

CROWN HEALTH
FINANCING AGENCY
lending, property, advisory

annual report 2005



report contents

Chair's report	2
Statement of purpose	4
Highlights of 2004/05	5
Chief Executive's report	6
1.0 Operational review for 2004/05	8
1.1 Lending services	8
1.2 Property services	10
1.3 Financial services	11
2.0 Maintaining and developing organisational capability	12
3.0 Financial performance	13
3.1 Statement of financial performance	14
3.2 Statement of movements in equity	15
3.3 Statement of financial position	16
3.4 Statement of cash flows	17
3.5 Statement of accounting policies	19
3.6 Notes to the financial statements	21
3.7 Statement of responsibility	34
3.8 Auditor's report	35
appendix 1: directory	36
FIGURES	
Figure 1: CHFA total loans approved	8
Figure 2: Cost of finance – 90 day benchmark bank rate compared to CHFA rate	9
Figure 3: Proposed Henderson Community Mental Health Facility	10

chair's report

2

The past year, ending 30 June 2005, has been a significant one for the Crown Health Financing Agency (CHFA). Since its inception in 1993, the Agency has operated under the name 'Residual Health Management Unit'.

Following the passage of legislation through Parliament in May 2005 the CHFA adopted its new name, which more appropriately reflects our ongoing role in the New Zealand health sector and the range of services that we provide to District Health Boards (DHB). In anticipation of this change, a new Composite Terms of Reference was approved by the Minister of Health in December 2004, which formalised the CHFA's current role and work practices.

The role of the CHFA is no longer confined to the management of the residual assets and liabilities of the previous Area Health Boards assigned to us in 1993. We also provide a range of specialist lending, property and financial advisory services to the DHB sector.

Our primary lending function was established in 2001 to enable the refinancing of DHB term debt from the private sector, and the provision of new debt for capital projects. Because we access our own funding from the Treasury's Debt Management Office, we are able to provide the DHBs with debt funding at a lower cost than the private sector banks. The lending function is supported by the implementation of rigorous loan assessment and monitoring policies and procedures. A further aspect of our lending role is the provision of independent advice to Ministers on the financial condition of the DHBs.

In the past financial year, the Board has actively supported the development and implementation of new lending procedures for DHB project loans. The new procedures reflect the fact that the role of the CHFA is changing to that of a project lender now that private sector debt has largely been refinanced. The appointment of a Lender's Quantity Surveyor for each project loan represents best bank practice and is consistent with our terms of reference that we adopt normal lending criteria.

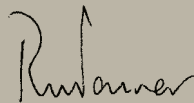
We have also extended our property advisory role during the past year. As well as holding some \$5.5 million of surplus DHB property prior to sale or disposal, we have provided strategic advice and support on property matters to several DHBs, and feedback indicates that this service is well regarded by the sector.

The CHFA is fast approaching maturity in its current form. Most of the DHB private sector debt has been refinanced, and the original residual functions assigned to CHFA in 1993 are largely completed. During 2004/05, the Board carefully considered the future direction for the CHFA and is strongly of the view that there is opportunity for the CHFA to broaden the scope of the functions and services we currently provide to the health sector. The CHFA is currently investigating the possibilities for expanding its role within its capabilities and authorised functions. There may be scope for the CHFA to provide additional financial services (e.g. procurement and management of DHB insurances), a broadening of its property advice function, and assisting DHBs to identify and realise efficiency gains in non-clinical areas.

Consistent with this direction, during 2004/05 the CHFA focused on enhancing existing services and seeking opportunities to diversify activities to include a greater range of advisory services to inform the finance, procurement, and management of key DHB assets. We expect that this diversification will continue in 2005/06. Any broadening of the scope beyond our current terms of reference will require approval from the Minister of Health.

The Board also considers that the CHFA is capable of offering a similar range of specialist services in the future to the wider state sector, without compromising in any way the current level of service provided to existing health sector clients. In its report to Parliament, after completing its 2003/04 review of the CHFA, the Health Select Committee noted that "the generic experience of the Crown Health Financing Agency would be beneficial to the wider state sector". A first such step was taken during the year when the Minister of Health approved of the CHFA being able to provide lending and other services to the New Zealand Blood Service.

In 2005/06, the CHFA will continue to be proactive in maintaining sound working relationships with health sector clients and officials. We will ensure that we assist our health sector clients to meet their goals and objectives. At the same time we will remain open to exploring opportunities to offer our services and products to other Crown-owned organisations.



ROSS TANNER

Chair

Crown Health Financing Agency

IN THE PAST FINANCIAL YEAR, THE BOARD HAS ACTIVELY SUPPORTED THE DEVELOPMENT AND IMPLEMENTATION OF NEW LENDING PROCEDURES FOR DHB PROJECT LOANS. THE NEW PROCEDURES REFLECT THE FACT THAT THE ROLE OF THE CHFA IS CHANGING TO THAT OF A PROJECT LENDER NOW THAT PRIVATE SECTOR DEBT HAS LARGELY BEEN REFINANCED.

statement of purpose

4

At the Crown Health Financing Agency (CHFA) our objective is to assist DHBs to achieve and maintain financial sustainability through the provision of a range of financial services and expert advice. Our efforts are focused on promoting efficient financing, procurement, and management of key DHB assets.

The CHFA has three key functions:

- **Lending:** we are a lending organisation that provides a range of loan facilities to DHBs similar to those offered by the private banking sector to refinance existing private sector debt or to finance new capital works projects.
- **Property:** we assist DHBs with the disposal of surplus property assets and offer strategic property advice intended to maximise the use of existing DHB land holdings, and to plan future DHB property needs.

- **Financial Services:** we manage a range of residual functions on behalf of the Government and offer financial advisory services focused on improving DHB financial performance, procurement capability and sector knowledge of asset performance.

These key functions are delivered through services provided to the DHB sector and the Minister of Health and funded through Vote Health.

OUR EFFORTS ARE FOCUSED
ON PROMOTING EFFICIENT
FINANCING, PROCUREMENT,
AND MANAGEMENT OF KEY
DHB ASSETS.

highlights of 2004/05

- Adopting our new name as the Crown Health Financing Agency in May 2005 to more appropriately reflect the range of services that we provide and our ongoing role in the New Zealand health sector
- Confirming our composite terms of reference which reaffirmed our existing range of services to allow us to continue to provide high-quality lending, property and financial advisory services to the DHB sector
- Introducing a risk assessment framework for lending to construction projects
- Undertaking an independent validation of the baseline operating costs and financial forecasts for both the Southland and West Coast DHBs
- Working jointly with DHBNZ on the 'Value from Insurance' project
- Providing advice to the Ministry of Health's National Capital Committee on a range of individual DHB requests for Crown funding of new capital projects
- Providing advice to DHBs to assist in planning future property requirements
- Working in partnership with Waitemata DHB in the planning, acquisition and construction of community mental health facilities
- Providing an analysis of the potential savings available from a coordinated sector approach to the procurement, disposal and management of the DHB vehicle fleet.

5

ADOPTING OUR NEW NAME
AS THE CROWN HEALTH
FINANCING AGENCY IN MAY
2005 TO MORE APPROPRIATELY
REFLECT THE RANGE OF
SERVICES THAT WE PROVIDE
AND OUR ONGOING ROLE IN
THE NEW ZEALAND HEALTH
SECTOR.

chief executive's report

6

STRATEGIC OVERVIEW

The CHFA is actively engaged with all DHBs. A client relationship management programme has been implemented and relationships with senior management at all DHBs are well established.

These relationships are grounded in a desire to first understand the needs of our clients and that by working with them we can deliver efficient and effective solutions. Through this collaborative approach, we have developed an in-depth knowledge of the health sector and earned a reputation for the provision of timely and accurate, independent financial and strategic advice.

In the past year we have broadened our networks and relationships across the sector. We have built closer links with District Health Boards New Zealand (DHBNZ), the association representing all DHBs. We have worked with them proactively on projects intended to improve financial sustainability for the sector.

We have continued to develop our core lending, property and financial services to ensure that they are responsive to the needs of the sector. During the past year our lending role has been focused more on the provision of funding for capital projects, we have broadened our range of property advisory services, and developed a capability in the

provision of financial advice. These developments were affirmed in a revised Composite Terms of Reference approved by the Minister of Health.

LENDING

At 30 June 2005, formal long term debt funding arrangements exist with each DHB. Only four DHBs had long term private sector debt not yet refinanced by the CHFA.

With most of the private sector bank debt refinanced, the CHFA is increasingly becoming involved in providing new debt facilities for capital projects. In response we have implemented new risk assurance procedures for these project loans.

The introduction of a Lender's Quantity Surveyor is aimed at ensuring that all of the risks relating to construction projects have been covered off and that no surprises will be encountered during the project's implementation. At the outset, the LQS prepares a due diligence report confirming among other things, the project costs, funding adequacies and the risks inherent in the project. During construction, the LQS will provide verification at each loan drawdown that the cost to complete the project and the time to completion remain on target.

The new procedures have been successfully trialled at Wairarapa and Otago DHBs on the new Masterton hospital and Dunstan hospital redevelopment respectively. We are grateful for the support of these DHBs in assisting us develop and implement these disciplines.

In our view these "best practice" procedures could be applied to the whole of the approved project funding package and may have application across the wider state sector.

PROPERTY SERVICES

The CHFA has developed a core competency in the management and disposal of surplus DHB property assets. The function is focussed on the effective and efficient disposal of properties declared surplus within an overall objective of maximising the return to the health sector.

A notable achievement during 2004/05 was the assistance that we provided to Waitemata DHB regarding the establishment of a new community mental health facility. In this instance we were able to identify an appropriate greenfield site, negotiate a fixed price design build contract and oversee the construction and fit-out of the building. We have since identified and negotiated the sale of the building to an investor and negotiated a lease for the DHB.

FINANCIAL SERVICES, INCLUDING "RESIDUAL" FUNCTIONS

When established in 1993, the CHFA assumed a number of statutory functions. At the time there was an expectation that these functions would all be of a relatively short duration. In the event, some of the functions involved have proven to be more complex and costly than originally envisaged; however, the CHFA continues to be responsible for them and their resolution.

During the year we resolved to exit the Residual functions by 30 June 2006. By that time only those that relate to the management of the head lease at Tourism and Travel House and the residual claims portfolio will remain. Our ability to achieve this goal has since been compromised by the recent filing of the psychiatric hospital patients and Greenlane heart library claims.

Our Composite Terms of Reference now provide us with a mechanism to expand our support for DHBs and the wider health sector through the coordination of some common financing activities under the umbrella of "financial" services. During this last year we have part-funded and managed a major project for DHBNZ relating to the procurement of insurance. Should this initiative proceed we are well positioned to participate in its implementation.

Other significant projects undertaken in the year were those relating to an options analysis of the procurement and future ownership and financing structures of motor vehicles, a significant cost to the sector, and a validation of baseline operating costs and financial forecasts for two DHBs.

OUR PERFORMANCE FOR 2004/05

We achieved eight of our nine key performance indicators for 2004/05. The one exception was that relating to the number of active and unresolved residual medical claims, where for reasons outside of our control, we did not meet our target of five. At year end, the actual number of outstanding active claims was eight.

A significant achievement was that we were able to meet our planned operating budget for the year, despite the unbudgeted legal costs incurred in defending the psychiatric hospital patient claims. These additional costs were absorbed within our existing operating budget through lower than planned personnel and project expenditure costs and other cost control measures.

OUR FUTURE

The CHFA has a successful track record in the provision of a broad range of lending, property and advisory services to the DHB sector.

In providing these services, we have accumulated not only additional knowledge of the sector, but also a deeper understanding and appreciation of how the wider government sector operates.

During 2004/05 we have also been successful in broadening the scope of property and financial advisory services we provide. With the support of the officials from the Ministry of Health, Treasury and the Debt Management Office, we have introduced more flexibility into our lending arrangements. This has enabled DHBs to more efficiently manage their interest rate risk and cash flow requirements.

Our knowledge, products and services represent a unique value proposition within the state sector. As an independent Crown entity, there is potential to offer our skills and capabilities to the wider state sector without compromising in any way the current level of service given to health sector clients. In the medium term we propose to explore these possibilities.

Meantime, the CHFA is committed to maintaining sound working relationships with its health sector clients and responding effectively and efficiently to their needs.



GRAEME BELL
Chief Executive

1.0 operational review for 2004/05

1.1 lending services

8

The CHFA is well established as a lending organisation providing a range of loan facilities to DHBs, similar to those offered by the private banking sector.

In considering loan applications, the CHFA applies normally accepted lending criteria recognising that DHBs are required to operate on a sustainable financial basis whilst delivering a high standard of services. The CHFA has implemented standard loan application, credit assessment and financial monitoring systems to support this lending responsibility. The debt mechanism and the CHFA's lending criteria provide incentives for fiscally responsible borrowing by DHBs and prudent provisioning for future asset replacement.

Funding for the CHFA loans is provided by the New Zealand Debt Management Office (NZDMO). As a consequence, the CHFA is able to provide loans to DHBs at a lower overall cost than that which is ordinarily available from the private sector banks. Through lending at lower rates, the CHFA supports value for money and sector efficiency through reducing the total cost of financing health service delivery.

The NZDMO manages the CHFA's loan disbursements, loan repayments and interest collection in accordance with the terms of an Agency Agreement. Recently, and with the support of the NZDMO, we have been able to introduce greater flexibility to our loan facilities and provide DHBs with a wider range of options to manage their cash-flow and interest rate risks.

1.1.1 THE CHFA LOANS PORTFOLIO

The CHFA has progressively refinanced the majority of DHB private sector debt since 2001, achieving significant reductions in the cost of finance to DHBs. As at 30 June 2005, the CHFA has approved loans totalling \$1,154.3m (please refer to figure 1).

Loans actually drawn down amounted to \$810.5m, which is a reduction of \$49.3m on outstanding loans as at 30 June 2004 of \$859.8m.

The increase in loan volumes has supported a graduated reduction in our loan administration charge from 0.35% to 0.20%. This is anticipated to fall further to 0.15% in 2005/06. At 30 June 2005, the average interest rate being paid by DHBs on their loans from the CHFA was 6.35% (please refer to figure 2).

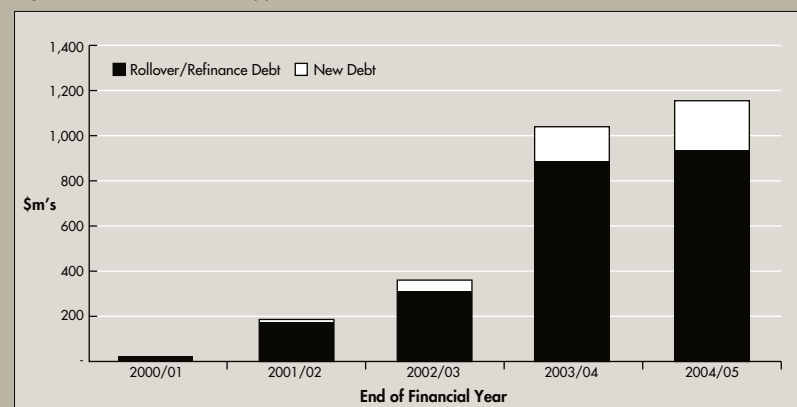
Assuming that all debt appropriated is drawn, the CHFA loans portfolio is expected to increase to \$1,539m by 30 June 2008. At that date the only remaining private sector debt to be refinanced will be Auckland DHB's bonds of \$120m.

1.1.2 SIGNIFICANT LENDING PROJECTS IN 2004/05

Risk assessment framework for construction projects

During 2004/05 we introduced the Lender's Quantity Surveyor (LQS) process. The LQS process provides an independent assessment of the risks of construction projects, and ensures that access to loans is based on completion of construction targets.

Figure 1: CHFA total loans approved



Review of escalation in DHB construction costs

An over-heated construction market has resulted in delays to capital projects and caused significant cost escalations. At the request of the Ministry of Health's National Capital Committee (NCC), the CHFA undertook an independent assessment of the cost escalation estimates for current hospital redevelopments to provide confidence in the level of approved project funding and to inform estimates of additional capital requirements.

Independent validation of DHB operating budgets

As part of our role in contributing to the financial sustainability of the DHB sector, we provided an independent review and validation of the baseline operating costs and financial forecasts for the Southland and West Coast DHBs. These projects assisted us in gaining a better understanding

of sector sustainability issues, and those unique operational and financial challenges faced by specific DHBs. The findings of the West Coast report supported the Ministry of Health's recent decision to provide West Coast with additional revenue to maintain existing services.

Ownership and Financing Advice

The CHFA provides regular advice to DHBs on asset ownership and financing structures. During 2004/05, we provided analysis and advice to Waikato DHB on the ownership and financing options for the construction of a car park on its Hamilton hospital site. There are other opportunities to review the ownership and financing structures for a wider range of high cost equipment and asset classes to achieve sector savings, though these need to be managed within overall capital funding constraints.

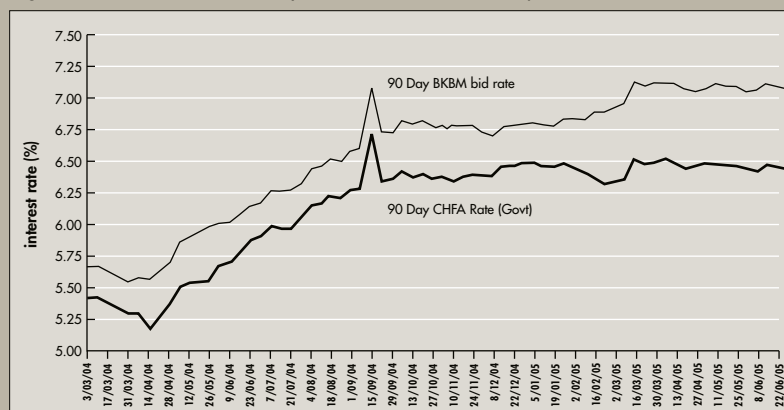
Approval of new project loans

During 2004/05 the CHFA approved new project loans for hospital redevelopment projects at Wairarapa (Masterton), Bay of Plenty (Tauranga), Northland (Kaitiaki) and Capital and Coast (Wellington) DHBs.

Advice to the Ministry of Health's National Capital Committee

The CHFA advised the NCC and the Ministry of Health on a range of capital investment proposals and contributed to the DHB strategic asset management planning guidelines. Investment proposals included Burwood and Wairau hospital redevelopments, Waitemata's mental health project and Lakes' MRI proposal.

Figure 2: Cost of finance – 90 day benchmark bank rate compared to CHFA rate



Notes:

This graph compares the base rate at which the CHFA and banks lend funds, both exclusive of margins.

90 Day Bank Benchmark Rate
- source: 90 day BKM bid rate

90 Day CHFA Rate
- source: 90 day Treasury bill rate

1.2 property services

10

The CHFA provides strategic property disposal advice to DHBs and offers a property disposal service. The disposal service may include:

- Purchasing surplus DHB property and selling on the open market
- Managing the property disposal process disposal on behalf of DHBs
- Providing strategic advice covering property disposal.

The disposal service aims to maximise revenue from property sales for reinvestment in the DHB asset base.

The role of the property advisory service is to assist DHBs to maximise the use and return on current land holdings and facilities, consistent with service needs. The CHFA offers property advice covering acquisition, development, leasing, site planning, construction, and rationalising the use of property holdings.

The property function is required to achieve a break-even financial result. Funding is provided by way of risk sharing with clients in the disposal process, income earned from the provision of advisory and agency services and a revolving line of credit provided by Westpac Banking Corporation.

1.2.1 SIGNIFICANT PROPERTY PROJECTS

Property reconfiguration

The New Zealand Blood Service has engaged the CHFA to assist in the renegotiation of the lease of their Wellington premises, and to review the accommodation requirements in Nelson, Christchurch and the North Shore operation. The CHFA also prepared a due diligence report for Bay of Plenty DHB on a possible property acquisition.

Property disposal

During 2004/05 the CHFA worked with Auckland, Whanganui, and Otago DHBs on the disposal of properties declared surplus.

Property purchases

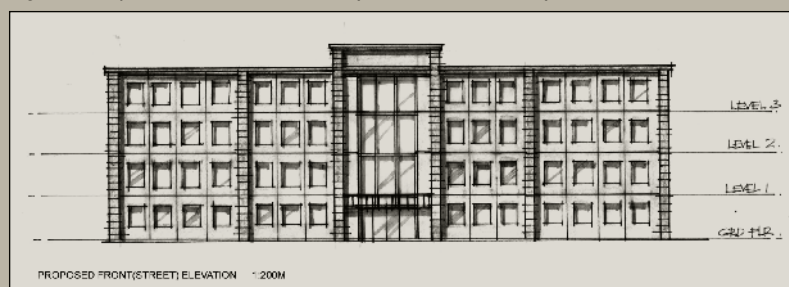
Waitemata DHB commissioned the CHFA to identify and negotiate the acquisition of land and a fixed priced contract for the development of a suitable community mental health facility at Henderson (please refer to figure 3). The CHFA continues to monitor the construction of the facility against completion targets.

In addition, the CHFA completed the purchase of a medical centre at Waiheke Island from Auckland DHB.

Property advice

During 2004/05 the CHFA investigated and advised Waitemata DHB on funding and construction options for a proposed car park centre at North Shore Hospital and Counties Manukau DHB on options for possible long-term lease arrangements for Crown-owned land to private health providers. These matters remain under consideration.

Figure 3: Proposed Henderson Community Mental Health Facility



1.3 financial services

Originally the "Residual" function, the scope of our financial services offering has diversified to include a greater range of services aimed at promoting efficient DHB activity in the areas of financing, procurement, and asset management.

The CHFA has continued to manage a range of residual functions that were assigned to us in 1993 (the *Residual Portfolio*).

1.3.1 THE RESIDUAL PORTFOLIO

Area Health Board debt

The debt of the former Area Health Boards which was transferred to the CHFA in 1993 (some \$700m) has been progressively repaid. As at 30 June 2005, \$20.010m remains outstanding, with the final payment being due in June 2006.

Residual contingent liabilities

The CHFA continues to receive claims relating to pre-1993 medical misadventure claims. As at 30 June 2005, the number of active claims yet to be resolved has reduced from 12 to 8.

During 2004/05 the CHFA worked with Crown Law to prepare a response to the Greenlane heart library claims, and claims of alleged mistreatment and abuses suffered by patients while in psychiatric hospitals.

Residual Assets, including property leases

The Wellington lease of Travel and Tourism House remains under our management. As at 30 June 2005 80% of the lease space has been sublet, and we hold verbal or written agreement to subleasing 60% of the total lease space through to the expiry of our lease in 2012. Subsequent to 30 June 2005 the remaining 20% of the space has been sublet.

Patient Trust Funds

The rightful owners of approximately half of the original Mental Health Patient Trust Funds transferred to the CHFA in 1993 have been identified and the funds paid to them. Residual funds currently total approximately \$4.1m. During the year the Public Trust has finalised the Deed for a trust to be established to manage the residual funds. At balance date the Deed was with the Attorney General for approval. Upon receipt of approval and following execution of all documentation, the CHFA will transfer the balance of the funds to the trust.

The CHFA is also the constructive trustee of approximately \$0.46m of unclaimed patient funds accumulated by Southland DHB prior to 1993. The CHFA continues to manage the residual funds pending determination of disposal by Southland DHB and the Public Trustee.

1.3.2 SIGNIFICANT FINANCIAL ADVISORY PROJECTS

Joint purchasing - DHBNZ 'Value from Insurance' project

During 2004/05, we worked with DHBNZ on the national 'Value from Insurance' project aimed at adopting an 'enterprise risk management' approach for the sector to achieve financial and non financial benefits. The first phase of the project is to ascertain the level of sector risk, with a view to achieving cost saving measures through better insurance terms, conditions, or methods of risk transfer.

Joint purchasing and vehicle fleet management strategies

During 2004/05, we worked in partnership with the DHB sector to review potential sector savings from vehicle fleet management including joint purchasing, disposal, ownership and financing options.

The potential exists to pursue a greater range of joint purchasing initiatives, working with both DHBs and the wider government sector.

2.0 maintaining and developing organisational capability

12

Our team comprises senior people with private and public sector backgrounds, with a diverse range of skills in general management, banking and finance, claims, property management, and health service planning.

Except for IT and accounting services which are contracted out, the unit is self-contained. In the past 12 months, policies and procedures, business processes, and information systems have all been subject to continued review and improvement.

During 2004/05 the CHFA focused on capability building by way of:

- Enhancing the performance monitoring and financial analysis role to develop a greater understanding of the underlying factors contributing to DHB financial performance
- Expanding the advisory capability and expertise in the provision of independent advice
- Taking a lead role in identifying, facilitating and participating in policy initiatives to contribute to the financial sustainability of the DHB sector.

Priorities for next year – 2005/06

In 2005/06 we will continue to contribute to the financial sustainability of the sector through the provision of our specialist services and expert advice. We will focus on expanding our capability through the on-going development and retention of skilled staff and maintain an operating environment that encourages innovation and continuous improvement.

Building on the encouraging results and wide range of activities undertaken in 2004/05, the key priorities for next year will be to:

- Expand our networks and continue to strengthen relationships with the DHB sector

- Provide high quality advice and services to DHBs that meet their expectations and contributes constructively to their decision making processes and/or their business operations
- Participate constructively and creatively to the debate on financial sustainability for DHBs
- Lead, facilitate or participate in national projects that contribute to the financial sustainability of the DHB sector
- Promote our capability and seek support to expand the range of services offered to the DHB sector, and the wider state sector in the longer term.

3.0 financial performance

for the year ended 30 June 2005

13

OUR OBJECTIVE IS TO ASSIST
DHBS TO ACHIEVE AND
MAINTAIN FINANCIAL
SUSTAINABILITY THROUGH
THE PROVISION OF A RANGE
OF FINANCIAL SERVICES
AND EXPERT ADVICE.

3.1 statement of financial performance

FOR THE YEAR ENDED 30 JUNE 2005

14

	Note	2005 Actual \$000s	2005 Budget \$000s	2004 Actual \$000s
Income				
Crown Funding		1,600	1,600	1,156
Interest revenue				
- District Health Boards		50,778	-	23,194
- Other		458	319	506
Gain on sale of properties		-	462	295
Other income		464	384	568
Total Operating Revenue		53,300	2,765	25,719
Expenditure				
Interest expense				
- Area Health Board debt		2,380	2,385	2,436
- NZ Debt Management Office advances		50,778	-	23,194
Residual asset management		593	529	535
Cash flow swap amortisation	9	3,042	3,042	3,042
Surplus property disposal	2	277	255	259
Other expenses	3	1,795	1,675	1,323
Total Operating Expenses		58,865	7,886	30,789
Net operating (deficit)		(5,565)	(5,121)	(5,070)

For information on major variances against budget refer to Note 1 (page 21).

3.2 statement of movements in equity

FOR THE YEAR ENDED 30 JUNE 2005

	Note	2005 Actual \$000s	2005 Budget \$000s	2004 Actual \$000s
Net operating (deficit)		(5,565)	(5,121)	(5,070)
Total recognised revenues and expenses		(5,565)	(5,121)	(5,070)
Funds transferred to Ministry of Health	4	(442)	(385)	(442)
Other Movements		-	123	-
Equity at start of period		18,409	18,830	23,921
Equity at end of period		12,402	13,447	18,409

3.3 statement of financial position

AS AT 30 JUNE 2005

16

	Note	2005 Actual \$000s	2005 Budget \$000s	2004 Actual \$000s
Crown equity		12,402	13,447	18,409
Current assets				
Cash and bank	5	233,082	8,476	109,119
Debtors	6	5,366	4	4,677
Advances to District Health Boards	7	333,135	-	249,169
Properties intended for sale	8	5,498	-	5,066
Swap mismatch account	9	25,423	25,423	5,688
		602,504	33,903	373,719
Non-current assets				
Swap mismatch account	9	-	-	25,423
Advances to District Health Boards	7	477,382	1,099,320	610,625
Fixed assets	10	164	160	158
		477,546	1,099,480	636,206
Total assets		1,080,050	1,133,383	1,009,925
Current liabilities				
Accounts payable and accruals	11	6,450	606	6,175
Area Health Board Debt	12	20,010	20,010	254
Advances from Westpac				
- Property transactions	15	1,071	-	1,006
Advances from NZ Debt Management Office	13	562,735	-	353,446
		590,266	20,616	360,881
Non-current liabilities				
Area Health Board Debt	12	-	-	20,010
Advances from NZ Debt Management Office	13	477,382	1,099,320	610,625
		477,382	1,099,320	630,635
Total liabilities		1,067,648	1,119,936	991,516
Net assets		12,402	13,447	18,409

For information on major variances against budget refer to Note 1 (page 21).

3.4 statement of cash flows

FOR THE YEAR ENDED 30 JUNE 2005

17

	Note	2005 Actual \$000s	2005 Budget \$000s	2004 Actual \$000s
Cash flows from operating activities				
Cash was provided from:				
Operating income		1,600	1,600	1,156
Interest received				
- District Health Board loan advances		49,868	-	20,420
- Area Health Board		2,647	254	2,444
- Other		457	195	578
Properties intended for sale		-	-	295
Other income		669	405	625
Net GST		(26)	(18)	(17)
		55,215	2,436	25,501
Cash was applied to:				
Payments to suppliers and employees		(2,668)	(2,245)	(1,603)
Funds transferred to Ministry of Health		(486)	(384)	(401)
Interest paid				
- Area Health Board		(2,393)	-	(2,444)
- to NZ Debt Management Office		(49,868)	-	(20,483)
		(55,415)	(2,629)	(24,931)
Net cash flow from operating activities	16	(200)	(193)	570
Cash flows from investing activities				
Cash was provided from:				
Sale of surplus District Health Board properties		-	19,026	2,131
		-	19,026	2,131
Cash was applied to:				
Properties intended for sale		(920)	(10,478)	(6,574)
Fixed assets		(52)	(45)	(36)
		(972)	(10,523)	(6,610)
Net cash flow from investing activities		(972)	8,503	(4,479)

For information on major variances against budget refer to Note 1 (page 21).

3.4 statement of cash flows

FOR THE YEAR ENDED 30 JUNE 2005

18

Note	2005 Actual \$000s	2005 Budget \$000s	2004 Actual \$000s
Cash flows from financing activities			
Cash was provided from:			
Advance from NZ Debt Management Office	76,046	-	670,196
District Health Board principal repayment	768,838	-	695,878
Advance from Westpac - Property Transactions	65	10,066	1,006
	844,949	10,066	1,367,080
Cash was applied to:			
Advances to District Health Boards	(719,560)	-	(1,312,844)
Repayment to Westpac - Property Transactions	-	(14,849)	-
Area Health Board Debt	(254)	(254)	(218)
	(719,814)	(15,103)	(1,313,062)
Net cash flow from financing activities	125,135	(5,037)	54,018
Net increase (decrease) in cash held	123,963	3,273	50,109
Opening cash balances	109,119	2,673	59,010
Closing cash balances	233,082	5,946	109,119
Contingent Liability Settlement Fund		2,530	
		8,476	
Comprising:			
Cash at bank	229,977	758	104,832
Short term deposits	3,105	7,718	4,287
	233,082	8,476	109,119

For information on major variances against budget refer to Note 1 (page 21).

3.5 statement of accounting policies

STATUTORY BASE

The Crown Health Financing Agency (CHFA), formerly the Residual Health Management Unit (RHMU), was established on 1 July 1993 by the Health Sector (Transfers) Act 1993, continues under section 57 of the NZ Public Health and Disability Act 2000 and operates as a Crown Entity for the purposes of the Crown Entities Act 2004.

With effect from 1 July 1993, CHFA assumed responsibility for all Area Health Board assets and liabilities that did not vest in District Health Boards (formerly Crown Health Enterprises) or other transferees. In addition CHFA manages lending to District Health Boards (DHBs) and provides assistance to the sector to dispose of surplus property. All activities are undertaken in accordance with the CHFA's Composite Terms of Reference approved by the Responsible Ministers.

These financial statements have been prepared in accordance with section 41 of the Public Finance Act 1989 and section 67 of the New Zealand Health and Disability Act 2000.

MEASUREMENT SYSTEM

Generally accepted accounting practice recognised as appropriate for the measurement and reporting of results and financial position on an historical cost basis has been followed.

BUDGET FIGURES

The budget figures are those approved by the Board at the beginning of the financial year.

The budget figures have been prepared in accordance with generally accepted accounting practice and are consistent with the accounting policies adopted by the Board for the preparation of the financial statements.

GOODS AND SERVICES TAX

The financial statements have been prepared exclusive of goods and services tax (GST), with the exception of accounts payable and accounts receivable, which are stated GST inclusive.

REVENUE RECOGNITION

Fees, interest and other revenue is recognised when earned and is reported in the financial period to which it relates.

COMPARATIVE FIGURES

To ensure consistency with the current period, comparative figures have been reclassified where appropriate.

TAXATION

CHFA is a public authority in terms of the Income Tax Act 1994 and consequently is exempt from income tax.

INVESTMENTS

Investments are stated at the lower of cost and net realisable value.

FIXED ASSETS

All items of property, plant and equipment are initially recorded at cost and depreciated. Initial cost includes the purchase consideration and those costs directly attributable in bringing the asset to the location and condition necessary for its intended use.

DEPRECIATION

Depreciation is calculated on a straight line basis to allocate the cost of an asset, less any residual value, over its useful life.

The estimated useful lives of property, plant and equipment are as follows:

Leasehold improvements

5.4 – 12.8 years (7.8% – 18.6%)

Computer equipment

2.8 – 3.5 years (28.8% – 36.0%)

Office equipment

3.5 – 5.4 years (18.6% – 28.8%)

Furniture and fittings

2.8 – 12.8 years (7.8% – 36.0%)

ACCOUNTS RECEIVABLE

Accounts receivable are stated at expected realisable value after providing for doubtful and uncollectable debts.

STATEMENT OF CASH FLOWS

Cash is defined as cash balances on hand, held in bank accounts, demand deposits and other highly liquid investments in which CHFA invests as part of its day-to-day cash management.

Cash flows are derived from operating, investing and financing activities.

Operating activities includes cash received from all income sources of CHFA and records the cash payments made for the supply of goods and services.

Investing activities are those activities relating to the acquisition and disposal of non-current assets and money market investments.

Financing activities comprise the change in equity and debt capital structure of CHFA.

FINANCIAL INSTRUMENTS

CHFA is party to financial instruments as part of its normal operations. These financial instruments include bank accounts, short-term deposits, debtors, creditors and loans. All financial instruments are recognised in the statement of financial position and all revenues and expenses in relation to financial instruments are recognised in the statement of financial performance.

Except for loans, which are recorded at cost, and those items covered by a separate accounting policy, all financial instruments are shown at their estimated fair value.

As a guardian of public money, CHFA must be risk averse and seek to minimise exposure arising from its treasury activity. CHFA is not authorised by its treasury policy to enter into any transaction that is speculative in nature.

CHFA establishes counterparty limits for each counterparty based on external credit ratings.

CHFA has entered into financial instruments which give rise to off-balance sheet exposures in order to reduce risks arising from carrying out its ongoing business. These instruments include a cash flow swap with the NZ Debt Management Office to facilitate the management of the repayment of Area Health Board debt and to hedge the associated interest rate exposure.

Any gains or losses arising from exposure to these instruments are offset against the related gains or losses on the assets or liabilities being hedged.

OPERATING LEASES

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased items are classified as operating leases. Operating lease expenses are recognised on a systematic basis over the period of the lease.

PROPERTIES INTENDED FOR SALE

Property intended for sale is stated at acquired cost plus all recognised revenue and expenditure associated with that property. Revenue consists of rental income earned during the holding period. Expenditure includes all holding costs including maintenance, interest and rates.

CHANGES IN ACCOUNTING POLICIES

There have been no changes in accounting policies. All policies have been applied on bases consistent with those used last year.

3.6 notes to the financial statements

1. MAJOR BUDGET VARIATIONS

Statement of financial performance

Interest revenue and expenditure:

DHB interest income and the corresponding NZ Debt Management Office (NZDMO) interest expense were not budgeted for as the amounts offset each other.

Gain on sales of properties:

Anticipated sales of properties have not occurred within budgeted timeframes as a result of unforeseen delays in obtaining the required Crown Land clearance.

Statement of financial position

Cash and Bank: The NZDMO CHFA Facility of \$229.6m was not budgeted for. The funds represent temporary repayment from DHBs. The timing and amounts of the repayments is dependant on DHBs surplus cash flow.

Accounts payable and debtors:

These accounts include interest payable and receivable in respect of the DHB loans which were not budgeted for.

Advances to DHBs and Advances from NZDMO - current and non-current portion: The facilities were not fully drawn down at balance date. The current portion was not budgeted for separately as the term of the loans were not known at the time of setting the budget.

Statement of cash flows

Interest received from DHBs and Interest paid to NZDMO:

DHB interest received and the corresponding NZDMO Interest paid were not budgeted for as the amounts offset each other.

AHB interest received and paid:

These transactions were budgeted on a net basis but have been disclosed in the accounts on a gross basis. The net variance to budget is zero.

Properties intended for sale and sale of surplus DHB properties:

Anticipated sales of properties owned by CHFA have not occurred within budgeted timeframes. The purchase and sale of DHB surplus property did not occur as anticipated due to DHB's yet to declare property surplus or opting to use alternative disposal options.

Advances from NZ Debt

Management Office: The movement in the NZDMO advance of \$76.0m was not budgeted for as the repayment of debt is dependant on DHB's cash position.

Advance from Westpac and repayment to Westpac of property loans: As discussed above, anticipated property sales were not achieved.

2. SURPLUS PROPERTY DISPOSAL EXPENSES

These expenses were funded by net sale proceeds and an operating loan.

3.6 notes to the financial statements (continued)

22

3. OTHER EXPENSES

	2005 Actual \$000s	2004 Actual \$000s
Other expenses include:		
Audit fees	21	18
Depreciation		
Leasehold improvements	8	8
Furniture & fittings	7	4
Office equipment	4	3
Computer equipment	25	29
Total depreciation for the year	44	44
Board fees	75	93
Board expenses	29	15
Rental and leasing costs	459	430
<i>(Note: Rental and leasing costs are included under residual asset management)</i>		
Board members earned the following fees during the 2005 year:		
Ross Tanner (Chair)	30	32
Dame Ann Hercus	15	24
Ian Sliper	15	24
Eddie Moke	15	13

4. FUNDS TRANSFERRED TO THE MINISTRY OF HEALTH

CHFA receives rental income on behalf of the Crown in respect of its lease obligations of five floors of Tourism and Travel House. These funds are returned to the Ministry on a quarterly basis. CHFA receives an appropriation for the full cost of leasing the five floors.

3.6 notes to the financial statements (continued)

5. CASH AND BANK

23

	2005 Actual \$000s	2004 Actual \$000s
Westpac cheque accounts	250	556
Westpac debt account	72	70
	322	626
<i>On call deposits:</i>		
Westpac on call	55	311
<i>Short term deposits:</i>		
ASB deposit	3,105	3,905
NZ Debt Management Office - CHFA facility	229,600	104,277
Total cash and bank	233,082	109,119

Interest rates receivable on deposits range from 6.75% to 7.05%.

The \$229.6m (2004: \$104.3m) facility relates to appropriation drawdown to fund cash advance facilities to DHBs and then temporarily repaid by them. These facilities were able to be redrawn by the DHBs and the amounts in this account are specifically allocated to individual DHBs. No interest is earned by CHFA on the balance in this account.

6. DEBTORS

	2005 Actual \$000s	2004 Actual \$000s
Interest receivable	5,247	4,336
Other	119	341
	5,366	4,677

3.6 notes to the financial statements (continued)

24

7. ADVANCES TO DISTRICT HEALTH BOARDS

The following loans made to District Health Boards have interest rates that vary between 5.4% and 6.8% per annum.

	2005 Actual \$000s	2004 Actual \$000s
Current		
CHFA advances	333,135	249,169
	333,135	249,169
Non current		
CHFA advances	477,382	610,625
Total advances	810,517	859,794
Repayable as follows:		
Less than one year	333,135	249,169
One to two years	147,513	200,500
Two to five years	329,869	323,125
Beyond five years	-	87,000
	810,517	859,794

8. PROPERTIES INTENDED FOR SALE

	2005 Actual \$000s	2004 Actual \$000s
Cost	4,957	4,757
Costs attributed to properties	819	480
Income received from properties	(278)	(171)
Total properties intended for sale	5,498	5,066

3.6 notes to the financial statements (continued)

9. CASH FLOW SWAP

25

On 2 August 1993 the CHFA entered into a cash flow swap agreement with the NZ Debt Management Office (NZDMO) to hedge all future cash flows relating to the Area Health Board debt assumed and loan advances made to Crown Health Enterprises.

CHFA's obligations under the Cash flow Swap Agreement were repaid on 20 and 29 June 2001.

The swap mismatch account represents the difference between the cash inflows and outflows under the cash flow swap agreement up to 30 June 2005.

Swap Mismatch Account

At 30 June 2005 the balance in this account is \$25.42m. The balance of the mismatch account is represented by:

Future cash flows that the NZDMO are due to pay the CHFA until June 2006. As at 30 June 2005 these total \$22.38m.

The difference between the actual cash flows and the present value of the cash flows. This amount is amortised on a straight-line basis over the life of the swap. The balance at 30 June 2005 is \$3.04m and an expense of \$3.04m has been recognised in the Statement of Financial Performance for the year ended 30 June 2005 (2004: expense \$3.04m).

The balance in the swap mismatch account will be extinguished once all swap payments are received from the NZDMO in June 2006.

10. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated Depreciation	Depreciation	Net Book Value
	\$000	\$000	\$000	\$000
2005				
Leasehold improvements	85	23	8	62
Furniture and fittings	79	15	7	64
Office equipment	15	12	4	3
Computer equipment	112	77	25	35
Total	291	127	44	164
2004				
Leasehold improvements	85	16	8	69
Furniture and fittings	53	8	4	45
Office equipment	14	7	3	7
Computer equipment	91	54	29	37
Total	243	85	44	158

3.6 notes to the financial statements (continued)

26

11. ACCOUNTS PAYABLE AND ACCRUALS

	2005 Actual \$000s	2004 Actual \$000s
Creditors	340	586
Accruals		
- NZ Debt Management Office Interest	5,243	4,353
- Leave Entitlements	34	32
- Other	833	1,204
	6,450	6,175

12. AREA HEALTH BOARD DEBT

Area Health Board debt is term debt that was raised by the Area Health Boards prior to their disestablishment on 30 June 1993.

	2005 Actual \$000s	2004 Actual \$000s
Principal Outstanding	20,010	20,264
Less: Current Portion	20,010	254
Term portion	-	20,010

These liabilities were assumed by CHFA on 1 July 1993. Maturity dates for this debt range up to 1 June 2006. Coupon interest rates range from 11.85% to 15.00% per annum.

Repayable as follows:

less than one year	20,010	254
One to two years	-	20,010
	20,010	20,264

3.6 notes to the financial statements (continued)

13. ADVANCES FROM NZ DEBT MANAGEMENT OFFICE

27

The following advances from NZ Debt Management office have interest rates that vary between 5.4% and 6.8% per annum.

	2005 Actual \$000s	2004 Actual \$000s
Current		
Advances to CHFA Existing Debt	333,135	249,169
NZ Debt Management Office - CHFA facility	229,600	104,277
	562,735	353,446
Non current		
Advances to CHFA Existing Debt	477,382	610,625
Total advances	1,040,117	964,071
Repayable as follows:		
One to two years	147,513	200,500
Two to five years	329,869	323,125
Beyond five years	-	87,000
	477,382	610,625

The \$229.6m (2004: \$104.3m) facility relates to appropriation drawn down to fund cash advance facilities to DHBs and them temporarily repaid by them. These facilities were able to be redrawn by the DHBs and the amounts in this account are specifically allocated to individual DHBs. No interest is payable by CHFA on the balance in this account.

3.6 notes to the **financial statements** (continued)

28

14. LOAN FACILITIES

	2005 Actual \$000s	2004 Actual \$000s
Repaid Loan Facility	229,600	104,277
Undrawn Loan Facility	34,410	42,700
	264,010	146,977

At 30 June 2005, DHB's have undrawn loan facilities of \$264.01m with CHFA (2004: 146.98m).

CHFA has the equivalent undrawn loan facilities with NZ Debt Management Office (NZDMO).

The budgeted NZDMO & DHB loans have not been apportioned between current and non-current assets and liabilities. This information was not available during the budget preparation.

15. ADVANCES FROM WESTPAC – PROPERTY TRANSACTIONS

The facility with Westpac is in place to finance the purchase of DHB surplus property. The facility is capped at \$15.0m, is unsecured and has a maturity date of 30 June 2006, or such later date as the lender may from time to time agree.

As at balance date, \$1.07m (2004: \$1.0m) was drawn down.

3.6 notes to the financial statements (continued)

16. RECONCILIATION OF OPERATING CASH FLOWS WITH NET OPERATING SURPLUS

29

	2005 Actual \$000s	2004 Actual \$000s
Net Operating Deficit	(5,565)	(5,070)
Add (less):		
<i>Non cash items</i>		
Amortisation of cash flow swap	3,042	3,042
Depreciation	44	44
Total non-cash items	3,086	3,086
Add (less):		
<i>Movements in working capital items</i>		
Decrease (increase) in debtors	(750)	(2,871)
Increase (decrease) in accounts payable	382	2,771
Decrease (increase) in swap mismatch account	2,647	2,654
	2,279	2,554
Net cash flow from operating activities	(200)	570

3.6 notes to the financial statements (continued)

30

17. COMMITMENTS AND CONTINGENCIES

	2005 Actual \$000s	2004 Actual \$000s
Commitments		
Non Cancellable Lease Operating Commitments	3,328	3,600
Term Classification of Commitments:		
Less than one year	459	450
One to two years	459	450
Two to five years	1,377	1,350
Over five years	1,033	1,350
	3,328	3,600
Other Non Cancellable Contracts	2	7
Term Classification of Commitments:		
Less than one year	2	5
One to two years	-	2
Two to five years	-	-
	2	7

Contingencies

CHFA has been notified of contingent liabilities for potential legal claims plus associated legal fees in respect of the actions of the former Area Health Boards. CHFA is defending those claims that have resulted in litigation and will defend any of the others that result in litigation. It does not accept liability for the claims and no provision has been made in the financial statements.

Quantifiable contingent liabilities are as follows:

	2005 Actual \$000s	2004 Actual \$000s
Medical	9,786	3,207
Total contingent liabilities	9,786	3,207

3.6 notes to the financial statements (continued)

Accommodation lease

CHFA has a lease obligation in respect of 2,691 square metres of office accommodation in Tourism and Travel House, Wellington. The lease expires in 2012. This space is sublet to tenants including CHFA at a rate greater than the current cost of CHFA's lease. The cost of the lease is apportioned and all sub-lease rental recovered is returned to the Ministry of Health.

CHFA rental expense for the year 30 June 2005 was \$34,429 (2004: \$36,829).

18 EMPLOYEES' REMUNERATION

Total remunerations and benefits \$000	Number of employees	
	2005	2004
180-190	1	-
170-180	-	1
160-170	-	-
150-160	-	-
140-150	-	-
130-140	-	-
120-130	1	-
110-120	-	1
100-110	1	1

The Chief Executive's remuneration and benefits is in the \$180,000 - \$190,000 band (2004: \$170,000 - \$180,000 band).

19. FINANCIAL INSTRUMENTS

CHFA has a policy for providing risk management for interest rates and the concentration of credit. All expenditure is in New Zealand dollars and CHFA is not exposed to any foreign currency risk.

Interest Rate Risk

Interest rate risk on the Area Health Board term borrowing is hedged by a cash flow swap with the NZ Debt Management Office. Advances to District Health Boards have rates that match the associated NZ Debt Management Office advances to CHFA.

Credit Risk

Credit risk is the risk that a third party will default on its obligations to CHFA, causing CHFA to incur a loss. In the normal course of its business, CHFA incurs credit risk from trade debtors including DHBs, and transactions with financial institutions and the NZ Debt Management Office.

3.6 notes to the **financial statements** (continued)

32 Financial instruments that potentially subject CHFA to credit risk consist principally of cash, short-term investments, advances to District Health Boards and various transactions with the NZ Debt Management Office and the Crown.

CHFA places its cash and short-term investments with high credit quality financial institutions and limits the amount of exposure to any one financial institution.

Credit risk with respect to advances to DHBs are reviewed monthly in compliance with borrowing arrangements.

The NZ Debt Management Office as part of The Treasury, has a high quality credit rating.

All CHFA's financial instruments as at 30 June 2005 are recorded at their cost.

20. RELATED PARTY INFORMATION

CHFA is a wholly owned entity of the Crown. The Government significantly influences CHFA's role as well as being its major source of revenue.

The Board has entered into a number of transactions with government departments and crown agencies on an arms length basis. Where those parties are acting in the course of their normal dealings with CHFA, related party disclosures have not been made for transactions of this nature.

There were no related party transactions with the members of the Board.

There were no other related party transactions.

21. NZ IFRS IMPACT

At the time of reporting, the adoption period for reporting under NZIFRS, will be for the year ended 30 June 2008.

An assessment of the impact on the CHFA of the adoption of NZIFRS has not been undertaken at balance date.

22. TRUST FUNDS

CHFA has responsibility for the management of mental patients frozen interest funds and Southland DHB patient trust funds. These funds are held in trust pending the preparation of a scheme, under section 11 of the Health Sectors (Transfers) Act 1993, on behalf of the patients.

3.6 notes to the financial statements (continued)

Trust funds on hand at 30 June 2005 are as follows:

33

	2005 Actual \$000s	2004 Actual \$000s
Mental patients' frozen interest funds		
Liquid assets		
ASB money market deposit – all regions excluding Auckland	3,065	2,870
ASB money market deposit – Auckland	1,064	996
Total sums held	4,129	3,866
Represented by:		
Balance at beginning of year	3,866	3,661
Add:		
Interest revenue from money market deposits	264	205
	4,130	3,866
Less:		
Payments to patients	1	-
Total mental patients' frozen interest funds	4,129	3,866

3.6 notes to the financial statements (continued)

34


	2005 Actual \$000s	2004 Actual \$000s
Southland patients' trust funds		
Liquid assets		
ASB Money Market Deposit	461	432
	461	432
Represented by:		
Balance at beginning of year	432	410
Add:		
Interest revenue from money market deposits	29	22
	461	432
Less:		
Payments to patients	-	-
Total Southland patients' trust funds	461	432

3.7 statement of responsibility

The Board and management of the CHFA accept responsibility for the preparation of the annual financial statements and the judgements used therein;

The Board and management of the CHFA accepts responsibility for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting; and

In the opinion of the Board and management of the CHFA, the financial statements for the year ended 30 June 2005, fairly reflect the financial position, cash flows and operations of the CHFA.



ROSS TANNER

Chair

Date: 27 October 2005



GRAEME BELL

Chief Executive

Date: 27 October 2005

3.8 auditor's report



to the readers of the Crown Health Financing Agency's financial statements FOR THE YEAR ENDED 30 JUNE 2005

The Auditor-General is the auditor of the Crown Health Financing Agency. The Auditor-General has appointed me, Stephen Lucy, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements of the Crown Health Financing Agency, on his behalf, for the year ended 30 June 2005.

UNQUALIFIED OPINION

In our opinion the financial statements of the Crown Health Financing Agency on pages 14 to 34:

- comply with generally accepted accounting practice in New Zealand; and
- fairly reflect:
 - the Crown Health Financing Agency's financial position as at 30 June 2005; and
 - the results of its operations and cash flows for the year ended on that date.

The audit was completed on 27 October 2005, and is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board and the Auditor, and explain our independence.

BASIS OF OPINION

We carried out the audit in accordance with the Auditor-General's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed the audit to obtain all the information and explanations we considered necessary in order to obtain reasonable

assurance that the financial statements did not have material misstatements, whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

The audit involved performing procedures to test the information presented in the financial statements. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transactions and account balances;
- performing analyses to identify anomalies in the reported data;
- reviewing significant estimates and judgements made by the Board;
- confirming year-end balances;
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all financial statement disclosures are adequate.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements.

We evaluated the overall adequacy of the presentation of information in the

financial statements. We obtained all the information and explanations we required to support our opinion above.

RESPONSIBILITIES OF THE BOARD AND THE AUDITOR

The Board is responsible for preparing financial statements in accordance with generally accepted accounting practice in New Zealand. Those financial statements must fairly reflect the financial position of the Crown Health Financing Agency as at 30 June 2005. They must also fairly reflect the results of its operations and cash flows for the year ended on that date. The Board's responsibilities arise from the Public Finance Act 1989 and the New Zealand Health and Disability Act 2000.

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001 and the Public Finance Act 1989.

INDEPENDENCE

When carrying out the audit we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the Institute of Chartered Accountants of New Zealand.

Other than the audit, we have no relationship with or interests in the Crown Health Financing Agency.

S B LUCY

Audit New Zealand

On behalf of the Auditor - General
Wellington, New Zealand

appendix 1: directory

36

Board Members

R M Tanner (Chair)

A Hercus

E Moke

I E Sliper

Postal Address

Level 2

Tourism and Travel House

79 Boulcott Street

WELLINGTON

P.O.Box 5358

Lambton Quay

WELLINGTON

Telephone: (04) 472 3310

Facsimile: (04) 472 3311

Email: office@chfa.govt.nz

Auditor

Audit New Zealand on behalf
of the Auditor-General

THE ROLE OF THE CHFA IS NO LONGER CONFINED TO THE MANAGEMENT OF THE RESIDUAL ASSETS AND LIABILITIES OF THE PREVIOUS AREA HEALTH BOARDS ASSIGNED TO US IN 1993. WE ALSO PROVIDE A RANGE OF SPECIALIST LENDING, PROPERTY AND FINANCIAL ADVISORY SERVICES TO THE DHB SECTOR.

MATTERS RELATING TO THE
ELECTRONIC PRESENTATION
OF THE AUDITED FINANCIAL
STATEMENTS

This audit report relates to the financial statements of the Crown Health Financing Agency for the year ended 30 June 2006 included on the Crown Health Financing Agency's web site. The Board is responsible for the maintenance and integrity of the Crown Health Financing Agency's web site. We have not been engaged to report on the integrity of the Crown Health Financing Agency's web site. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

The audit report refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and related audit report dated 26 October 2006 to confirm the information included in the audited financial statements presented on this web site.

Legislation in New Zealand governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

