



**THE BAYS HOSPITAL GROUP INC.
2011 ANNUAL REPORT**

MISSION STATEMENT

The Bays is a community owned health care organisation providing quality acute hospital and residential aged care services to the residents of the Mornington Peninsula and delivering a material community dividend.

We achieve these objectives by:

- Providing a workplace environment and encouraging a culture that allows us to attract and retain the best people
- Meeting the service expectations of our patients, residents, doctors and family members
- Maintaining the highest ethical standards in our dealings with all stakeholders
- Operating within a framework that allows the best possible environmental outcome
- Generating sufficient funding to maintain payment of a community dividend and appropriate levels of investment in our buildings, equipment and people.

BOARD OF DIRECTORS

Mr Adrian Wischer	Chairman
Mr Peter Wickenden	Deputy Chairman
Mr Nicholas Roberts	Secretary
Mr Robert Anderson	
Dr Graham Cato	
Mr Paul Clayton	
Mr Mark Featherby	
Dr Andrew Griffiths	
Mrs Belinda Lawson	

EXECUTIVE STAFF

Mr Peter Wilkinson	Chief Executive Officer
Mrs Anita Woods	Director of Nursing
Ms Helen Page	Residential Aged Care Manager
Mr Chris Keegan	Chief Financial Officer
Mr Martin Lawley	Human Resources Manager

AUDITOR

Mr David Osborne	Shepard Webster & O'Neill
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THE BAYS HOSPITAL GROUP INC.

CHAIRMAN'S REPORT 2011

The Bays Hospital Group has had a very successful year. Much has been achieved at Mornington and Hastings in terms of both service delivery improvements and a strong financial outcome.

In the world in which we operate the notion of 'accreditation' is also critical; assessment of our performance, policies and procedures by an external arbitrator. During the course of this year the hospital has again received full accreditation through ISO. The Aged Care service was accredited for another three years last September and a number of individual work units including the Catering departments at Mornington and Hastings and the Somers midwifery unit, were similarly recognised by external auditors.

MORNINGTON HOSPITAL

I mentioned last year that the hospital was regularly operating at full capacity. That remains the case. Staff managed 19752 patient days in 2010/2011, yet another annual increase of 3.9%. Operation numbers increased marginally to 6752, another record, and the Somers unit presided over 482 deliveries.

Our patient mix between the major categories – surgical, obstetrics and medical, is always a moveable feast. This year has seen a 2% growth in medical occupancy. Equally, a number of new surgeons have commenced operating at the hospital; 34 surgeons across a broad range of specialities now operate at The Bays.

Patient revenue grew by just 1% this year, measured in terms of revenue per patient day. That outcome is a function of health fund and DVA negotiations, our case mix, the difficulties we face on occasions in accessing slow stream rehabilitation beds for discharge purposes and a higher medical patient base.

I am very pleased to be able to report some excellent gains this year in terms of operating costs. Our medical supplies represent 15% of our total costs. Medical supply costs this year were \$97 per patient day or \$285 per surgical procedure. Remarkably, the supplies cost per day was lower than our cost in the previous year. Similarly, our pharmacy costs per patient day were reduced by 4.7%; food costs rose by only 3.7% and the cost of linen and laundry was unchanged.

Those are wonderful results and a tribute to the staff who work in those operational areas of the hospital.

It is also very pleasing to note that our reliance on agency staff was reduced by 559 hours in 2010/2011 – and that in an environment where occupancy and surgical throughput continued to grow. Our wages cost per patient day increased by only 2.3% in 2010/2011; that is a pleasing result given that our Enterprise Bargaining Agreements incorporated a wage increase of 3.5% during the year.

In terms of services, new initiatives included expansion of the very important PreAdmission Clinic, development of a much needed internal Stomal Therapy resource base and creation of a new Wound Clinic. All of those programs are valued by our surgeons and physicians.

Our medical consulting complex continues to expand and underpins our business. We now have 24 doctors consulting on site or from close by properties and that presence continues to grow.

Finally, it is very pleasing to report that all of these initiatives and achievements have converted to an excellent financial outcome. The hospital and the associated medical complex generated an operating profit of \$1.799m for the year. That represents an improvement of 23.9%.

The result is a tribute to the efforts of the Management team and the staff they lead.

DIALYSIS

Renal disease continues to be a major health issue in the broader community. At the same time, however, new dialysis chairs and facilities come on line and existing services offer weekend or evening treatment options.

Our dialysis service plays a vital role on the Peninsula; it is the only dialysis service on the Westernport side of the Peninsula. However, we are also geographically isolated and our patient numbers alter over time, as people relocate, through illness, or in the very best of circumstances where successful access to the transplant program takes place.

This year out patient numbers declined from 3557 treatments to 3402, a reduction of 4.4%. The balance between public and private patients also changed and privately insurance patients represented a significantly lower 63.9% of total patient numbers. Those changes led to only a marginal increase in average revenue per treatment for the year.

On a positive note, a series of donations from the public and community based organisations has allowed us to now upgrade all of our dialysis chairs. The service continues to be superbly supported by the Monash Medical Centre in terms of technical staff, equipment and consumables.

Our staff continue to provide excellent support and service to a very vulnerable clientele. It is a close knit, well managed and harmonious workplace that we are all proud of.

AGED CARE

In each of the past two years I have talked about the remarkable transition in the financial fortunes of our aged care service. That trend continues; our operating profit in 2010/2011 was \$444k, yet another year of growth in excess of 10%.

The acuity of our residents changes rapidly. We have recently completed construction of an even larger, purpose built dementia unit and under the ACFI funding model some 88% of our residents are now categorised as 'high care'.

That acuity profile helps explain an increase of 6.2% in terms of our average revenue per day, from both

Commonwealth Government and resident sources. In terms of staffing, there has been an even more dramatic reduction in our reliance on agency staff at Hastings. Our agency hours in 2010/2011 have dropped by 1668 hours, or 43.9%. That is a wonderful achievement.

However, in any aged care setting staff costs are paramount, in excess of 80% of our total cost structure. Staff costs in 2010/2011 have risen by 5.4% in gross dollar terms, partly a function of enterprise bargaining outcomes and partly reflecting an even more acute resident profile.

I have commented previously about Accommodation Bonds. The position is unchanged in that Bonds cannot generally be charged in a high care setting and a very successful Government policy of supporting the elderly at home means fewer and fewer low level care entrants. Having said that, at year end 25 or 33.3% of the residents at Hastings have paid a Bond and the value of Bonds held by the organisation is \$3,573,298.67.

This report also provides an opportunity for me to revisit some of the excellent services and facility initiatives that our team at Hastings have established in the past year.

PHOTO: TRACY MARR WITH RESIDENT OF THE BAYS AGED CARE FACILITY



I am always amazed to hear about the large numbers of young people, trainees, students working with our residents – even more so because at each orientation session we see large numbers of those people joining our permanent staff.

A significant amount of equipment has been purchased to support the lifestyle program – light therapy equipment, games and craft items, repair of the pianola and a public address system. We have also introduced a very popular music therapy program, cultural days continue to acknowledge our Dutch and Italian residents, family days are a feature and the men’s group incorporates fortnightly barbeque outings.

We continue to invest in the physical fabric of our facility – high lo electric beds, lifting equipment, carpet and curtains and two superbly renovated outdoor recreation areas. We have also relocated and expanded the Daphne (dementia) unit, aided by a very generous donation from the Ian Rollo Currie Estate Foundation.

All in all, we can report another exciting and successful year at Hastings on all counts – a job well done by Management and staff.

CAPITAL EXPENDITURE

The organisation continued its commitment to the ongoing upgrading of infrastructure and equipment replacement in 2010/2011. In addition, significant expenditure was incurred on the building development at Mornington which commenced in earnest in January 2011.

Total capital expenditure was \$3,957,931 and was expended in the following broad categories:-

	\$
Capital work-in-progress	3,246,645
Plant and machinery	406,486
Hospital equipment	117,098
Fixtures and fittings	102,867
Buildings	51,974
Computer and office equipment	32,861

Some of the major items of capital expenditure included:-

- ENT Instrumentation - \$35,881
- Hi Lo Electric Beds and new Nurse Station at Hastings - \$29,922
- Eye microscope - \$136,270
- Low temperature sterilisation unit - \$85,803
- Dialysis chairs and equipment - \$26,476

At year end, the Group has cash reserves of \$4,004,646.

STAFF

As the organisation continues to grow so does The Bays reinforce its position as a major employer on the Mornington Peninsula. In the last pay period in June, we paid nearly 400 individual members of staff. In that same

PHOTO L TO R: SARAH WILLIAMS, ROS MARTIN, KIM McDONALD, ROMANY GOONAN, PRUDENCE BARRINGTON-SMITH



month we also offered 150 shifts to agency staff.

In any given fortnight we utilise 10,500 hours of labour at Mornington and another 4,500 hours at Hastings. The balance between full-time, part-time and our own casual or nursebank staff stands at 15%, 53% and 32% respectively.

In the past year we have made excellent gains in terms of:-

- Recruiting 95 new staff members across both sites
- Converting a significant number of casual staff to permanent part-time status at Mornington
- Incorporating a large number of nurses from the UK, Scotland and Ireland into our ranks

As I mentioned earlier in this Report, it is very pleasing to report a significantly lower reliance on agency staffing this year, even as our hospital and aged care facility become busier and busier.

The organisation also measures a number of other staffing KPIs. Our sick leave continues to run at between 2% and 3% of total hours worked each fortnight. At the same time as new staff members are introduced to the organisation, our turnover of permanent staff has been reduced – a win/win situation.

This year monthly turnover of permanent staff at Mornington was 0.62%; at Hastings the comparable figure was 0.46%. Last year I commented that we had changed our Workcare provider and would move forward with Gallagher Bassett. That has proven to be an excellent decision.

It remains a source of great frustration that our workcare premium continues to rise – from \$405,844 to \$457,311, a 12.7% increase this year. And that despite the fact that we have not had one single new claim across the whole organisation this year!

GRANTS & DONATIONS

In 2010/2011 The Bays Hospital Group received donations of \$576,261 allowing the purchase of equipment for the hospital and The Bays Aged Care Facility as well as raising a substantial amount of money for our hospital building fund.

This year the John T Reid Charitable Trust generously donated \$250,000 as part of the first instalment of a \$500,000 donation towards the building of our new theatre complex. The Goding Foundation kindly donated \$100,000 and The Estate of Paul Raymond Burgess provided a further \$100,000 for our Day Surgery Unit. The Erica Foundation donated \$25,308 towards the fit out of three new patient rooms and Mrs Margaret Ross AM donated \$10,000. Mr R Erskine donated \$1,000 towards blood pressure monitors.

The Aged Care Facility received two Pressure Relieving Reclining Chairs valued at \$5,000 from The Freemasons Public Charitable Trust. The William Angliss Charitable Fund gave \$1,000 for slings, Mr Neil Patterson donated \$3,200 for Music Group sessions and Mr Harry Haigh donated \$5,000. The Hastings Pink Ladies contributed money for outdoor furniture as well as diversional therapy tools and music therapy instruments for residents with dementia.

PHOTO: ANDREW MATTHYS



The Marian & E H Flack Trust donated \$10,500 for two dialysis chairs for our Dialysis Unit.

As part of our wish list program we received \$250 each from the Hastings Club, the RSL and Mr Donald Alexander. The Holy Trinity Church gave us \$250. The Lions Club of McCrae and the Lions Club of Mornington each donated \$500. The Elizabeth Murdoch Trust and the Lioness Club of Dromana each donated \$1,000.

The Melbourne Pathology Bays Hospital Charity Golf Day which was held in October generated \$32,000 and we would like to thank Melbourne Pathology for being our naming rights gold sponsor.

The Ritchies Community Benefit Scheme brought us \$534. Individual donations and our direct marketing program generated \$13,074 from almost 100 donations from patients and the community. Bequest income totalled \$6,884.83.

This year the total contribution from Trusts, Foundations and donations to our Building Fund amounted to \$496,960 expanding the amount raised for that project to \$582,160.

The Bays Hospital and The Bays Aged Care Facility wish to thank all of the many individuals, community groups, Trusts, Foundations and organisations who generously gave their support throughout the year.

VOLUNTEERS

We are grateful for the dedication and invaluable contribution made by our 88 volunteers at The Hospital and The Pink Ladies Auxiliary at Hastings. The entire volunteer group continues to be a wonderful asset to our organisation and we thank those volunteers who are Patient Liaison officers, who tend to flowers, accompany patients for tests to other facilities, deliver newspapers, tend to our gift shop, assist with fund raising, knit, make handicrafts and provide invaluable companionship to our patients and residents.

This year, an amazing milestone was achieved when the Pink Ladies Auxiliary celebrated 40 years of service at Hastings. A celebration was held on the 13th April at The Bays Aged Care Facility and three of the Pink Ladies - Pat Benton, Lois Carter and Ruth Gibson – each celebrated their achievement of volunteering for all of those 40 years, a commitment that still continues today.

Pink Ladies President, Janice Danaher OAM officiated at an afternoon tea held in their honor and Peter Wickenden, one of our long serving Directors, presented the ladies with a badge, present and flowers in recognition of their wonderful achievement.

We are thankful to all of our volunteers for their tremendous achievements and their ongoing support to our patients, residents and staff.

PHOTO: SUSAN BAXTER WITH RESIDENT AT THE BAYS AGED CARE FACILITY



MANAGEMENT

Our management team has again stepped up to the plate and delivered a solid financial result as well as improved health services. This all whilst handling the design and tendering of the hospital expansion project and the commencement of construction. The building project involves numerous stages and varying amounts of inconvenience for patients and staff. The staff have done an excellent job in working within these constraints and minimizing discomfort for patients.

The Board acknowledges the contribution of our CEO, Peter Wilkinson, Director of Nursing, Anita Woods, Chief Financial Officer, Chris Keegan, Human Resources Manager, Martin Lawley, Helen Page, Residential Care Manager and co-Dialysis Managers, Leanne Palaster and Deborah Malkin in delivering the outcomes I report on here. We also particularly acknowledge Warren Smith's efforts. Warren is in charge of maintenance for the whole group and is based at Mornington. He has had the task of interacting with the builders and their subcontractors on a daily basis in addition to his normal work. He has handled this with dedication and has enabled the hospital to keep operating whilst the works proceed.

I would also like to thank all of our staff for their dedication and commitment to The Bays and their care and support for our patients and residents.

PHOTO: BACK ROW STANDING – CHRIS KEEGAN, CHIEF FINANCIAL OFFICER, MARTIN LAWLEY, HUMAN RESOURCES MANAGER, FRONT ROW SEATED - HELEN PAGE, RESIDENTIAL CARE MANAGER, PETER WILKINSON, CHIEF EXECUTIVE OFFICER, ANITA WOODS, DIRECTOR OF NURSING.



PHOTO: MAX LOWE



BOARD

The Board has worked well in 2010/2011. Directors attend Board meetings at both the Mornington and Hastings sites and are also committed to a host of other meetings and structures.

- Medical Advisory Committee and Operating Room Committee
- Audit Committee and Nomination & Remuneration Committee
- Meetings of Hospital Committees such as Quality & Risk Management, OH&S and Clinical Practice

The temporary Building Project Committee was set up last year to ensure an efficient decision making process between the Board and Management regarding the Mornington building project. Chaired by Mark Featherby with Nick Roberts and Peter Wickenden as members, they have met with Management and the building contractors regularly and greatly assisted the Board in having proper oversight of the project I thank those Directors for their efforts.

PHOTO: BACK ROW STANDING –

MR ANDREW GRIFFITHS MBBS, MRACOG, FRANZCOG, MR ROBERT ANDERSON, CPA, DR GRAHAM CATO MBBS MON NICHOLAS ROBERTS B. JURIS., LLB

MIDDLE ROW –

MR PAUL CLAYTON LLB, MR MARK FEATHERBY B.EC., LLB, MRS BELINDA LAWSON

FRONT ROW –

MR PETER WICKENDEN FCPA, DEPUTY CHAIRMAN, MR ADRIAN WISCHER B.EC., FAICD, AFAIM CHAIRMAN

Our Directors bring a range of skills and experience – business, legal, accounting, nursing, medical, philanthropy, management and IT – that are of immense value to the strong governance of the organisation.

THE WIDER WORLD

Last year I contemplated the election outcome – and none of us would have considered a minority government.

I wondered whether the Senate would adopt the Labour Government's legislation to significantly means test the 30% private health insurance rebate. That matter is still unresolved and the Greens control the Senate from 1 July.

It is very poor policy to effectively penalise those people who are prepared to pay the cost of private health insurance, to deliberately reduce the numbers of Australians holding private health insurance and to impose more and more patients on a public hospital system which is under siege and coping with ever increasing elective surgery waiting lists.

Hopefully, pragmatism will prevail.



In aged care, the report of the Productivity Commission will occupy key stakeholders in the next year. Hopefully, Accommodation Bonds will be broadened in application and Government funding levels will support reinvestment and the development of infrastructure that will be needed to support an ageing population.

Time will tell. In the meantime, the Directors, the Senior Management team and all of our staff face any number of challenges as we strive to further enhance the services we offer.

MORNINGTON EXPANSION

The major building program at Mornington, which I mentioned last year, is now very much a reality.

To recap, the \$14m project incorporates:-

- A new Day Surgery Unit
- Two new Operating Theatres
- 19 additional private patient rooms
- Support infrastructure including the Kitchen, Generator, Nurse Call System, Ambulance entry and Maintenance and Supply Departments
- Elizabeth Street carpark sealing

A contract was let to CDK before Christmas and the building team came on site at the end of January.

The project is very complex – problems with levels, how to undertake major refurbishment within the existing building, old and new buildings abutting each other, have all presented challenges to our team. At the same time, the staff have to continue to be fully operational despite noise, vibration and occasional chaos.

As matters stand, stage 1 of the project – which incorporates the Day Surgery Unit, Theatres and the Elizabeth Street carpark – will be completed by 29 November.

This project is a major milestone in the history and evolution of The Bays as an organisation and will equip the hospital to provide excellent services to an ever expanding local population for decades to come.

Our next strategic planning challenge will be how to develop the Hastings site and Aged Care facility. Planning meetings have commenced and we will submit an Application for extra beds in the 2011 Aged Care Approvals Round.

CONCLUSION

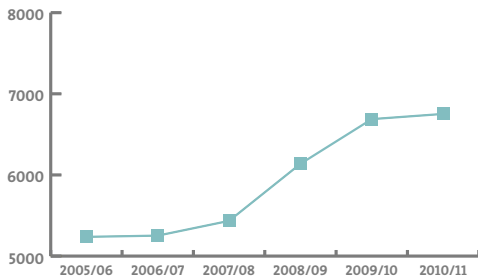
After a successful 2011, the Board looks forward to the challenges that we face in 2012, particularly the exciting building project at Mornington and commencing our planning for expanding our Aged Care facilities. I look forward to updating Members on this at the AGM that is to be held at Brooklands in Mornington on Thursday 27th October.

PHOTO: FIONA ROGERS AND MAREE GERMANA

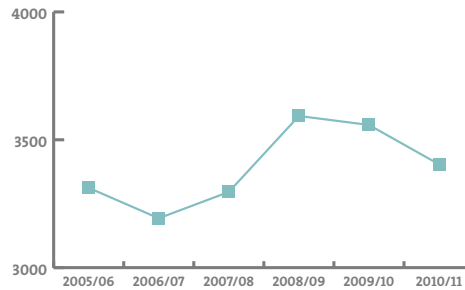


KEY PERFORMANCE INDICATORS

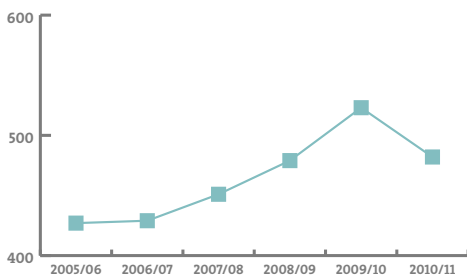
NUMBER OF OPERATIONS



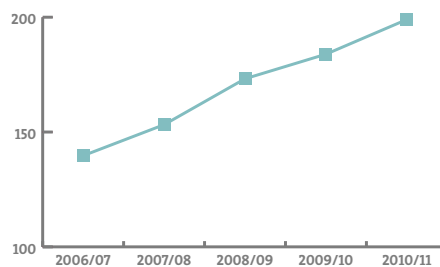
DIALYSIS TREATMENTS



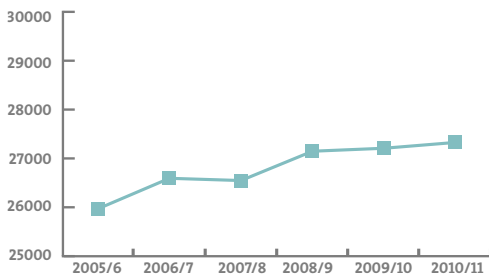
BIRTHS AT THE BAYS HOSPITAL



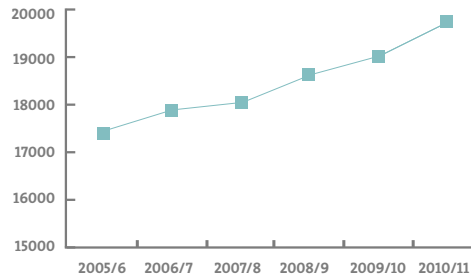
AGED CARE RESIDENT FUNDING PER DAY



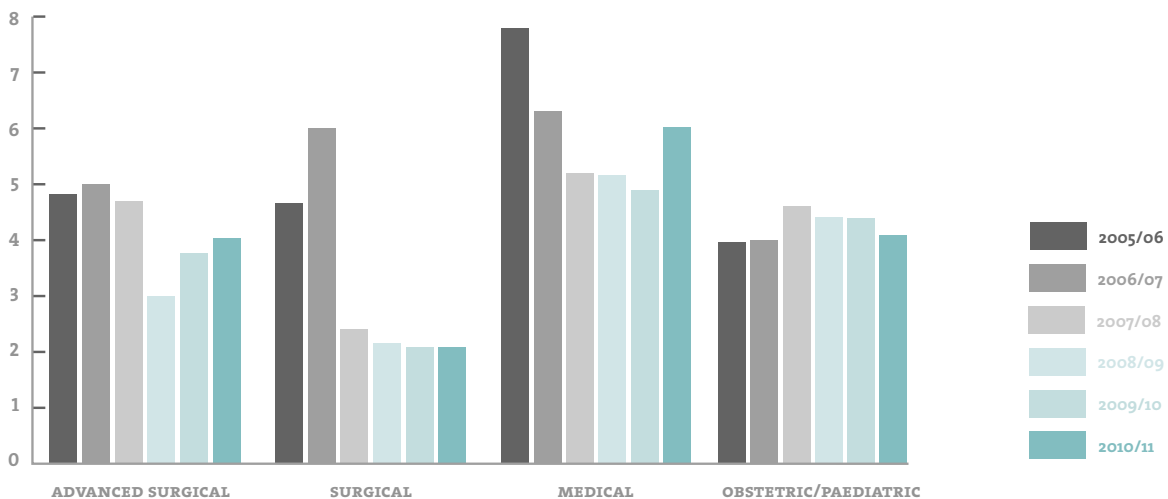
HASTINGS BED DAYS



MORNINGTON BED DAYS



HOSPITAL AVERAGE LENGTH OF STAY BY PATIENT CATEGORY



STATEMENT BY MEMBERS OF THE BOARD OF DIRECTORS

The Board of Directors has determined that the Group is a reporting entity.

The Board of Directors has determined that this general purpose financial report should be prepared in accordance with the accounting policies outlined in Note 1 to the accounts.

In the opinion of the Board of Directors:

1. The financial statements present fairly the financial position of The Bays Hospital Group Inc as at 30 June 2011 and the results of the association for the year ended on that date in accordance with Australian Accounting Standards (including Australian Accounting Interpretations) of the Australian Accounting Standards Board.
2. At the date of this statement, there are reasonable grounds to believe that the debts of The Bays Hospital Group Inc will be able to be paid as and when they fall due.

During the financial year ten Board of Directors meetings were held. The number of meetings attended by each director is as follows:

DIRECTOR	MEETINGS ATTENDED	MEETINGS HELD DURING DIRECTORSHIP
Mr Robert Anderson	7	10
Dr Graham Cato	9	10
Mr Paul Clayton	8	10
Mr Mark Featherby	10	10
Dr Andrew Griffiths	9	10
Mrs Belinda Lawson	10	10
Mr Nicholas Roberts	8	10
Mr Peter Wickenden	10	10
Mr Adrian Wischer	9	10

This statement is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the Board of Directors by:

Chairman



A Wischer

Director



P Wickenden

Dated this 9th day of September 2011

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2011

	NOTE	2011	2010
		\$	\$
Continuing Operations			
Operating Revenue		27,054,872	25,602,823
Operating Expenditure	2	24,610,830	23,587,657
Operating Profit before Capital Items		2,444,042	2,015,166
Depreciation		880,372	890,404
Operating Profit from Continuing Operations		1,563,670	1,124,762
Capital Grants and Donations received		576,262	261,466
Profit from Continuing Operations		2,139,932	1,386,228
Other Comprehensive Income		-	-
Total Comprehensive Income		2,139,932	1,386,228

STATEMENT OF CHANGES IN EQUITY AS AT 30 JUNE 2011

	NOTE	2011	2010
		\$	\$
Accumulated Funds			
Balance at Start of Period		22,662,033	21,275,805
Profit for the Period		2,139,932	1,386,228
Balance at end of Period		24,801,965	22,662,033
Reserves			
Balance at End of Period		682,052	682,052
		682,052	682,052

The accompanying notes form part of these financial statements.

BALANCE SHEET

AS AT 30 JUNE 2011

	NOTE	2011	2010
		\$	\$
Current Assets			
Cash at Bank		4,004,646	3,873,581
Accounts Receivable	3	2,889,445	1,651,959
Stock of Provisions & Medicines		586,362	525,646
Other Assets	4	429,173	383,041
		7,909,626	6,434,227
Non Current Assets			
Fixed Assets	5	26,706,417	23,628,858
Total Assets		34,616,043	30,063,085
Current Liabilities			
Trade Creditors and Accrued Expenses	6	2,784,336	2,056,684
Provision for Employee Entitlements	7	2,007,963	1,792,252
Accommodation Bonds and Deposits	8	1,588,657	398,927
		6,380,957	4,247,863
Non Current Liabilities			
Provision for Employee Entitlements	7	274,429	224,705
Accommodation Bonds	8	2,476,642	2,246,432
		2,751,070	2,471,137
Total Liabilities		9,132,027	6,719,000
		25,484,016	23,344,085
Net Assets			
Accumulated Funds and Reserves			
Accumulated Funds		24,801,964	22,662,033
Reserves	9	682,052	682,052
Total Accumulated Funds and Reserves		25,484,016	23,344,085

The accompanying notes form part of these financial statements.

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2011

	NOTE	2011	2010
		\$	\$
Cash flows from Operating Activities			
Receipts from patients & funding agencies (incl. GST)		28,645,235	27,110,136
Payments to suppliers and employees (incl. GST)		(26,171,821)	(24,922,409)
Interest Cash Received		146,130	115,566
	10	2,619,544	2,303,293
Cash flows from Investing Activities			
Purchase of Fixed Assets		(3,957,931)	(1,753,280)
		(3,957,931)	(1,753,820)
Cash flows from Financing Activities			
Accommodation bond received & Patient Deposits		1,469,452	516,021
		1,469,452	516,021
Net Cash Flows from Activities		131,065	1,066,034
Cash at Beginning of Financial Year		3,873,581	2,807,547
Cash at End of Financial Year	10	4,004,646	3,873,581

The accompanying notes form part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

NOTE 1 – STATEMENT OF ACCOUNTING POLICIES

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, (including Australian Accounting Interpretations) and the Associations Incorporation Act 1981.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in financial statements containing relevant and reliable information about transactions, events and conditions to which they apply. Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless otherwise stated.

The financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

The financial statements were authorised for issue by the members of the association.

The following is a summary of the material accounting policies adopted by the Association in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

(A) CASH

For the purpose of the Statement of Cash Flows, cash includes cash on hand and at call deposits with banks.

(B) PROPERTY, PLANT AND EQUIPMENT

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and any impairment in value.

The carrying values of plant and equipment are also reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any impairment exists, the assets are written down to their recoverable amount and the loss recognised in the income statement.

DEPRECIATION

All fixed assets are depreciated over their useful lives using the diminishing value method commencing from the time the asset is held ready for use.

The useful life used for each class of depreciable asset is:

	2011
Plant & Equipment	8 – 15 years
Office Equipment	4 – 7 years
Medical Equipment	5 years
Buildings	20 – 50 years

(C) REVENUE

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

INTEREST

Recognised as interest accrues, taking into account the yield on financial assets.

DONATIONS

Revenue is recognised when monies are received. In kind donations or donations of assets are recognised at fair value.

(D) EMPLOYEE BENEFITS

Provision is made for the Group's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits expected to be settled within one year have been measured at amounts expected to be paid. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows expected to be made for those benefits.

Contributions are made by the Group to employee superannuation funds and are charged as expenses when incurred.

(E) GOODS AND SERVICES TAX (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition on the asset or as part of an item of the expense. Receivables and payables on the balance sheet are shown inclusive of GST where applicable.

(F) STOCK OF PROVISIONS AND MEDICINES

Inventories are valued at the lower of cost or net realisable value.

Net realisable value is determined on the basis of each inventory item.

(G) ACCOMMODATION BONDS

Liabilities are recorded in respect of accommodation bonds when entry deposits are received or receivable from aged care residents. Funds are repayable upon termination of accommodation which will occur at an indiscernible time in the future.

Accommodation bonds are measured at amortised cost using the effective interest method. It reflects the nominal liability of the Group arising under the residency agreements at balance date less any retention amounts accrued by the Group and less a discount on the anticipated cashflows

expected to be paid over the period of repayment. Gains and losses are recognised in the income statement when the liabilities are de-recognised as well as through the amortisation process.

(H) SEGMENT REPORTING

The Bays Hospital Group Inc receives a Conditional Adjustment Payment, being an additional 8.75% of all aged care funding. This funding relates to the Aged Care Facility. As a requirement to continue to receive this funding, it is necessary to prepare a Segment Report as presented in Note 11.

(I) COMPARATIVE INFORMATION

Comparative information in the Income Statement is consistent with disclosure provided in the 30 June 2010 Financial Report.

	2011	2010
	\$	\$
NOTE 2 – OPERATING PROFIT		
Operating profit before depreciation and abnormal items has been determined after:		
(a) Charging As Expenses:		
Auditor's remuneration:		
Audit	18,500	18,420
Transfers to provision for:		
Employee entitlements	265,435	188,703
Honorariums paid or due and payable to Board Directors	130,800	122,625
The number of Board Directors included in these figures is shown below in their relevant income bands:		
\$1 to \$10,000	–	–
\$10,001 to \$20,000	7	8
> \$20,000	2	1
During the year, payments have been made to businesses with which Board Directors are associated. These were for goods and services supplied in the normal course of commerce comprising consulting services.		
(b) Crediting as Income:		
Interest Received	146,130	115,566

	2011	2010
	\$	\$
NOTE 3 – ACCOUNTS RECEIVABLE		
Patient Fees	2,734,292	1,493,149
Accrued Patient Fees	216,487	202,684
Less Provision for Doubtful Debts	(61,334)	(43,874)
	2,889,445	1,651,959
No collateral is held as security for any of the trade and other receivable balances		
NOTE 4 – OTHER ASSETS		
GST Paid	210,089	165,017
Prepayments	219,084	218,023
	429,173	383,040
NOTE 5 – FIXED ASSETS		
Land – at Valuation	3,387,525	3,387,525
Buildings – at cost	21,802,586	21,750,612
Less Accumulated Depreciation	(5,655,753)	(5,302,311)
	16,146,833	16,448,301
Motor Vehicles – at cost	82,420	82,420
Less Accumulated Depreciation	(43,607)	(36,758)
	38,813	45,662
Furniture & Fittings – at cost	6,133,002	6,030,135
Less Accumulated Depreciation	(5,636,561)	(5,480,974)
	496,441	549,161
Computer & Office Equipment – at cost	568,911	536,049
Less Accumulated Depreciation	(367,444)	(320,186)
	201,466	215,863
Hospital Equipment – at cost	3,256,417	3,139,319
Less Accumulated Depreciation	(1,488,754)	(1,212,151)
	1,767,663	1,927,168
Plant & Machinery – at cost	843,908	437,422
Less Accumulated Depreciation	(155,045)	(115,300)
	688,864	322,122
Leasehold Improvements – at cost	40,759	40,759
Less Accumulated Depreciation	(38,092)	(37,203)
	2,667	3,556
Capital Work-In-Progress	3,976,145	729,500
TOTAL FIXED ASSETS	26,706,417	23,628,858

NOTE 5 – FIXED ASSETS (CONT.)

	Land	Buildings	Motor Vehicles	Furniture & Fittings	Computer & Office Equipment	Hospital Equipment	Plant & Machinery	Leasehold Improvements	Capital Work-In-Progress	Total
Gross carrying amount	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Balance as at 1 July 2009	3,387,525	16,345,843	53,720	631,183	236,348	1,930,385	177,134	3,843		22,765,981
Additions		453,325		83,940	30,481	287,669	167,538	829	729,500	1,753,282
Disposals										-
Depreciation expense		(350,867)	(8,058)	(165,962)	(50,966)	(290,886)	(22,550)	(1,116)		(890,405)
Balance at 30 June 2010	3,387,525	16,448,301	45,662	549,161	215,863	1,927,168	322,122	3,556	729,500	23,628,858
Additions		51,974		102,867	32,861	117,098	406,486		3,246,645	3,957,931
Disposals										-
Depreciation expense		(353,442)	(6,849)	(155,587)	(47,258)	(276,603)	(39,744)	(889)		(880,372)
Carrying amount at 30 June 2011	3,387,525	16,146,833	38,813	496,441	201,466	1,767,663	688,864	2,667	3,976,145	26,706,417

NOTE 6 – TRADE CREDITORS AND ACCRUED EXPENSES	2011	2010
Trade Creditors	1,558,352	1,429,445
Sundry Creditors	781,756	155,068
Accruals	208,261	237,094
Private Health Fund & Other Trade Advances	235,967	235,077
	2,784,336	2,056,684

NOTE 7 – PROVISIONS FOR EMPLOYEE ENTITLEMENTS		
Current		
Provision for Annual Leave	1,053,601	958,758
Provision for Long Service Leave	954,362	833,495
	2,007,963	1,792,252

Non Current		
Provision for Long Service Leave	274,429	224,705

NOTE 8 – ACCOMMODATION BONDS AND DEPOSITS		
The organisation holds repayable bonds and deposits from residents and patients. Experience has shown that approximately 27% (15% - 2010) of the aged care bonds and all hospital deposits become repayable within twelve months of each balance date. At 30 June 2011 the current balance included an amount of \$673,786 relating to unpaid bonds that have been accrued.		
Current – Accommodation Bonds/Deposits	1,588,657	398,927
Non Current – Accommodation Bonds/Deposits	2,476,642	2,246,432
	4,065,299	2,645,359

NOTE 9 – RESERVES		
	\$	\$
Asset Revaluation Reserve	682,052	682,052
	682,052	682,052

NOTE 10 – STATEMENT OF CASH FLOWS		
Reconciliation of net cash provided by operating activities to operating profit after income tax:		
Operating Profit/(Loss) after Income Tax	2,139,932	1,386,228
Add/deduct non-cash items:		
Premium Accommodation Bonds	-	22,397
Depreciation expense	880,372	890,404
Retention on Entry Deposits	(49,513)	(47,398)
Changes in working capital		
(Increase) / Decrease in Receivables	(1,237,485)	86,719
(Increase) / Decrease in Inventories	(60,716)	(73,147)
(Increase) / Decrease on Other Assets	(46,134)	(64,680)
Increase / (Decrease) in Creditors and Accruals	727,653	(85,932)
Increase / (Decrease) in Employee Provisions	265,435	188,703
Net Cash Flows from Operating Activities	2,619,544	2,303,294
Reconciliation of cash for the purpose of the Statement of Cash Flows:		
Cash includes		
Cash on Hand	2,550	2,350
Cash on Deposit at call	4,002,096	3,871,231
Total Cash	4,004,646	3,873,581

NOTE 11 – SEGMENT REPORTING

	HOSPITAL	RESIDENTIAL AGED CARE	TOTAL
	2011	2011	2011
	\$	\$	\$
Revenue			
Government Subsidies	–	3,899,793	3,899,793
Resident/Patient Charges	22,122,319	1,559,508	23,681,827
Bond Retentions	–	49,513	49,513
Total Revenue	22,122,319	5,508,814	27,631,133
Expenses			
Employee Expenses	13,061,916	4,173,702	17,235,618
Depreciation & Amortisation	765,005	126,634	880,372
Other	6,547,161	828,050	7,375,211
Total Expense	20,374,082	5,128,386	25,491,201
Net Result for the Year	1,748,237	380,428	2,139,932
Assets			
Current Assets	6,332,685	1,576,941	7,909,626
Non-Current Assets	21,381,963	5,324,454	26,706,417
Total Assets	27,714,649	6,901,394	34,616,043
Liabilities			
Current Liabilities	5,108,787	1,272,170	6,380,957
Non-Current Liabilities	2,202,590	548,480	2,751,070
Total Liabilities	7,311,376	1,820,651	9,132,027
Net Assets	20,403,272	5,080,744	25,484,016

NOTE 11 – SEGMENT REPORTING (CONT.)			
	HOSPITAL	RESIDENTIAL AGED CARE	TOTAL
	2010	2010	2010
	\$	\$	\$
Revenue			
Government Subsidies	–	3,718,150	3,718,150
Resident/Patient Charges	20,769,954	1,328,787	22,098,741
Bond Retentions	–	47,398	47,398
Total Revenue	20,769,954	5,094,334	25,864,289
Expenses			
Employee Expenses	12,194,905	3,961,328	16,156,232
Depreciation & Amortisation	765,005	125,399	890,404
Other	6,690,417	741,008	7,431,425
Total Expense	19,650,327	4,827,734	24,478,061
Net Result for the Year	1,119,627	266,601	1,386,228
Current Assets	5,166,916	1,267,311	6,434,227
Non-Current Assets	18,974,823	4,654,035	23,628,858
Total Assets	24,141,739	5,921,346	30,063,085
Current Liabilities	3,411,187	836,676	4,247,863
Non-Current Liabilities	1,984,412	486,725	2,471,137
Total Liabilities	5,395,599	1,323,401	6,719,000
Net Assets	18,746,140	4,597,945	23,344,085

The major products/services from which the above segments derive revenue are:

- Hospital – Acute, Medical, Surgical & Obstetric Services
- Residential Aged Care – Nursing Home and Hostel Accommodation

NOTE 12 – RELATED PARTY DISCLOSURES

During the year the following were Directors for the entire period except where otherwise indicated:

Name	Fees Received \$	Post Employment Benefits	2011 \$	2010 \$
A Wischer	20,000	1,800	21,800	21,800
P Wickenden	20,000	1,800	21,800	19,075
M Featherby	15,000	1,350	16,350	13,265
N Roberts	15,000	1,350	16,350	13,265
G Cato	10,000	900	10,900	10,900
P Clayton	10,000	900	10,900	10,900
A Griffiths	10,000	900	10,900	10,900
B Lawson	10,000	900	10,900	10,900
R Anderson	10,000	900	10,900	10,900

TRANSACTIONS BETWEEN DIRECTORS AND RELATED COMPANIES ARE AS FOLLOWS:

Director's Name/Related Company	Description of Transaction	2011 \$	2010 \$
M Featherby / Featherby's Lawyers	Legal Services	1,211	847

Transactions with the above entities were made at commercial rates.

THE FOLLOWING PAYMENTS WERE MADE TO KEY MANAGEMENT PERSONNEL DURING THE PERIOD:

Description	Wages Paid \$	Non Monetary Benefits \$	Post Employment Benefits \$	2011 \$	2010 \$
Salary	613,746	–	55,237	668,983	622,303
Annual Leave & 27th pay	14,090		1,268	15,358	68,913

NOTE 13 – FINANCIAL INSTRUMENTS

Recognised Financial Instrument	Accounting Policy	Terms and Conditions
Financial Assets		
Bank and Short Term Deposits	Valued at Cost	Funds at call attracted interest rates of between 4.35% and 6.00% over the year. The weighted average rate of return at balance date was 5.2%.
Receivables	No different from normal commercial practice.	Debtors are unsecured, not subject to interest charges and normally settled within 30 days.
Financial Liabilities		
Creditors and Accruals	Liabilities are recognised for amounts to be paid in the future for goods received and services provided to the Group as at balance date whether or not invoices have been received.	General creditors are unsecured, not subject to interest charges and are normally settled within 30 days of invoice date.
Accommodation Bonds	Liabilities are recorded when deposits are received from Residents.	Funds may be repayable upon termination of accommodation which is an indiscernible time in the future.

FINANCIAL INSTRUMENTS – INTEREST RATE RISK

Exposure of the Group to interest rate risk and the effective interest rates of financial assets and financial liabilities at balance date are as follows:

	FIXED INTEREST MATURING IN					Carrying Amount	Weighted Average Interest Rate %
	Floating Interest Rate	1 Year or Less	1 to 5 Years	Over 5 Years	Non Interest Bearing		
(i) Financial Assets							
Bank & Short Term Deposits	4,004,646					4,004,646	5.20%
Debtors					2,889,445	2,889,445	N/A
(ii) Financial Liabilities							
Creditors					1,558,352	1,558,352	N/A
Resident Loans					4,065,299	4,065,299	N/A

NOTE 14 – FINANCIAL RISK MANAGEMENT**FINANCIAL RISK MANAGEMENT POLICIES**

The association's Treasurer is responsible for, among other issues, monitoring and managing financial risk exposures of the association. The Treasurer monitors the association's transactions and reviews the effectiveness of controls relating to credit risk, financial risk and interest rate risk. Discussions on monitoring and managing financial risk exposures are held and minuted by the committee of management.

The Treasurer's overall risk management strategy seeks to ensure that the association meets its financial targets, while minimising potential adverse effects of cash flow shortfalls.

SPECIFIC FINANCIAL RISK EXPOSURES AND MANAGEMENT

The main risks the association is exposed to through its financial instruments are interest rate risk and liquidity risk, credit risk.

CREDIT RISK

Exposure to credit risk relating to financial assets arises from the potential non-performance by counterparties of contract obligations that could lead to a financial loss to the association.

Credit risk is managed through maintaining procedures (such as the utilisation of systems for the approval, granting and removal of credit limits, regular monitoring of exposure against such limits and monitoring of the financial stability of significant customers and counterparties) ensuring, to the extent possible, that members and counterparties to transactions are of sound credit worthiness.

Risk is also minimised through investing surplus funds in financial institutions that maintain a high credit rating or in entities that the committee has otherwise cleared as being financially sound.

CREDIT RISK EXPOSURES

The maximum exposure to credit risk by class of recognised financial assets at the end of the reporting period is equivalent to the carrying value and classification of those financial assets (net of any provisions) as presented in the balance sheet.

There is no collateral held by the association securing trade and other receivables.

Trade and other receivables that are neither past due nor impaired are considered to be of high credit quality. Aggregates of such amounts are as detailed at Note 3.

NOTE 14 – FINANCIAL RISK MANAGEMENT (CONT.)

The association has no significant concentrations of credit risk with any single counterparty or group of counterparties.

LIQUIDITY RISK

Liquidity risk arises from the possibility that the association might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The association manages this risk through the following mechanisms:

- preparing forward-looking cash flow analysis in relation to its operational, investing and financing activities;
- only investing surplus cash with major financial institutions; and
- proactively monitoring the recovery of unpaid subscriptions.

Financial assets pledged as collateral

The land and buildings held by the association have been pledged as collateral for the draw down facility currently in place for the building works. At 30 June 2011, no drawings have been made on the facility.

MARKET RISK*Interest rate risk*

Exposure to interest rate risk arises on financial assets and financial liabilities recognised at the end of the reporting period whereby a future change in interest rates will affect future cash flows.

Price risk

Price risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices of securities held.

The association is exposed to securities price risk on available-for-sale investments. Such risk is managed through diversification of investments across industries and geographic locations.

The association's investments are held in term deposits.

NOTE 15 - BUILDING WORKS

The Association has entered into a range of contracts with a builder and consultants for the redevelopment of the Hospital. The total value of these contracts as at 30 June 2011 is \$13,181,000. This amount is billed on an ongoing basis as milestones are reached in the building development. As such, only \$3,604,343 has been billed thus far for this project.

INDEPENDENT AUDIT REPORT

REPORT ON THE FINANCIAL REPORT

I have audited the accompanying Financial Report, being a general purpose financial report, of The Bays Hospital Group Inc, which comprises the Balance Sheet as at 30 June 2011 and the Statement of Comprehensive Income, Statement of Changes in Equity and Cash Flow Statement for the year ended on that date, a Summary of Significant Accounting Policies and other Explanatory Notes and the Statement by Members of the Board of Directors.

BOARD'S RESPONSIBILITY FOR THE FINANCIAL REPORT

The Board of the Association is responsible for the preparation and fair presentation of the Financial Report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Associations Incorporation Act of Victoria. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the Financial Report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

My responsibility is to express an opinion on the Financial Report based on my audit. I conducted my audit in accordance with Australian Auditing Standards. These Auditing Standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the Financial Report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the Financial Report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Financial Report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board, as well as

evaluating the overall presentation of the Financial Report.

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

INDEPENDENCE

In conducting my audit, I have complied with the independence requirements of Australian professional ethical pronouncements.

AUDITOR'S OPINION

The Financial Report of The Bays Hospital Group Inc is in accordance with the Associations Incorporation Act of Victoria including:

- i. giving a true and fair view of the Association's financial position as at 30 June 2011 and of their performance for the year ended on that date; and
- ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Associations Incorporation Act of Victoria.



DAVID J. OSBORNE

Certified Practising Accountant

Registered Company Auditor No 10244

C/- Shepard Webster & O'Neill Pty Ltd

434 Nepean Highway, Frankston 3199

Telephone 03 9781-2633

Dated at Frankston on the 9th of September, 2011

