed below:

### (a) Revenue

Revenue is recognised when the amount of revenue can be measure reliably and it is probable that economic benefits will flow to the PHO, and measured at the fair value of consideration received or receivable.

# PEGASUS HEALTH (CHARITABLE) LIMITED Primary Health Organisation

## NOTES TO AND FORMING PART OF THE SPECIAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

### *Revenue from exchange transactions*

#### Delivery of Health Services

Revenue from health 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 services revenue is received for includes the delivery and provision of health care and PHO related services.

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

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

### (b) Finance income and finance costs

Finance income comprises interest income on financial assets and gains on the disposal of available-for-sale financial assets. Interest income is recognised as it accrues in surplus or deficit, using the effective interest method.

Finance costs comprise interest expense on financial liabilities, losses on disposal of available-for-sale financial assets, and impairment losses recognised on financial assets.

### (c) Financial instruments

The PHO initially recognises financial instruments when the PHO becomes a party to the contractual provisions of the instrument.

The PHO derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the PHO is recognised as a separate asset or liability.

The PHO derecognises a financial liability when its' contractual obligations are discharged, cancelled, or expire.

The PHO also derecognises financial assets and financial liabilities when there have been significant changes to the terms and/or the amount of contractual payments to be received/paid.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The PHO classifies financial assets into the following categories: *loans and receivables*, and *available-for-sale*.

Other investments are equity investments which do not have a quoted market price in an active market and are measured at cost (as allowed under PBE IPSAS 29).

# PEGASUS HEALTH (CHARITABLE) LIMITED Primary Health Organisation

## NOTES TO AND FORMING PART OF THE SPECIAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

The PHO classifies financial liabilities into the following categories: *fair value through surplus or deficit*, and *amortised cost*.

Financial instruments are initially measured at fair value, plus for those financial instruments not subsequently measured at fair value through surplus or deficit, directly attributable transaction costs.

Subsequent measurement is dependent on the classification of the financial instrument, and is specifically detailed in the accounting policies below.

### *i. Loans and receivables*

*Loans and receivables* are financial assets with fixed or determinable payments that are not quoted in an active market.

*Loans and receivables* are subsequently measured at amortised cost using the effective interest method, less any impairment losses (refer *Note 4(f)*).

*Loans and receivables* comprise cash and cash equivalents and receivables.

*Cash and cash equivalents* represent highly liquid investments that are readily convertible into a known amount of cash with an insignificant risk of changes in value, with maturities of 3 months or less.

### (d) Agency payments

The PHO 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 profit or loss but are included in the operating cash flows. The net balance at year end is recognised as a current liability.

### (e) 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.

### Note 5 - Changes in accounting policy

#### Changes due to the initial application of a new, revised, and amended PBE Standards

A number of new standards, interpretations and amendments effective for the first time for periods beginning on or after 1 July 2016 have been adopted in these financial statements. The nature and effect of each new standard, interpretation and amendments adopted by the Group has been considered by the Directors.

The adoption of standards, interpretations and amendments that have become effective in the current period have not had any significant impact to the Group's accounting policies with respect to measurement or recognition.

The amendments to PBE IPSAS 1 Presentation of Financial Statements in relation to the disclosure initiative have not had an impact on the accounting policies of the Group. Disclosures have been amended where considered appropriate.

# PEGASUS HEALTH (CHARITABLE) LIMITED Primary Health Organisation

## NOTES TO AND FORMING PART OF THE SPECIAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

### Note 6 - Accounting standards issued not yet effective

At the date of authorisation of the financial statements of Pegasus Health (Charitable) Limited for the year ended 30 June 2017, the following PBE Standards have been assessed as relevant to the Group are in issue but not yet effective:

#### PBE IPSAS 1 - Presentation of Financial Statements - 2016 Omnibus Amendments to PBE Standards

Effective date: 1 January 2017

Certain of these amendments to standards will be adopted by Pegasus Health for the first time for its financial reporting period ended 30 June 2018 and the remainder for financial reporting period ended 30 June 2019.

This amending Standard contains amendments to PBE Standards arising from Chapters 1 to 4 of the Public Benefit Entities' Conceptual Framework, Improvements to IPSASs 2015 and IASB@ narrow scope-amendments to IFRS@ Standards. It also contains editorial corrections.

The amendments have a range of effective dates, with the earliest being for annual periods beginning on or after 1 January 2017.

The impact of these changes is not expected to have a significant impact on presentation or disclosures within the group's financial statements.

#### PBE IPSAS 35 - Consolidated Financial Statements

Effective date: 1 January 2019

This standard will be adopted by Pegasus Health for the first time for its financial reporting period ended 30 June 2020. This standard will replace PBE IPSAS 6 Consolidated and Separate Financial Statements. The impact of this standard is yet to be determined.

#### PBE IPSAS 36 - Investments in Associated and Joint Ventures

Effective date: 1 January 2019

This standard will be adopted by Pegasus Health for the first time for its financial reporting period ended 30 June 2020. This standard will replace PBE IPSAS 7 Investments in Associates and PBE IPSAS 8 Interests in Joint Ventures. The impact of this standard is yet to be determined.

#### PBE IPSAS 37 - Joint Arrangements

Effective date: 1 January 2019

This standard will be adopted by Pegasus Health for the first time for its financial reporting period ended 30 June 2020. This standard will replace PBE IPSAS 8 Interests in Joint Ventures. The impact of this standard is yet to be determined.

#### PBE IPSAS 38 - Disclosure of Interests in Other Entities

Effective date: 1 January 2019

This standard will be adopted by Pegasus Health for the first time for its financial reporting period ended 30 June 2020. This standard will replace PBE IPSAS 6 Consolidated and Separate Financial Statements, PBE IPSAS 7 Investments in Associates and PBE IPSAS 8 Interests in Joint Ventures. The impact of this standard is yet to be determined.

#### PBE IPSAS 39 - Employee Benefits

Effective date: 1 January 2019

This standard will be adopted by Pegasus Health for the first time for its financial reporting period ended 30 June 2020. This standard will replace PBE IPSAS 25 Employee Benefits. The impact of this standard is yet to be determined.

#### PBE IFRS 9 - Financial Instruments

Effective date: 1 January 2021

This standard will be adopted by Pegasus Health for the first time for its financial reporting period ended 30 June 2020. This standard will replace PBE IFRS 29 Financial Instruments: Recognition and Measurement. The impact of this standard is yet to be determined.

**PEGASUS HEALTH (CHARITABLE) LIMITED Primary Health Organisation**  
**NOTES TO AND FORMING PART OF THE SPECIAL PURPOSE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2017**

**Note 7 - Revenue**

|                             | 2017         | 2016         |
|-----------------------------|--------------|--------------|
|                             | \$'000       | \$'000       |
| Revenue from:               |              |              |
| Delivery of Health Services | 2,548        | 2,470        |
| <b>Total revenue</b>        | <b>2,548</b> | <b>2,470</b> |

**Delivery of health services**

The PHO Function has significant agreements with the Canterbury District Health Board (CDHB) to provide services to general practices and their patients. Satisfactory on-going contractual arrangements for these areas have been agreed with CDHB for the year ending 30 June 2018.

The Company delivers a further range of services funded by the CDHB. These include services focussed on integration of primary and secondary care, support for the provision of 24 Hour Acute Care in the community, the provision of services to residents of Child Youth and Family Residences and programme office support to the Canterbury Clinical Network (CCN) - an alliance of the region's health professionals and others, which in conjunction with the CDHB is working towards a transformation of health care to significantly improve the delivery of patient care in the community. The CDHB also provides funding towards the development and delivery of a comprehensive clinical education programme to doctors, nurses and pharmacists working in primary care in Canterbury and a number of information systems initiatives. The majority of these services are funded on a two to three year basis whilst some elements are funded on an annual basis. Satisfactory on-going contractual arrangements for the majority of these areas have been agreed with CDHB. Negotiations are progressing with respect to the remaining contract areas.

Patient fees are recognised as the service is provided. Related claims revenue is recognised when the associated claim has been approved. Funding to support the delivery of night shift services is recognised evenly over the period to which it relates.

**Note 8 - Expenses by nature**

|   | 2017      | 2016      |
|---|-----------|-----------|
|   | \$'000    | \$'000    |
| <i>Professional fees</i>                |           |           |
| - BDO Audit of the financial statements | 12        | 12        |
| <b>Total auditors remuneration</b>      | <b>12</b> | <b>12</b> |
| Director fees                           | 28        | 20        |



**PEGASUS HEALTH (CHARITABLE) LIMITED Primary Health Organisation**  
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**Note 9 - Cash and cash equivalents**

**(a) Cash and cash equivalents**

|   | 2017         | 2016         |
|---|--------------|--------------|
|   | \$'000       | \$'000       |
| <i>Current assets:</i>  |              |              |
| Cash on hand  | 2,256        | 7            |
| Call deposits   | -            | 2,465        |
| Bank deposits (less than 90 days)                               | -            | 1,000        |
| <b>Cash and cash equivalents in the statement of cash flows</b> | <b>2,256</b> | <b>3,472</b> |

Per annum annual interest rate ranges applicable to components of cash and cash equivalent:

|                 |           |             |
|-----------------|-----------|-------------|
| Bank deposits   | Nil       | 3.15%-3.5%  |
| Call deposits   | 0.1%-1.0% | 0.55%-3.45% |
| Bank overdrafts | 6.45%     | 6.30%       |

A General Security Agreement is in place over all the assets of the company. This secures the borrowings from the Westpac Bank.

**(b) Other investments - Short-term deposits**

|   | 2017   | 2016   |
|---|--------|--------|
|   | \$'000 | \$'000 |
| Bank deposits (between 90 and 365 days) | -      | 500    |
|   | -      | 500    |

Per annum annual interest rate ranges applicable to components of cash and cash equivalent:

|               |     |      |
|---------------|-----|------|
| Bank deposits | Nil | 3.2% |
|---------------|-----|------|

A General Security Agreement is in place over all the assets of the company. This secures the borrowings from the Westpac Bank.

**PEGASUS HEALTH (CHARITABLE) LIMITED Primary Health Organisation**  
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**Note 10 - Receivables - exchange transactions**

|   | 2017       | 2016         |
|---|------------|--------------|
|   | \$'000     | \$'000       |
| Trade receivables from exchange transactions            | 739        | 1,483        |
| <i>Net trade receivables from exchange transactions</i> | <u>739</u> | <u>1,483</u> |
| Sundry receivables                                      | -          | 18           |
|   | <u>739</u> | <u>1,501</u> |

**i. Maturities**

The maturities of the net accounts receivable based on the remaining period are as follows:

|                                 | 2017       | 2016         |
|---------------------------------|------------|--------------|
|                                 | \$'000     | \$'000       |
| Total accounts receivable (net) | 739        | 1,483        |
| Analysed as due:                |            |              |
| Less than 30 days (current)     | 657        | 1,481        |
| Between 31 and 60 days          | 82         | 2            |
| Between 61 and 90 days          | -          | -            |
| Greater than 91 days            | -          | -            |
| Total accounts receivable (net) | <u>739</u> | <u>1,483</u> |

**ii. Credit term and interest**

The average credit term on invoiced amounts is 30 days and is interest free (2015; 30 days and is interest free).

**Note 11 - Property, plant and equipment**

|                            | Land and<br>buildings | Total      |
|----------------------------|-----------------------|------------|
|                            | 2017                  | 2017       |
|                            | \$'000                | \$'000     |
| <u>Cost or valuation</u>   |                       |            |
| Balance as at 1 July 2016  | -                     | -          |
| Additions (exchange)       | -                     | -          |
| Balance as at 30 June 2016 | <u>-</u>              | <u>-</u>   |
| Balance as at 1 July 2017  | -                     | -          |
| Additions (exchange)       | 500                   | 500        |
| Balance as at 30 June 2017 | <u>500</u>            | <u>500</u> |

The \$500,000 addition above is the PHO's contribution to the building fit out at 401 Madras Street, Christchurch. Refer Note 21 Events after Reporting Date comparative 2016.

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**Note 12 - Payables - exchange transactions**

|   | 2017       | 2016         |
|---|------------|--------------|
|   | \$'000     | \$'000       |
| Trade payables from exchange transactions           | 534        | 1,330        |
| Non-trade payables and accrued expenses             | 77         | 475          |
| Trade and other payables measured at amortised cost | <u>611</u> | <u>1,805</u> |

**Maturities -**

The maturities of accounts payable based on the remaining period are as follows:

|                                       | 2017              | 2016                |
|---------------------------------------|-------------------|---------------------|
|                                       | \$'000            | \$'000              |
| <b>Total trade payables</b>           | <b>534</b>        | <b>1,330</b>        |
| Analysed as due:                      |                   |                     |
| Less than 30 days (current)           | 534               | 1,330               |
| Between 31 and 90 days                | -                 | -                   |
| Between 91 and 365 days               | -                 | -                   |
| <b>Total trade and other payables</b> | <b><u>534</u></b> | <b><u>1,330</u></b> |

The average credit term on invoiced amounts is 30 days (2016: 30 days). Accounts payable, accruals and other liabilities are interest free (2016: interest free).

**Note 13 - Project residual fund**

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 Fund) was \$450,000 of which \$182,343 remains as at 30 June 2017.

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. It is therefore appropriate to recognise these funds as a liability within the financial statements.

**PEGASUS HEALTH (CHARITABLE) LIMITED Primary Health Organisation**  
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**Note 14 - Contract funding in advance**

|   | 2017         | 2016         |
|---|--------------|--------------|
|   | \$'000       | \$'000       |
| Care Plus   | 2            | (89)         |
| Health Promotion                                  | (20)         | (4)          |
| Services to Improve Access                        | (64)         | (25)         |
| PHO Performance Programme                         | 165          | 852          |
| Rural Retention/Rural Roster                      | 54           | 48           |
| CDHB Additional Services                          | 157          | 309          |
| CDHB Other Services                               | 1,517        | 1,520        |
| Healthy Eating, Healthy Activity                  | 69           | 49           |
| Project Management for CDHB                       | 15           | 9            |
| Non-CDHB Contracts                                | 51           | 55           |
| <b>Total contract funding received in advance</b> | <b>1,946</b> | <b>2,724</b> |

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 2017.

**PEGASUS HEALTH (CHARITABLE) LIMITED Primary Health Organisation**  
**NOTES TO AND FORMING PART OF THE SPECIAL PURPOSE FINANCIAL STATEMENTS**  
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**Note 15 - Financial instruments**

*Classification and fair values of financial instruments*

The tables below show the carrying amount and fair values (except those where carrying amount approximates fair value) of the financial assets and financial liabilities.

**30 June 2016**

|  |   | Carrying amount (\$'000) |                       |         |         |
|--|---|--------------------------|-----------------------|---------|---------|
|  |   | Financial assets         | Financial liabilities |         |         |
|  |   | Loans and receivables    | Amortised cost        | Total   |         |
| Note   |   |                          |                       |         |         |
| <i>Subsequently not measured at fair value</i> |   |                          |                       |         |         |
|  | Cash and cash equivalent (assets)       | 9                        | 2,472                 | -       | 2,472   |
|  | Other investments - short term deposits | 9                        | 1,500                 | -       | 1,500   |
|  | Receivables                             | 10                       | 1,501                 | -       | 1,501   |
|  | Payables                                | 12                       | -                     | (1,958) | (1,958) |
|  |   |                          | 5,473                 | (1,958) | (3,515) |

**30 June 2017**

|  |   | Carrying amount (\$'000) |                       |       |         |
|--|---|--------------------------|-----------------------|-------|---------|
|  |   | Financial assets         | Financial liabilities |       |         |
|  |   | Loans and receivables    | Amortised cost        | Total |         |
| Note   |   |                          |                       |       |         |
| <i>Subsequently not measured at fair value</i> |   |                          |                       |       |         |
|  | Cash and cash equivalent (assets)       | 9                        | 2,256                 | -     | 2,256   |
|  | Other investments - short term deposits | 9                        | -                     | -     | -       |
|  | Receivables                             | 10                       | 739                   | -     | 739     |
|  | Payables                                | 12                       | -                     | (671) | (671)   |
|  |   |                          | 2,995                 | (671) | (2,324) |

It is considered that none of the financial instruments fall into the fair value hierarchy in 2017.

Fair value approximates carrying amount in all instances.

| Interest received per category of financial instruments: | 2017      | 2016      |
|--|-----------|-----------|
|  | \$'000s   | \$'000s   |
| Cash and cash equivalents                                | 42        | 84        |
| <b>Total interest expense and bank fees</b>              | <b>42</b> | <b>84</b> |

# PEGASUS HEALTH (CHARITABLE) LIMITED Primary Health Organisation

## NOTES TO AND FORMING PART OF THE SPECIAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

### Note 16 - Financial risk management

#### (i) Overall risk management framework

The Company's financial risk management framework is set out in a comprehensive Treasury Policy which is reviewed regularly by the Board. Adherence to this policy is formally maintained by the Finance, Audit, Risk Committee (FARC) of the Board, on a quarterly basis. In addition FARC considers the financial statements and risk assessments of all Group companies on an at least annual basis. The PHO Function's cash balances are held in separate accounts to those relating to the other activities of the Company.

#### (ii) Credit risk

Credit risk is the risk of financial loss to the PHO if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The PHO is mainly exposed to credit risk from its financial assets, represented by the value of trade and other receivables, cash and cash equivalents and fixed interest securities at balance sheet date.

There is also credit risk exposure to financial institutions through banking arrangements and fixed interest securities. Investments are only in liquid securities, are placed with counterparties that are registered banks with an AA- or higher credit rating, and New Zealand Corporate Debt 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.

The carrying amount of the above financial assets represent the PHO's maximum exposure to credit risk.

#### Cash and cash equivalents and derivative assets

The PHO has a total of \$2,256,000 (2016: \$3,972,000) of cash and cash equivalents with financial institutions. The Company's Treasury policy dictates the levels of investment allowed for a range of credit limits and classes.

It is also the Company's policy to ensure that no more than \$3,000,000 of 'cash funds' (defined as, cash and cash equivalents less cash physically held) are held with a single financial institution. Details of the spread of the Group's cash and cash equivalents between different financial institutions is detailed below:

|          | Credit rating |      | % of cash funds held |      |
|----------|---------------|------|----------------------|------|
|          | 2017          | 2016 | 2017                 | 2016 |
| Westpac  | AA-           | AA-  | 100.0                | 8.4  |
| BNZ      | AA-           | AA-  | -                    | 52.4 |
| Rabobank | A             | A    | -                    | 4.3  |
| UDC      | BBB           | BBB  | -                    | 34.9 |

#### Receivables (from exchange transactions)

The PHO's exposure to credit risk is influenced by the specific individual characteristics of each counter party within the different sub-class of receivables presented in Note 11. The majority of accounts receivable 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 exposures.

In respect to *trade receivables from exchange transactions*, terms of trade require payment 30 days from the date of invoice.

At reporting date, the maximum exposure to credit risk for *trade receivables from exchange transactions* is detailed in the table below:

|            | 2017<br>(\$'000) | 2016<br>(\$'000) |
|------------|------------------|------------------|
| Other debt | 739              | 1,501            |
|            | <u>739</u>       | <u>1,501</u>     |

**PEGASUS HEALTH (CHARITABLE) LIMITED Primary Health Organisation**  
**NOTES TO AND FORMING PART OF THE SPECIAL PURPOSE FINANCIAL STATEMENTS**  
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**Note 16 - Financial risk management (continued)**

**(ii) Credit risk (continued)**

The aging of trade receivables from exchange transactions, and credit quality of those balances that are neither past due nor impaired, as at reporting date, is presented in *Note 11*.

The movement in the impairment allowance for *trade receivables from exchange transactions* is shown in *Note 11*.

In respect to all other *Advances to related parties*, under the Treasury Policy, the Board must approve all amounts advanced and drawn down to related parties. Refer to *Note 18* for further details of terms and conditions.

The carrying amount of all other *Advances to related parties* represents the maximum exposure to credit risk. Also, there are no amounts overdue or impaired as at year end.

**(iii) Liquidity risk**

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 details the undiscounted contractual cash flows (principal and interest) of the Group's financial liabilities:

|  | Contractual cash flows |              |               |                |                | Carrying amount |
|--|------------------------|--------------|---------------|----------------|----------------|-----------------|
|  | 0 - 1 Months           | 1 - 3 Months | 3 - 12 Months | 12 - 60 Months | Total amount   |                 |
|  | \$'000                 | \$'000       | \$'000        | \$'000         | \$'000         | \$'000          |
| <b>2016</b>                                  |                        |              |               |                |                |                 |
| <i>Non-derivative financial liabilities:</i> |                        |              |               |                |                |                 |
| Payables (from exchange transactions)        | (1,805)                | -            | -             | -              | (1,805)        | (1,805)         |
|  | <b>(1,805)</b>         | <b>-</b>     | <b>-</b>      | <b>-</b>       | <b>(1,805)</b> | <b>(1,805)</b>  |
| <b>2017</b>                                  |                        |              |               |                |                |                 |
| <i>Non-derivative financial liabilities:</i> |                        |              |               |                |                |                 |
| Payables (from exchange transactions)        | (611)                  | -            | -             | -              | (611)          | (611)           |
|  | <b>(611)</b>           | <b>-</b>     | <b>-</b>      | <b>-</b>       | <b>(611)</b>   | <b>(611)</b>    |

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

**PEGASUS HEALTH (CHARITABLE) LIMITED Primary Health Organisation  
NOTES TO AND FORMING PART OF THE SPECIAL PURPOSE FINANCIAL STATEMENTS  
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**Note 16 - Financial risk management (continued)**

(iii) Liquidity risk (continued)

Interest rate risk

The PHO function is exposed to interest risk exposure is to cash, cash equivalents and short term deposits. These are held on call or as fixed interest deposits. There is no sensitivity to interest risk for all cash and cash equivalents as they are held at amortised cost or market value and are at fixed interest rates.

A reasonably possible increase of 1% (2016: 1%) and decrease of 1% (2016: 1%) in interest rates would have the following impact on surplus or deficit and net assets/equity:

|   | Surplus or deficit |                  | Net assets/equity |                  |
|---|--------------------|------------------|-------------------|------------------|
|   | 2017<br>(\$'000)   | 2016<br>(\$'000) | 2017<br>(\$'000)  | 2016<br>(\$'000) |
| Interest rate increase of 1% (2016: 1%) | (23)               | (40)             | (23)              | (40)             |
| Interest rate decrease of 1% (2016: 1%) | 23                 | 40               | 23                | 40               |

**Note 17 - 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.

**Note 18 - 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 \$10,283,623 (2016: \$8,402,839) for the year, and balance outstanding at 30 June 2017 totalled \$188,085 (2016: \$29,373).

The PHO function has loaned funds, short term, on demand, at arm's length rates of interest, to the operational bank accounts of the Company to cover short term operational financing needs. Such loans are governed by the Company's Treasury and Investment Policy and may not exceed the unutilised headroom within the Company's bank overdraft facility. The maximum amount so loaned during the year was \$2.1M; no amount was outstanding at balance date.

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) until 30<sup>th</sup> September 2016. The Trustee Company is a wholly owned subsidiary but is governed by independent directors. The Trustee Company Directors independently oversaw the distribution of capitation funding to practitioners and practices. The Trustee Company was wound up on 30<sup>th</sup> September 2016 after which the Capitation funding was paid direct from the PHO Function.

The PHO Function has no other related party transactions.



**PEGASUS HEALTH (CHARITABLE) LIMITED Primary Health Organisation  
NOTES TO AND FORMING PART OF THE SPECIAL PURPOSE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2017**

**Note 19 - Reconciliation of operating cash flows to net surplus**

|  | 2017<br>\$'000 | 2016<br>\$'000 |
|--|----------------|----------------|
| Net surplus / (deficit)                | 160            | 140            |
| <i>Adjustments for non-cash items:</i> |                |                |
| Interest received                      | (42)           | (84)           |
| <i>Adjustments for movements in:</i>   |                |                |
| (Increase)/decrease in receivables     | 743            | 204            |
| Increase/(decrease) in payables        | (2,137)        | (397)          |
| Net operating cash inflow / (outflow)  | <u>(1,276)</u> | <u>(138)</u>   |

**Note 20 - Commitments and contingencies**

At 30 June 2017, the PHO functions have no capital commitments, no contingent assets or liabilities (2016: Nil).

**Note 21 - Events after reporting date**

There are no events subsequent to balance date. (2016: The Directors of the Company agreed to invest \$500,000 in the Pegasus House (401 Madras Street) refit. This investment is consistent with the Ministry of Health's requirements, as set out in Operating Policy Framework Guidance on the Management and Use of Primary Health Organisation Cash Balances, and will not impact on the delivery of any programmes or services).