



Southern Cross  
Healthcare

your health is our business

**Southern Cross Health Trust**

Annual Report  
For the Year Ended  
30 June 2005

**Our Mission** To provide sustainable access to value for money quality healthcare

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Southern Cross Health Trust  
Annual Report  
For The Year Ended  
30 June 2005



**Board of Directors (from left)** Jeff Todd, Dr Harley Gray, Dr John Mathews (Chairman), Bruce Davidson, Dr Susan Macken, Phillip Meyer David May

## overview of performance

The financial year ended June 30 2005 has been one of growth and investments for the Southern Cross Health Trust with extensions to our hospital network through joint ventures and acquisitions, achieved alongside upgrades to some of our existing facilities.

These pleasing developments have enabled us to meet growing demand from all New Zealanders for competitively priced private care, while also ensuring that the specialists using our facilities have access to the latest technological advances in medicine.

Our growth path began in October 2004, with the agreement between the Trust and the clinician owners of the Oxford Clinic Day Hospital in Christchurch to establish a joint venture. The renamed Southern Cross Oxford Hospital became our fourth joint venture operation, complementing those with the Gillies Hospital in Auckland,

Norfolk Southern Cross Hospital in Tauranga and Mercy Angiography Unit Limited.

In February 2005, following Commerce Commission approval, the Auckland Surgical Centre, New Zealand's largest dedicated day-stay facility, joined our network following its acquisition by the Trust. The facility, with four operating theatres and 10 beds, has a particular focus on orthopaedic and plastic surgery and extends the range of choice offered by the Trust to patients in the Auckland region.

The Trust invested in a \$1.25 million upgrade of Invercargill's Southern Cross Hospital, including the addition of a day-stay unit, new consulting rooms and a large recovery area and also opened a new operating theatre at the Southern Cross Hospital in Hanson St, Wellington following a \$1 million upgrade. This facility serves some 63 registered surgical and medical specialists.

In total, the Trust invested \$38 million in acquisitions and improvements to our facilities.

These advances were made during a year in which the Trust continued to perform well and generated a surplus of \$15.9 million. This comprised an operating surplus of \$9.8 million and interest and other income of \$6.1 million. Operating revenues of \$98.1 million were achieved and operating expenses of \$88.3 million incurred.

Established in 1979, Southern Cross Hospitals have a long tradition of providing excellent private surgery facilities and care to all New Zealanders. During the year, the Trust continued to build on this reputation, becoming the first private sector employer of nurses in the country to gain Nursing Council of New Zealand approval of its Professional Development and Recognition Programme.

This programme was implemented in the Trust's hospitals following the introduction of the 2003 Health Practitioners Competence Assurance Act. It enables registered nurses working within the Trust's hospitals to receive an accredited on-site assessment for their annual practising certificate. The Nursing Council's approval of the programme, granted for the maximum five year period, is a vote of confidence in it. The programme incorporates five levels of practice ranging from practitioners who are engaged in direct patient care to nurses whose contribution has a significant impact on the quality of patient care, such as nurse educators and managers.

The Trust was pleased to be able to contribute to improved healthcare in Fiji's main public hospital, the Colonial War Memorial Hospital, through the donation of two medical ventilators.

The donation followed the upgrade of ventilators at the Trust's Christchurch hospital which enabled the used, but highly functional ventilators, to be put to good use in Fiji and increase the number of ventilators available at the hospital to five.

Southern Cross Travel Insurance increased its total revenues by \$6.8 million to \$21.7 million in the period under review. The continued growth in this business is due to buoyant demand from New Zealanders seeking cover for overseas travel, as well as steady demand from international students studying in New Zealand.

As always, we owe a debt of thanks to the management team and our staff for their commitment and high standards of performance, to the specialists and patients who choose our hospitals and to those supporting our travel insurance business.

We look forward to another successful year for the Trust, and the opportunity to further increase choice for New Zealanders through extensions to our network.



**Dr John Matthews**  
Chairman



**Dr Ian McPherson**  
Group Chief Executive

**The Nursing Council's approval of our professional development programme, granted for the maximum five year period, is a vote of confidence in it.**

# statement of corporate governance

The Southern Cross Health Trust adheres to principles designed to ensure prudent governance of its affairs. The Southern Cross Health Trust administers the activities of the Southern Cross Hospital network. In all operational aspects, the hospitals exist within the Trust on a stand-alone basis.

The Trust is a financially and administratively independent entity which is run at “arms length” from the operations of the Southern Cross Medical Care Society and produces separate audited annual financial statements. The Southern Cross Health Trust has a Board of Trustees who, for reasons of efficient governance, cost containment and convenience, are also the directors of the Southern Cross Medical Care Society at this time.

The Trustees in office as at the date of this statement were: -

Dr John R D Matthews (Chairman)

Jeff G Todd CBE  
(Deputy Chairman)

Bruce N Davidson

Dr D Harley Gray

Dr Susan C Macken

David J May

Phillip J Meyer

## Board Responsibilities

The Board guides and monitors the business affairs of the Trust on behalf of all New Zealanders.

The Board is responsible for identifying areas of significant business risk and ensuring arrangements are in place to adequately manage those risks. In addition, the Board ensures that the affairs of the Trust meet regulatory obligations and comply with high ethical standards.

All Trustees register and formally record any conflicts of interest. Should a conflict of interest arise during the course of Board business, the particular

Trustee takes no part in that discussion or the resulting decision.

## Delegation Framework

The responsibility for the day-to-day operation and administration of the Trust is delegated by the Board to the Group Chief Executive and the senior management team. The Board ensures that this group is appropriately qualified and experienced to discharge their responsibilities and has in place procedures to assess the performance of the Group Chief Executive and the management team.

The Board oversees the implementation by management of operating plans and budgets and monitors key performance indicators and progress against budget.

## Board Meetings

The Board meets formally on a monthly basis and follows guidelines to ensure that all Trustees have available the necessary information to participate in an informed discussion of all agenda items. Separate strategic planning meetings are held in conjunction with the senior management team at least twice yearly.

## Committees

The Board has established a number of committees that meet at predetermined intervals to oversee specific business aspects.

### (a) Audit Committee.

This committee operates under a charter approved by the Board. The committee is accountable to the Board

for recommending the appointment of the external and internal auditors, directing and monitoring the audit function and reviewing the adequacy and quality of an annual audit process.

The Audit Committee is also responsible for ensuring that requirements of the Trust’s Auditors are met, that the Trust has an effective internal control framework, ascertaining that adequate procedures are in place to keep records in a manner which will enable them to be properly audited and that appropriate ethical standards are maintained.

The Audit Committee consists of Jeff G Todd (Chairman), Dr John R D Matthews and David J May.:

### (b) Remuneration Committee.

This committee operates under a charter approved by the Board. It is responsible for reviewing the remuneration and compensation of Trustees and senior management of the Trust, for overseeing staff remuneration policies in general and making recommendations to the Board.

The Remuneration Committee consists of Dr Susan C Macken (Chairperson), Bruce N Davidson, Dr John R D Matthews and Phillip J Meyer.

### (c) Hospital Audit Review Committee

This committee monitors the clinical and ethical standards applicable to the operations of the Southern Cross Health Trust’s group of hospitals. The committee is made up of representatives from senior nursing and administrative personnel and is chaired by orthopaedic surgeon Dr John Cullen. Dr Harley Gray represents the Trust on the committee.

## Summary of Meetings for the Year Ended 30 June 2005

	Trust Board	Strategic Workshop	Audit Committee	Remuneration Committee	HARC
Dr J R D Matthews	10	2	4	4	
J G Todd	10	2	4		
B N Davidson	10	2		4	
Dr D H Gray	10	2			6
Dr S C Macken	10	2		4	
D J May	10	2	4		
P S Meyer	10	2		4	

# board of trustees

### Board of Trustees (from left):

Dr John Matthews (Chairman),  
 Jeff Todd CBE, Bruce Davidson,  
 Dr Harley Gray, Dr Susan Macken,  
 David May, Phillip Meyer



### Dr John Matthews

(BAgSC, MB, ChB, FRACP, FRCPA)

#### Chairman

Dr John Matthews joined the Board in 1994.

Dr Matthews is a founding trustee and current Chairman of the University of Auckland School of Medicine Foundation Trust and is also a trustee of the University of Auckland Foundation. He is Chairman of the biotech company, Proacta, which is involved in the development of anti-cancer drugs. Dr Matthews is a past President of the Auckland Division of

the New Zealand Medical Association and Auckland Medico-Legal Society and past Chairman of the Management Committee of the Association of Community Laboratories. He is also a former Director of Clinical Services of Diagnostic Medlab Limited and served as a Director of Auckland UniServices, as well as on the University of Auckland Council.

### Jeff Todd

CBE (BCom, FCA)

#### Deputy Chairman

Jeff Todd, who is a Chartered

Accountant, has been a member of the Board since 1998. He has had a longstanding and broad interest in healthcare and health research and currently also serves on the Boards of the Auckland Medical Research Foundation, the Goodfellow Foundation, Christian Healthcare Trust and the National Research Centre for Growth and Development based at the Liggins Institute.

He is currently chairman of NZ Guardian Trust, Gullivers Travel Group and Dynasty Hotel Group. He is a director of Sanfords. He has also

served on the boards of the Reserve Bank of New Zealand, the ANZ Banking Group in New Zealand, the Earthquake Commission and on the Council of Massey University.

## **Bruce Davidson**

(LLM)

Bruce Davidson has served on the Board since 1990, bringing to the role a wealth of health sector experience gained through a long association with a number of healthcare organisations in New Zealand.

He is a former partner in the law firm Minter Ellison Rudd Watts and has served as the President of the Auckland District Law Society, a member of its council and as Vice President of the New Zealand Law Society. Mr Davidson also serves as a trustee of several charitable trusts and is a director of several public and private companies.

College of Surgeons, as a Director of Capital Coast Health and Chair of the Clinical Board and as Chief Medical Officer for South Auckland Health. He is current Secretary of South Kaipara Landcare and a member of the Institute of Directors. Dr Gray, who was made a Companion of the New Zealand Order of Merit in 2003

## **Dr Susan Macken**

(BSc, BCom, PhD)

A Board member since 1997, Dr Macken is Chief Executive Officer of Auckland's Regional Economic Development Strategy.

She is a non-executive director of a number of companies including the Bank of New Zealand and Fertility Associates Limited. She has held senior executive positions in major New Zealand corporates including Fletcher Challenge and the Blue Star Group. Her directorships have included Landcare Research, NZ Racing Industry Board, Hutt Valley Health and NZ Trade Development Board.

the management structure and investment policy for the funds which were established by the Government to ensure the sustainability of national superannuation.

## **Philip Meyer**

(FAIM, FNZIM)

Philip Meyer joined the Board in 2002. An experienced investment banker and company Director, he has served on the Development Council of the Heart Research Institute and the Executive Business Council of the New South Wales Cancer Council.

His governance experience includes directorships of a number of Australian companies and he is a member of the Disciplinary Tribunal of the Institute of Chartered Accountants in New Zealand, as well as the NZX Discipline committee. A Fellow of the Australian Institute of Management and the New Zealand Institute of Management, Mr Meyer holds a certificate in Company Direction (NZ) and is a former financial advisor to Australian state governments



## **Dr Harley Gray**

(CNZM, ChM, MMedSc, FRACS)

Dr Gray joined the Board during the year. An eminent orthopaedic surgeon at Auckland's Middlemore Hospital until 2000, he was the Sir William Stevenson Professor of Orthopaedics at the University of Auckland from 1975 to 1993, training many of the country's orthopaedic specialists.

Dr Gray is a former President of the New Zealand Orthopaedic Association and the Auckland Medico Legal Society. He has served as Vice President of the Royal Australasian

## **David May**

(BSc (Hons), FIA, FIAA)

Mr May joined the Board in 2002.

An actuary with 35 years of experience in the insurance and financial services industry, most recently as Managing Director of the Colonial Group in New Zealand, Mr May is the Current Chairman of the Guardians of the New Zealand Superannuation Fund (NZSF) and Deputy Chairman of the New Zealand Government Superannuation Fund (GSF) Authority. In his role on the Boards of the NZSF and GSF, he contributed to developing

on the growth of economic development opportunities arising from the Sydney Olympics, to which he was a financial advisor. Mr Meyer is also a member of the Wellington Mayoral Business Advisory Board and a Trustee of the Wellington Zoo Trust.

# financial statements

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## CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE

For the year ended 30 June 2005

	Note	Group		Parent	
		2005 \$000	2004 \$000	2005 \$000	2004 \$000
<b>Operating Revenue</b>	2	98,122	109,915	76,046	64,379
Operating Expenses	3	88,345	84,306	70,142	58,150
<b>Operating Surplus</b>		9,777	25,609	5,904	6,229
Interest and Other Income	4	6,156	5,628	19,069	11,062
<b>Net Surplus</b>	2	15,933	31,237	24,973	17,291

## CONSOLIDATED STATEMENT OF MOVEMENTS IN EQUITY

For the year ended 30 June 2005

	Note	Group		Parent	
		2005 \$000	2004 \$000	2005 \$000	2004 \$000
Net Surplus for the Year		15,933	31,237	24,973	17,291
<b>Equity at Start of Year</b>		113,690	82,453	84,142	66,851
<b>Equity at End of Year</b>		129,623	113,690	109,115	84,142

The accompanying Notes form part of these Financial Statements



## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2005

	Note	Group		Parent	
		2005 \$000	2004 \$000	2005 \$000	2004 \$000
Current Assets	5	19,890	25,447	21,792	10,212
<i>Non-Current Assets:</i>					
Investments	6	46,830	73,158	13,314	23,900
Fixed Assets	7	84,826	60,205	84,342	59,941
Goodwill	8	6,387	–	6,387	–
		138,043	133,363	104,043	83,841
<b>Total Assets</b>		157,933	158,810	125,835	94,053
Current Liabilities	9	28,310	45,120	16,720	9,911
<b>Net Assets</b>		129,623	113,690	109,115	84,142
<b>Equity</b>		129,623	113,690	109,115	84,142

For and on behalf of the Board

Dr J R D Matthews  
**Trustee**

6-9-05

Date

J G Todd  
**Trustee**

6-9-05

Date

The accompanying Notes form part of these Financial Statements



## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2005

	Note	Group		Parent	
		2005 \$000	2004 \$000	2005 \$000	2004 \$000
<b>Cash Flows from Operating Activities</b>					
<i>Cash was Provided From:</i>					
Receipts From Customers		102,358	106,944	68,396	59,436
Interest Received		3,849	3,733	890	371
Dividends Received		273	368	17,750	10,368
Distribution from Joint Ventures and Associates		545	579	-	-
Other Income		423	293	423	293
		107,448	111,917	87,459	70,468
<i>Cash was Applied to:</i>					
Payment of Direct Claims		9,011	4,170	-	-
Payments to Employees		30,030	27,759	28,039	23,859
Payments to Suppliers		57,228	57,054	28,524	23,829
		96,269	88,983	56,563	47,688
<b>Net Cash Flows from Operating Activities</b>	12	11,179	22,934	30,896	22,780
<b>Cash Flows from Investing Activities</b>					
<i>Cash was Provided From:</i>					
Sale of Fixed Assets		87	32	87	2
Sale of Investments		35,546	35,180	505	-
Return of Capital First Health		-	-	11,886	-
		35,633	35,212	12,478	2
<i>Cash was Applied to:</i>					
Purchase of Fixed Assets		31,359	5,369	31,022	4,995
Purchase of Goodwil		6,607	-	6,607	-
Purchase of Investments		8,100	50,402	4,100	8,500
		46,066	55,771	41,729	13,495
<b>Net Cash Flows from Investing Activities</b>		(10,433)	(20,559)	(29,251)	(13,493)

The accompanying Notes form part of these Financial Statements



## CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

For the year ended 30 June 2005

	Note	Group		Parent	
		2005 \$000	2004 \$000	2005 \$000	2004 \$000
<b>Cash Flows from Financing Activities</b>					
<i>Cash was Applied to:</i>					
Repayment of Borrowings		-	14,500	-	14,500
Repayment of loan from Related Party		-	-	-	7,500
		-	14,500	-	22,000
<b>Net Cash Flows from Financing Activities</b>		-	(14,500)	-	(22,000)
<b>Net Increase/(Decrease) in Cash Held</b>		746	(12,125)	1,645	(12,713)
<b>Opening Cash Balance</b>		2,280	14,405	948	13,661
<b>Closing Cash Balance</b>	5	3,026	2,280	2,593	948

The accompanying Notes form part of these Financial Statements



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2005

### 1. STATEMENT OF ACCOUNTING POLICIES

#### Reporting Entity

The reporting entity is the Southern Cross Health Trust. The Group consists of Southern Cross Health Trust, its subsidiaries Southern Cross Benefits Limited and First Health Limited and its interests in Southern Cross Health Trust Gillies Partnership Limited, Southern Cross Hospitals Oxford Partnership Limited and Southern Cross Health Trust Tauranga Partnership Limited.

#### Statutory Base

Southern Cross Health Trust is a charitable trust incorporated under the Charitable Trusts Act 1957.

#### Measurement Base

The measurement base adopted is historical cost, except that investments are stated at valuation.

#### Basis of Consolidation

The consolidated financial statements include the Trust, its subsidiaries accounted for using the purchase method and its interests in its associates using the equity method. All material transactions between subsidiaries or between the Parent and subsidiaries are eliminated on consolidation. In the Parent financial statements, investments in subsidiaries and associates are stated at cost.

#### Financial Instruments

Financial instruments carried on the Statement of Financial Position include cash and bank balances, accounts receivable, accounts payable and investments. These instruments are generally carried at their estimated fair value. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

#### Fixed Assets and Depreciation

Fixed assets are recorded at cost less accumulated depreciation. Depreciation is provided on a straight line basis on all fixed assets. The depreciation rates in use are:

Computer Equipment	20-33% per annum
Computer Software	33% per annum
Furniture and Fittings	10-20% per annum
Buildings	6.60% per annum
Leasehold Improvements	15-20% per annum
Motor Vehicles	20% per annum
Office Equipment	15-20% per annum
Plant and Equipment	15-25% per annum

Assets valued at less than \$1,000 are expensed in the year of acquisition.

#### Impairment

The carrying value of each asset is assessed annually. Where the estimated recoverable amount of the asset is less than its carrying amount, the asset is written down. The impairment loss is recognised in the Statement of Financial Performance.



## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2005

### 1. STATEMENT OF ACCOUNTING POLICIES (continued)

#### Income Recognition

Southern Cross Hospitals	- Revenue is recognised when patients are invoiced.
Southern Cross Benefits Limited	- Premium income is amortised over the life of the policy.
First Health Limited	- Revenue is recognised when the services are provided.

#### Investments

Investments are purchased with the intention of being held to maturity. Any differences between purchase price and face value are amortised over the term of the investment. Investments are revalued to net market values at balance date.

#### Medical Supplies

All medical supplies are written off as expenses when purchased.

#### Operating Leases

Payments made under operating leases are recognised in the Statement of Financial Performance on a basis representative of the pattern of benefits expected to be derived from the lease cost.

#### Receivables

Receivables are stated at their estimated realisable value.

#### Statement of Cash Flows

The following are the definitions of the terms used in the Statement of Cash Flows:

Operating activities include all transactions and other events that are not investing or financing activities.

Investing activities are those activities relating to the acquisition, holding and disposal of property, plant and equipment and of investments. Investments can include securities not falling within the definition of cash.

Financing activities are those activities that result in changes in the size and composition of the capital structure. This includes both equity and debt not falling within the definition of cash.

Cash is considered to be cash on hand and current accounts in banks, net of overdrafts.

#### Taxation

No income tax is payable by the Parent or the subsidiaries Southern Cross Benefits Limited and First Health Limited due to their charitable status.

#### Goodwill Arising on Acquisition

Goodwill arising on the acquisition of a subsidiary or associate represents the excess of the purchase over the fair value of the identifiable net assets acquired. Goodwill is amortised to the Statement of Financial Performance on a straight-line basis over the period during which benefits are expected to arise to a maximum of 10 years.

#### Outstanding Claims

A provision is made for outstanding claims based on past history of claims, together with an assessment of the time taken to receive and settle claims not reported, and to settle claims in process at balance date.



## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2005

### 1. STATEMENT OF ACCOUNTING POLICIES (continued)

#### Changes in Accounting Policies

There have been no changes in accounting policies during the year. All policies have been applied on bases consistent with previous years.

### 2. DISCONTINUED OPERATIONS

	Group			
	Discontinued Operations		Continuing Operations	
	2005 \$000	2004 \$000	2005 \$000	2004 \$000
<b>Financial Performance</b>				
Operating Revenue	339	30,587	97,783	79,328
Net Surplus	1,305	19,905	14,848	11,332

The financial performance of the discontinued operations in the 2004 financial year relate to remaining operations in First Health Limited prior to their cessation as a result of PCO contracts that terminated in December 2003.

### 3. OPERATING EXPENSES

	Group		Parent	
	2005 \$000	2004 \$000	2005 \$000	2004 \$000
<b>Operating Expenses include:</b>				
Depreciation - Buildings	2,540	2,387	2,540	2,377
Depreciation - Furniture & Fittings	161	310	161	270
Depreciation - Office Equipment	318	27	289	27
Depreciation - Computer Equipment	145	161	72	88
Depreciation - Computer Software	423	614	380	557
Depreciation - Plant & Equipment	3,108	2,575	3,108	2,575
Depreciation - Motor Vehicles	-	7	-	-
Amortisation - Goodwill	220	-	220	-
Auditors Remuneration	112	79	61	50
Rental of Premises	414	378	218	87
Bad Debts Written Off	46	23	21	8
Change in Provision for Doubtful Debts	39	89	39	79
Directors/Trustees Fees	240	251	160	160
Direct Claims Expense	8,919	3,422	-	-
Loss on Disposal of Fixed Assets	5	719	5	5
Interest Expense	34	132	34	426



## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2005

### 4. INTEREST AND OTHER INCOME

	Group		Parent	
	2005 \$000	2004 \$000	2005 \$000	2004 \$000
Interest Received	3,663	3,138	896	401
Dividends Received	273	368	17,750	10,368
Income from Partnerships & Associates	1,797	1,829	-	-
Other Income	423	293	423	293
	6,156	5,628	19,069	11,062

### 5. CURRENT ASSETS

	Group		Parent	
	2005 \$000	2004 \$000	2005 \$000	2004 \$000
Cash at Bank	3,026	2,280	2,593	948
Accounts Receivable - Related Party	13	-	13	-
Accounts Receivable - Other	15,517	20,982	19,186	9,264
Reinsurance Recoveries	469	604	-	-
Deferred Acquisition Costs	865	1,581	-	-
	19,890	25,447	21,792	10,212

### 6. INVESTMENTS

	Group		Parent	
	2005 \$000	2004 \$000	2005 \$000	2004 \$000
	Valuation		Valuation	
New Zealand Government Stock				
- Face Value	500	500	-	-
- Revaluation	-	(8)	-	-
- Unearned Premium	21	25	-	-
	521	517	-	-
Other Bonds				
- Face Value	2,000	2,500	-	-
- Revaluation	9	(1)	-	-
- Unearned Premium	-	3	-	-
	2,009	2,502	-	-



## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2005

### 6. INVESTMENTS (continued)

	Group		Parent	
	2005 \$000	2004 \$000	2005 \$000	2004 \$000
	Valuation		Valuation	
Bank Deposits				
Call	14,900	19,680	11,900	10,600
Term Deposits	21,000	43,000	-	-
- Revaluation	(5)	(7)	-	-
- Unearned Premium	(218)	(133)	-	-
	<u>35,677</u>	<u>62,540</u>	<u>11,900</u>	<u>10,600</u>
Shares in Subsidiaries	-	-	614	12,500
Hospital Partnerships				
- Carrying Value at Start of Year	3,759	3,521	-	-
- Acquisition during Year	2,800	-	-	-
- Equity Accounted Earnings	1,757	817	-	-
- Distributions Received	(505)	(579)	-	-
Carrying Value at End of Year	<u>7,811</u>	<u>3,759</u>	-	-
Associate Companies				
- Carrying Value at Start of Year	3,840	2,828	800	800
- Equity Accounted Earnings	40	1,012	-	-
- Distributions Received	(3,068)	-	-	-
Carrying Value at End of Year	<u>812</u>	<u>3,840</u>	<u>800</u>	<u>800</u>
	<u>46,830</u>	<u>73,158</u>	<u>13,314</u>	<u>23,900</u>

All fixed interest investments at 30 June 2005 are stated at their net market value as determined by Forsyth Barr Limited.

The Parent entered into a 50% partnership to jointly own and operate the Oxford Clinic Hospital on 19 November 2004.



## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2005

### 7. FIXED ASSETS

	<b>Cost</b>	<b>Group 2005 Accumulated Depreciation</b>	<b>Book Value</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
Land	17,225	-	17,225
Buildings	43,024	5,258	37,766
Work in Progress	14,709	-	14,709
Computer Equipment	2,299	2,042	257
Computer Software	4,477	4,198	279
Furniture & Fittings	2,695	1,939	756
Office Equipment	1,218	727	491
Plant & Equipment	38,152	24,807	13,343
	<hr/> 123,797	<hr/> 38,971	<hr/> 84,826

	<b>Cost</b>	<b>Group 2004 Accumulated Depreciation</b>	<b>Book Value</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
Land	14,615	-	14,615
Buildings	36,573	2,735	33,838
Work in Progress	1,403	-	1,403
Computer Equipment	2,126	1,933	193
Computer Software	4,476	3,778	698
Furniture & Fittings	2,454	1,710	744
Office Equipment	876	648	228
Plant & Equipment	30,137	21,651	8,486
	<hr/> 92,660	<hr/> 32,455	<hr/> 60,205



## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2005

### 7. FIXED ASSETS (continued)

	<b>Cost</b>	<b>Parent 2005 Accumulated Depreciation</b>	<b>Book Value</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
Land	17,225	-	17,225
Buildings	43,024	5,258	37,766
Work in Progress	14,709	-	14,709
Computer Equipment	1,983	1,862	121
Computer Software	1,994	1,791	203
Furniture & Fittings	2,644	1,905	739
Office Equipment	765	530	235
Plant & Equipment	38,152	24,808	13,344
	<hr/> 120,496	<hr/> 36,154	<hr/> 84,342

	<b>Cost</b>	<b>Parent 2004 Accumulated Depreciation</b>	<b>Book Value</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
Land	14,615	-	14,615
Buildings	36,573	2,735	33,838
Work in Progress	1,403	-	1,403
Computer Equipment	1,920	1,790	130
Computer Software	1,993	1,412	581
Furniture & Fittings	2,405	1,683	722
Office Equipment	638	472	166
Plant & Equipment	30,137	21,651	8,486
	<hr/> 89,684	<hr/> 29,743	<hr/> 59,941



## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2005

### 8. GOODWILL

	Group		Parent	
	2005 \$000	2004 \$000	2005 \$000	2004 \$000
	<b>Valuation</b>		<b>Valuation</b>	
Carrying Value at Start of Year	-	-	-	-
Acquisition during Year	6,607	-	6,607	-
Amortisation	(220)	-	(220)	-
Carrying Value at End of Year	6,387	-	6,387	-

Goodwill arose on the acquisition of the business of the Auckland Surgical Centre in February 2005.

### 9. CURRENT LIABILITIES

	Group		Parent	
	2005 \$000	2004 \$000	2005 \$000	2004 \$000
Accounts Payable and Accruals	17,945	31,636	15,216	8,063
Employee Entitlements	1,843	2,023	1,504	1,848
Provision for Advance Revenue	6,472	9,408	-	-
Provision for Outstanding Claims	2,050	2,053	-	-
	28,310	45,120	16,720	9,911

The movement within the provisions is disclosed in the sub notes below.

#### 9.1 EMPLOYEE ENTITLEMENTS

	Group		Parent	
	2005 \$000	2004 \$000	2005 \$000	2004 \$000
Balance at beginning of year	2,023	1,848	1,848	1,577
Additional provision made	29,850	27,934	27,694	24,130
Amount utilised	(30,030)	(27,759)	(28,038)	(23,859)
Balance at end of year	1,843	2,023	1,504	1,848

The provision for employee entitlements relates to employee benefits such as accrued annual and salary and wages outstanding. The provision is affected by a number of estimates, including the expected length of service of employees and the timing of benefits being taken. Most of the liability is expected to be incurred over the next two years.



## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2005

### 10. FINANCIAL INSTRUMENTS

#### Credit Risks

In the normal course of its business the Parent and Group incurred credit risk from its trading activities and from investment in securities. There are no significant concentrations of credit risk. The Parent and Group have a credit policy that is used to manage this exposure to credit risk. As part of this policy, limits on exposures have been set and are monitored on a regular basis.

The maximum exposure to credit risk as at balance date is:

	Group		Parent	
	2005 \$000	2004 \$000	2005 \$000	2004 \$000
Bank balances	3,026	2,280	2,593	948
Bank deposits on call	14,900	19,680	11,900	10,600
Investments in securities	23,500	46,000	-	-
Accounts receivable	15,999	21,586	19,199	9,264

The above maximum exposures are net of any recognised provisions for losses on these financial instruments. The Parent and Group do not require any collateral or security to support financial instruments due to the quality of the organisation dealt with.

#### Fair Values

The carrying values of cash at bank, accounts receivable and accounts payable are equivalent to fair value. The carrying value of term investments at 30 June 2005 are equivalent to fair value, that being net market values as supplied by Forsyth Barr Limited.

#### Interest Rate Risk

Interest rate risk is the risk that the value of the groups assets and liabilities will fluctuate due to changes in market interest rates. The Group is exposed to interest rate risk primarily through its cash balances and investments. As the Group holds investments to maturity there is no risk to the maturity value of the investment due to fluctuations in market interest rates.

#### Foreign Currency Risk

Foreign currency risk is the risk that the value of the Group's assets, liabilities and future earnings will fluctuate due to changes in foreign currency rates. The Group and Parent has no exposure to foreign currency risk as at 30 June 2005.



**NOTES TO THE FINANCIAL STATEMENTS (continued)**

For the year ended 30 June 2005

**10. FINANCIAL INSTRUMENTS (continued)**

Liquidity Risk

The maturity profile of the investments of the Group and Parent are as follows:

	Group		Parent	
	2005 \$000	2004 \$000	2005 \$000	2004 \$000
On Call	14,900	19,680	11,900	10,600
0-6 months	21,774	43,346	-	-
7-12 months	-	-	-	-
1-2 years	1,012	997	-	-
2-3 years	-	1,019	-	-
3-5 years	-	-	-	-
Beyond 5 years	521	517	-	-
	<u>38,207</u>	<u>65,559</u>	<u>11,900</u>	<u>10,600</u>

The net Bank Balance is available on call. All premiums receivable are due within one month of balance date. All liabilities are payable within one year of balance date.

**11. RELATED PARTIES**

Identity of Related Parties

Southern Cross Health Trust ("Trust")	Parent
Trustees of Southern Cross Health Trust	Directors of Southern Cross Medical Care Society
First Health Limited ("First Health")	100% Subsidiary of Trust
GMV Associates Limited ("GMV")	100% Subsidiary of Benefits
PrimeHealth Limited	50% Associate of First Health Limited
Southern Cross Benefits Limited ("Benefits")	100% Subsidiary of Trust
Southern Cross Health Services Limited ("Health Services")	100% Subsidiary of Society (formerly Aetna Health (N.Z.) Limited)
Southern Cross Medical Care Society ("Society")	Related party of Parent
Southern Cross Health Trust Gillies Partnership Limited	100% Subsidiary of Trust
Southern Cross Health Trust Tauranga Partnership Limited	100% Subsidiary of Trust
Southern Cross Hospitals Oxford Partnership Limited	100% Subsidiary of Trust

All these related entities have 30 June balance dates.

The Society and the Trust are separate legal entities operating at "arm's length". They work together in certain areas such as information technology and human resources, under fully costed service level agreements which dictate the expectations of each entity. The Society has purchased healthcare services from all providers, including the Trust, on a contestable and contractual basis.



## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2005

### 11. RELATED PARTIES (continued)

#### Types of Related Party Transactions

- The Society incurs administration costs for the Trust that are reimbursed monthly by the Trust. Health Trust charges Society a fee for purchasing advisory services that is reimbursed monthly by Society: 2.8% total administration costs (2004 4.0%).
- Until August 2003, the Society settled directly with the Trust, insured portion of member's hospitals accounts on behalf of members: 0 % of total operating revenue (2004 3.3%).
- The Society charges Benefits a fee for use of its members database: 0.3% of total expenses (2004 0.3%).

#### Related Party Receivable (Payable) Balances

	<b>2005</b>	<b>2004</b>
	<b>\$000</b>	<b>\$000</b>
Trust with Society	(176)	78
Benefits with Society	(65)	-
Prime Health with First Health	-	3,337
Health Trust with Gillies	(18)	-
Health Trust with Oxford	(1)	-
Health Trust with Norfolk (Tauranga)	13	-

All related party balances are repayable on normal trading terms.

No related party balances have been written off or forgiven during the year.



## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2005

### 12. RECONCILIATION OF NET SURPLUS WITH NET CASH FLOWS FROM OPERATING ACTIVITIES

	Group		Parent	
	2005 \$000	2004 \$000	2005 \$000	2004 \$000
<b>Net Surplus</b>	15,933	31,237	24,973	17,291
<i>Add/(less) non-cash items:</i>				
Depreciation	6,695	6,081	6,550	5,895
Amortisation - Goodwill	220	-	220	-
Unrealised change in value of Investments	-	180	-	-
Equity share of Partnerships profits/(loss)	(1,251)	(1,829)	-	-
Discount/Premium on investment	109	-	-	-
<i>Add/(less) items classified as investing activities:</i>				
Loss/(Surplus) on disposal of Fixed Assets	(45)	719	(16)	5
Investing activities included in Working Capital	-	-	-	-
<i>Add/(less) movements in insurance provisions</i>				
Provision for Deferred Acquisition Cost	716	(1,581)	-	-
Provision for Outstanding Claims	(3)	(27,246)	-	-
Provision for Advance Revenue	(2,935)	5,881	-	-
<i>Add/(less) movements in other working capital items:</i>				
Accounts Receivable	5,587	(6,989)	(7,640)	(4,972)
Accounts Payable	(13,847)	16,481	6,809	4,561
<b>Net Cash Inflow from Operating Activities</b>	<b>11,179</b>	<b>22,934</b>	<b>30,896</b>	<b>22,780</b>

### 13. CREDIT RATING

On 21 February 2005 Standard & Poor's affirmed the Trust's wholly owned company, Southern Cross Benefits Limited Insurer Financial Strength Rating of A+.



## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2005

### 14. SEGMENT REPORTING AND PRINCIPAL ACTIVITIES

Southern Cross Health Trust operates 10 hospitals and 3 hospital partnerships throughout New Zealand. First Health Limited provided administrative services to doctors (now discontinued) in the primary care sector. Southern Cross Benefits Limited provides a range of travel insurance products.

	Total Revenue		Surplus		Total Assets	
	2005 \$000	2004 \$000	2005 \$000	2004 \$000	2005 \$000	2004 \$000
Healthcare Sector	76,394	94,966	10,556	28,013	129,061	132,965
Travel Insurance	21,728	14,949	5,377	3,224	28,872	25,845
<b>Total Consolidated</b>	<b>98,122</b>	<b>109,915</b>	<b>15,933</b>	<b>31,237</b>	<b>157,933</b>	<b>158,810</b>

### 15. LEASE COMMITMENTS

The following amounts have been committed to by the Group or Parent, but not recognised in the financial statements.

	Group		Parent	
	2005 \$000	2004 \$000	2005 \$000	2004 \$000
Within 1 year	152	82	148	48
Between 1 and 2 years	143	34	133	30
Between 2 and 5 years	-	25	-	15
	<b>295</b>	<b>141</b>	<b>281</b>	<b>93</b>

### 16. CAPITAL COMMITMENTS

The Trust has capital commitments as at 30 June 2005 for \$754,000 (2004 \$2.253 million).

### 17. CONTINGENT LIABILITIES

The Trust and the Group had no contingent liabilities as at 30 June 2005 (2004 Nil).



## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2005

### 18. REMUNERATION OF TRUSTEES/DIRECTORS

Trustees/Directors fees paid by the Parent and Subsidiary for the year ended 30 June 2005 were as follows:

Trustee/Director	Group Amount (\$)	Subsidiary Amount (\$)
B N Davidson	20,000	10,000
Dr D H Gray	20,000	10,000
Dr S C Macken	20,000	10,000
Dr J R D Matthews (Chairman)	40,000	20,000
D J May	20,000	10,000
P J Meyer	20,000	10,000
J G Todd	20,000	10,000

The Trust has taken and provides Trustees with, Directors and Officers Liability Insurance cover for liabilities to other parties that may arise from their positions as Trustees.

### 19. TAXATION

No income tax is payable by the Parent or the subsidiaries Southern Cross Benefits Limited and First Health Limited due to their charitable status. Losses of \$213,000 are available to be carried forward as an offset against future earnings within the Health Trust Group.



# audit report



**BDO SPICERS**  
Chartered Accountants & Advisers

## AUDIT REPORT TO THE READERS OF THE FINANCIAL STATEMENTS OF SOUTHERN CROSS HEALTH TRUST AND SUBSIDIARIES

We have audited the financial statements on pages 7 to 24. The financial statements provide information about the past financial performance and financial position of the Trust and Group as at 30 June 2005. This information is stated in accordance with the accounting policies set out in Note 1.

### Trustees' Responsibilities

The trustees are responsible for the preparation of financial statements which give a true and fair view of the financial position of the Trust and Group as at 30 June 2005 and the results of their operations and cash flows for the year ended on that date.

### Auditors' Responsibilities

It is our responsibility to express an independent opinion on the financial statements presented by the Trustees and report our opinion to you.

### Basis of Opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- The significant estimates and judgements made by the Trustees in the preparation of the financial statements; and
- Whether the accounting policies are appropriate to the Trust's and Group's circumstances, consistently applies and adequately disclosed.

We conducted our audit in accordance with New Zealand Auditing Standards. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to obtain reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Other than our capacity as auditors we have no relationship with or interests in the Trust or its Subsidiaries.

### Unqualified Opinion

We have obtained all the information and explanations we have required.

In our opinion:

- Proper accounting records have been kept by the Trust as far as appears from our examination of those records; and
- The financial statements on pages 7 to 24.
  - comply with generally accepted accounting practice in New Zealand
  - give a true and fair view of the financial position of the Trust and Group as at 30 June 2005 and the results of their operations and cash flows for the year ended on that date.

Our audit was completed on 6 September 2005 and our unqualified opinion is expressed as at that date.

**BDO Spicers**  
AUCKLAND



# directory

## Southern Cross Hospitals

## Address

<p><b>NATIONAL OFFICE</b> Tel: (09) 302 8720 or (09) 307 4110 Fax: (09) 302 8730</p> <p>Website: <a href="http://www.southerncrosshospitals.co.nz">www.southerncrosshospitals.co.nz</a></p>	<p>Level 10, Quay Tower 29 Customs Street West, Auckland City P O Box 5341 Wellesley Street Auckland</p>
<p><b>Southern Cross Hospital - North Harbour</b> Tel: (09) 443 2266 Fax: (09) 443 2265</p>	<p>232 Wairau Road Glenfield, Auckland PO Box 101 488</p>
<p><b>Southern Cross Hospital - Brightside</b> Tel: (09) 638 9121 Fax: (09) 638 9127</p>	<p>3 Brightside Road Epsom, Auckland 3 PO Box 26 064, Epsom</p>
<p><b>Auckland Surgical Centre</b> Tel: (09) 524 2730 Fax: (09) 522 3719</p>	<p>9 St Marks Road Remuera PO Box 99969, Newmarket</p>
<p><b>Southern Cross Hospital - Hamilton</b> Tel: (07) 838 1059 Fax: (07) 838 1088</p>	<p>21 Von Tempsky Street PO Box 4173 Hamilton East</p>
<p><b>Southern Cross Hospital - Rotorua</b> Tel: (07) 348 8156 Fax: (07) 347 4052</p>	<p>58 Otonga Road PO Box 2240 Rotorua</p>
<p><b>Southern Cross Hospital - Palmerston North</b> Tel: (06) 356 5180 Fax: (06) 359 3228</p>	<p>21 Carroll Street P O Box 1622 Palmerston North</p>
<p><b>Southern Cross Hospital - New Plymouth</b> Tel: (06) 757 3770 Fax: (06) 758 0295</p>	<p>205 St Aubyn Street New Plymouth</p>
<p><b>Southern Cross Hospital - Wellington</b> Tel: (04) 389 0000 Fax: (04) 389 6315</p> <p><b>Specialist Centre</b> Tel: (04) 389 0001</p>	<p>90 Hanson Street Newtown Wellington</p>
<p><b>Southern Cross Hospital - Christchurch</b> Tel: (03) 379 4433 Fax: (03) 366 3903</p>	<p>131 Bealey Avenue PO Box 21096 Christchurch</p>
<p><b>Southern Cross Hospital - Invercargill</b> Tel: (03) 214 4269 Fax: (03) 214 4970</p>	<p>108 Deveron Street PO Box 1502 Invercargill</p>
<p><b>Southern Cross Travel Insurance</b></p>	
<p><b>Southern Cross Benefits Limited</b> Tel: 0800 800 571 or (09) 379 4970 Fax: (09) 379 7628 Website: <a href="http://www.scti.co.nz">www.scti.co.nz</a></p>	<p>Level 1, Quay Tower 29 Customs Street West, Auckland City Private Bag 99925, Newmarket Auckland</p>

# directory

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**Southern Cross  
Healthcare**

