HEALTH CARE
INSURANCE
CARING FOR THE PEOPLE IN FORESTRY, TIMBER AND PAPER

# Annual Report

## For the Year Ended 30 June 2008

## Health Care Insurance Ltd

# Annual Report

### For the Year Ended 30 June 2008

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**Health Care Insurance Ltd**

A.C.N. 009 579 088

| | |
|---|---|
| Principal Business Address | 50 Marine Terrace, Burnie |
| Postal Address | PO Box 931, Burnie, 7320 |
| Telephone | (03) 6432 1199 |
| Facsimile | (03) 6432 1160 |
| Website | www.hciltd.com.au |
| Registered Office | 50 Marine Terrace, Burnie |

Health Care Insurance Ltd

# Directors' Report

**For the Year Ended 30 June 2008**

The directors submit to the members of the Company, their report on the health fund operated by the company for the financial year ended 30 June 2008.

## Principal Activities

The principal activities of Health Care Insurance Ltd during the financial year consisted of provision of private health insurance to eligible members. There have been no significant changes in the nature of the Company's principal activities during the financial year.

## Significant Changes in State of Affairs

There were no significant changes in the state of affairs of the Company during the financial year.

## Directors

The names of the directors in office at any time during the year are listed below. All directors held office for the duration of the financial year and up until the date of this report except as noted.

| NAME | EXPERIENCE | SPECIAL RESPONSIBILITIES |
|---|---|---|
| John Guest<br>B.Sc | Former General Manager Group Audit North Limited. Manager APPM Burnie Mill. Manager APPM Wesley Vale Mill.<br>HCI director since 2001. | Board Chairman<br>Finance, Audit & Risk Mgt C'tee |
| Mark Fishwick | State Contract Manager Job Net.<br>Past National President Apex.<br>HCI director since 2001. | Deputy Chairman (since October 2007)<br>Finance, Audit & Risk Mgt C'tee |
| Philip Wilkinson | Electrical contractor operating his own business.<br>HCI director since 1994. | Immediate past Deputy Chairman<br>Marketing & Member Services C'tee |
| John Perkins | Councillor Latrobe Council. Former Generation Compliance Manager, Hydro Tasmania.<br>OH&S Co-ordinator Mersey Community Hospital<br>HCI director since 1996 | Marketing & Member Services C'tee |
| Wayne Tibbits<br>B.Sc Ph. D<br>Grad Cert Med | Self-employed strategic and technical consultant with Ph.D. in forestry. Qualified environmental health & safety auditor.<br>HCI director since 1996. | Marketing & Member Services C'tee |
| Phillip Boon<br>B.Com. | Business Support Manager PaperlinX<br>HCI director appointed 15 May 2000. | Finance, Audit & Risk Mgt C'tee |
| Julie Milnes | Healthcare professional.<br>HCI director since 2003. | Marketing & Member Services C'tee |
| Matthew Fryett<br>B.Bus. CPA<br>MBA | Commercial Manager, Australian Paper's Tasmania Mills<br>HCI director appointed 30 October 2006. | Finance, Audit & Risk Mgt C'tee |

| | |
|---|---|
| Paul Smith<br>B.Sc. (For) | General Manager Operations, Forestry Tasmania<br>HCI director appointed 30 June 2008. |

### Company Secretary

| NAME | QUALIFICATIONS & EXPERIENCE |
|---|---|
| Ronald Coghill | General Manager of the Company since November 2003. Former General Manager, executive director and company secretary of Defence Health Ltd. for 8 years. Graduate Member of the Australian Institute of Company Directors. |

| Operating Results | 2008 | 2007 |
|---|---|---|
| Net surplus/(deficit) | $ 1,076,048 | $ 1,231,500 |

### Dividends

The constitution of the Company states that no portion of income or property derived by the Company shall be paid or transferred by way of a dividend, bonus or otherwise.

### Review of Operations

The Board has pleasure in advising that the Company has experienced a successful financial year producing a good operating surplus of $1,076,048. The surplus, which is in line with the Board's expectations, is the result of:

- increased contribution income generated from higher than expected membership numbers;
- higher than expected returns from invested funds;
- higher than expected claiming by Members which has been provided for in the surplus result; and
- lower than expected payments into the industry Risk Equalisation Trust Fund.

The Board remains committed to produce financial results that are sufficient to maintain reserves at a level that will:

- accommodate unexpected changes of an adverse nature by the industry regulator to the minimum prudential standards;
- assist in minimising future premium increases;
- provide an adequate cushion to help offset the cost of future unexpected high claiming by members;
- partially absorb the costs associated with planned membership growth of 5% to 10%; and
- enhance the long term viability of the Health Fund.

The contribution rates were increased during the year by an average of 2.89% which was again below the health insurance industry average of 4.99%.

Operating expenses remained at an acceptable level during the year and represented 12.0% of contribution income received (11.8% last year).

The Fund's financial reserves at the year end of $7,778,922 remain well above the level required to meet the Federal Government Private Health Insurance regulator's (PHIAC) Solvency and Capital Adequacy minimum prudential standards.

The Board's annual review of the investment policy determined that it would continue an investment strategy based on short term placements in low risk cash securities.

## Meetings of Directors

The following persons held office as directors during the year and up to date of this report, except as noted. The table shows the number of directors meetings (including sub-committee meetings) held during the year ended 30 June 2008, and the number of meetings attended by each director.

| | Board Meetings | | Sub-committee Meetings: Finance, Audit & Risk Management Committee | | Sub-committee Meetings: Marketing & Member Services Committee | |
|---|---|---|---|---|---|---|
| | Number eligible to attend | Number attended | Number eligible to attend | Number attended | Number eligible to attend | Number attended |
| John Guest | 6 | 5 | 3 | 3 | - | - |
| Philip Wilkinson | 6 | 5 | - | - | 3 | 0 |
| Mark Fishwick | 6 | 5 | 3 | 3 | - | - |
| John Perkins | 6 | 6 | - | - | 3 | 3 |
| Wayne Tibbits | 6 | 5 | - | - | 3 | 3 |
| Julie Milnes | 6 | 5 | - | - | 3 | 3 |
| Phillip Boon | 6 | 3 | 3 | 1 | - | - |
| Matthew Fryett | 6 | 5 | 3 | 1 | - | - |
| Paul Smith | 1 | 1 | - | - | - | - |

## Indemnification of Officers

The Company has paid premiums to insure each of the directors against claims and liabilities (including costs and expenses incurred in defending any legal proceedings) arising out of their conduct while acting in the capacity of a director of the Company. During the 2008 financial year, the amount of the premium paid was $14,883.

## Future developments

*Administrative efficiency measure*

The Board reviewed a proposal and agreed to introduce a fully integrated document imaging system in financial year. The Dataract e5 imaging and workflow system will streamline all administrative functions and lead to improved service to members through faster processing of claims, membership applications, change requests and all other correspondence.

*Management change*

The Board commenced a search to find a replacement for the position of General Manager following notification by Ron Coghill of his intention to retire early in financial year 2009. The Board is confident a suitably qualified person will be appointed to the position early in financial year 2009.

*Membership growth*

The Board confirmed its view that the prime requirement for the long term viability of Health Care Insurance Limited is a stable membership base achieved through modest membership growth.

With the continuing improvement in the financial position of the Fund over the past few years, the Board has endorsed the strategy to grow the membership base of the Fund during financial year 2009 predominantly through a year long TV advertising campaign.

The Board has set a membership growth target in the 2009 Business Plan of not less than 3%.

### Matters subsequent to the end of the Financial Year

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Company, the results of those operations or the state of affairs of the Company in future financial years.

### Auditor Independence

An auditor's independence declaration as required under section 307C of the Corporations Act has been received by the directors and a copy of the declaration is set out below this report.

This report is made in accordance with a resolution of the directors.

John Guest ............................................

Director

Burnie

15th September 2008

# Auditors Independence Declaration

### To the directors of Health Care Insurance Ltd.

In relation to our audit of the financial report of Health Care Insurance Ltd. For the financial year ended 30 June 2008, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Garrott & Garrott

Chartered Accountants

Ian R Wright

Partner

Launceston

15th September 2008

# Corporate Governance



## Corporate Governance

### Composition of the Board

All members of the Board of directors are non-executive directors. The Board comprises a minimum of not less than four and not more than nine elected directors and up to three directors may be appointed by the Board to ensure the Board has an appropriate mix of skills and competencies.

### Finance, Audit and Risk Management Committee

The primary objectives of this committee are to assist the Board in discharging its responsibilities in relation to audit, finance, risk identification and management, personnel matters and enhancing the credibility and objectivity of financial reporting. Specific responsibilities of this committee are:

- to oversee compliance with legal, statutory and ethical matters;
- to monitor effectiveness of internal controls and accounting systems;
- to oversee financial reporting process;
- to review the terms of employment and remuneration of the General Manager and staff;
- to review remuneration of the Board; and
- the nomination of and liaison with external auditors and audit arrangements.

The committee members are: Mark Fishwick (chairman), John Guest, Phillip Boon and Matthew Fryett.

### Marketing and Member Services Committee

The primary objective of this committee is to assist the Board to discharge its responsibilities in relation to:

- oversee the development of plans to market health insurance products;
- oversee the development of plans to market health promotion initiatives and programs;
- enhance service to existing and potential members;
- monitor responsiveness and appropriateness of responses to member complaints and enquiries;
- consideration and adjudication, in accordance with the authority delegated by the Board, of requests by members for payment of benefits for health care services not covered by the Rules.

The committee members are: Wayne Tibbits (chairman), Julie Milnes, Philip Wilkinson and John Perkins.

# Income Statement

## For the Year Ended 30 June 2008

| | Note | 2008 $ | 2007 $ |
|---|---|---|---|
| **Revenue** | | | |
| Member contributions | | **9,625,829** | 8,998,429 |
| Interest and investment income | | **571,496** | 441,945 |
| Other revenue from ordinary activities | | **11,014** | 4,562 |
| **Total Revenue** | | **10,208,339** | 9,444,936 |
| **Expenses** | | | |
| Member benefits | | **7,252,972** | 6,314,851 |
| Health benefits risk equalisation | | **708,379** | 813,114 |
| Employee benefits | | **451,934** | 438,473 |
| Information technology and communications | | **241,876** | 231,743 |
| Depreciation, amortisation and impairments | | **31,109** | 23,926 |
| Other expenses from ordinary activities | | **446,021** | 391,329 |
| **Total Expenses** | | **9,132,291** | 8,213,436 |
| **Surplus/(deficit) from ordinary activities before income tax expense** | | **1,076,048** | 1,231,500 |
| Income tax expense | 1(b) | **-** | - |
| **NET SURPLUS/(DEFICIT)** | | **1,076,048** | 1,231,500 |

*This statement should be read in conjunction with the accompanying notes*

## Health Care Insurance Ltd

# Balance Sheet

### As At 30 June 2008

| | Note | 2008 $ | 2007 $ |
|---|---|---|---|
| **ASSETS** | | | |
| Cash | 4 | **8,895,996** | 7,767,792 |
| Receivables | 5 | **743,696** | 563,977 |
| Prepayments | | **17,823** | 22,226 |
| Property, plant and equipment | 6 | **62,984** | 61,369 |
| TOTAL ASSETS | | **9,720,499** | 8,415,364 |
| **LIABILITIES** | | | |
| Trade and other payables | 7 | **332,966** | 298,008 |
| Provisions | 8 | **755,930** | 610,236 |
| Deferred revenue | 9 | **852,681** | 804,246 |
| TOTAL LIABILITIES | | **1,941,577** | 1,712,490 |
| NET ASSETS | | **7,778,922** | 6,702,874 |
| **EQUITY** | | | |
| Accumulated surplus | | **7,778,922** | 6,702,874 |
| TOTAL EQUITY | | **7,778,922** | 6,702,874 |

Health Care Insurance Ltd

# Cash Flow Statement

For the Year Ended 30 June 2008

| | Note | 2008 $ | 2007 $ |
|---|---|---|---|
| **Cash from operating activities:** | | | |
| Contributions received from members | | **9,573,052** | 9,035,629 |
| Benefits paid to members | | **(7,155,152)** | (6,576,762) |
| Payments to Health Benefits Risk Equalisation Trust | | **(632,412)** | (835,653) |
| Interest received | | **492,681** | 423,125 |
| Payments to suppliers and employees | | **(1,194,813)** | (1,125,510) |
| Other receipts | | **11,014** | 4,842 |
| GST refunds | | **66,557** | 65,641 |
| Net cash provided by (used in) operating activities | 11 | **1,160,927** | 991,312 |
| **Cash flows from investing activities:** | | | |
| Payments for property, plant and equipment | | **(32,723)** | (25,060) |
| Net cash provided by (used in) investing activities | | **(32,723)** | (25,060) |
| Net increase (decrease) in cash held | | **1,128,204** | 966,252 |
| Cash at beginning of financial year | | **7,767,792** | 6,801,540 |
| Cash at end of financial year | 4 | **8,895,996** | 7,767,792 |

# Statement of Changes in Equity

## For the Year Ended 30 June 2008

| | Retained Earnings | Total |
|---|---|---|
| | $ | $ |
| Balance at Sunday, 1 July 2007 | **6,702,874** | **6,702,874** |
| Net income/(loss) | **1,076,048** | **1,076,048** |
| **Balance at 30 June 2008** | **7,778,922** | **7,778,922** |

| | Retained Earnings | Total |
|---|---|---|
| | $ | $ |
| Balance at 1 July 2006 | 5,471,374 | 5,471,374 |
| Net income/(loss) | 1,231,500 | 1,231,500 |
| **Balance at 30 June 2007** | 6,702,874 | 6,702,874 |

*This statement should be read in conjunction with the accompanying notes*

## 1 Statement of Significant Accounting Policies

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, including the Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

The financial report has been prepared on an accruals basis and is based on historical costs and does not take into account changing money values or, except where stated, current revaluations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

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

### (a) Revenue Recognition

Member contributions are recognised when payment for health insurance cover falls due in accordance with the terms of the membership conditions. Contributions include the 30% Government rebate. Contributions paid by members in advance of the due date are shown as a liability. Interest is recognised as it accrues.

Other revenue items are recognised upon receipt. All revenue is recorded net of GST.

### (b) Income Tax

The Company is exempt from income tax under section 50-30 of the Australian Income Tax Assessment Act 1997, as amended. Accordingly, no income tax expense or provision for income tax has been included in the financial report.

### (c) Health Benefits Risk Equalisation Trust Fund

All health insurers must participate in the Risk Equalisation Trust Fund, which shares a proportion of the hospital and medical claims of all persons aged 55 years and over and those memberships with high claims in any one year between all health insurers.

The amount payable to or receivable from the Risk Equalisation Trust Fund is determined by the Private Health Insurance Administration Council (PHIAC) after the end of each quarter. Estimated provisions for amounts payable or receivable are provided for periods for which determinations have not yet been made.

### (d) Cash

For purposes of the statement of cash flows, cash includes cash on hand, cash at bank and deposits at call net of outstanding bank overdrafts.

### (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 of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST, as are operating items in the statement of cash flows.

### (f) Property, Plant and Equipment

Property, plant and equipment are stated at the lower of cost less depreciation or net realisable value. With the exception of freehold land, property, plant and equipment are depreciated over the expected useful life of each asset using the straight line basis.

## 1 Statement of Significant Accounting Policies (continued)

### (f) Property, Plant and Equipment (continued)

The carrying amount of property, plant and equipment is reviewed annually by the board of directors to ensure that it is not in excess of the recoverable amount of these assets. The recoverable amount of an asset is the net amount expected to be recovered through the net cash inflows arising from its continued use and subsequent disposal. In determining the recoverable amount of non-current assets the expected net cash flows have not been discounted to their present value.

The estimated useful lives used for each class of depreciable assets are:

| | |
|---|---|
| Furniture and fittings | 10 - 20 years |
| Motor vehicles | 7 - 10 years |
| Computer and electronic equipment | 3 - 4 years |

### (g) Employee Entitlements

Liabilities for salaries, wages and annual leave are recognised and measured as the amount unpaid at the reporting date at current pay rates in respect of the employee's service up to that date. Provision is made for long service leave for all employees after the completion of six years service. An assessment of the financial impact of expressing the provision using the present value basis of measurement indicated that the method currently used is more prudent, but not materially different. This assessment will be undertaken each time the Company prepares financial statements.

### (h) Provision for Outstanding Claims

The Company makes provision for claims received but not assessed and claims incurred but not received at year end. The amount of the provision is based on an actuarial assessment taking into account historical patterns of claim incidence and processing. No discounting is applied to the provision due to the generally short period between claim incidence and settlement.

## 2 Changes in Accounting Policy

In the current year, the Company has adopted all of the new and revised Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are applicable to its operations and effective for the current financial year. The impact of these new and revised standards has not had a material impact on the reported amounts in the financial statements, although the adoption of *AASB 7 Financial Instruments: Disclosures* has increased the level of disclosure in the notes to the financial statements.

The following Australian Accounting Standards issued or amended which are applicable to the Company but are not yet effective and have not been adopted in preparation of the financial statements at reporting date.

| AASB Amendment | Outline of Amendment | Financial year applicable |
|---|---|---|
| AASB 101 Presentation of Financial Statements | Essentially a disclosure standard, it will require all non owner changes in equity to be presented in one statement of comprehensive income, or in a separate income statement and statement of comprehensive income, but not in the statement of changes in equity. There is unlikely to be any impact on the reported amounts in the financial statements. | 30 June 2010 |
| AASB 123 Borrowing Costs | The option to expense all borrowing costs has been removed, and will require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. It is not expected to have any impact on the financial statements of the company. | 30 June 2010 |

All other pending Standards issued between the previous financial report and the current reporting dates have no application to the Company.

# Notes to the Financial Statements

## For the Year Ended 30 June 2008

| | 2008 $ | 2007 $ |
|---|---|---|
| **3 Surplus from Ordinary Activities** | | |
| Surplus from ordinary activities before income tax includes the following specific items: | | |
| **Interest and investment income** | | |
| Financial assets at amortised cost | | |
| Bank accounts and short term deposits | **571,496** | 441,945 |
| **Net gains/(loses)** | | |
| Property, plant & equipment | | |
| Proceeds on disposal | **-** | 14,545 |
| Carrying amount of assets disposed | **-** | (14,814) |
| Net gain/(loss) on disposal | **-** | (269) |
| **Expenses** | | |
| Depreciation | | |
| Leasehold improvements | **249** | 1,012 |
| Computers and electronics | **12,568** | 11,494 |
| Motor vehicles | **12,826** | 5,693 |
| Furniture and fittings | **5,466** | 5,727 |
| | **31,109** | 23,926 |
| Auditors remuneration | | |
| Audit of financial report and statistical returns | **9,800** | 8,400 |
| Other services | **1,800** | 1,850 |
| | **11,600** | 10,250 |
| Operating lease rentals | | |
| Premises | **33,261** | 32,509 |
| Equipment | **9,574** | 8,825 |
| | **42,835** | 41,334 |
| **4 Cash** | | |
| Cash on hand | **20,138** | 18,632 |
| Cash at bank | **153,336** | 303,199 |
| Short-term deposits | **8,722,522** | 7,445,961 |
| Total Cash | **8,895,996** | 7,767,792 |

## 5 Trade and Other Receivables

| | | 2008 $ | 2007 $ |
|---|---|---|---|
| Contributions in arrears | | **223,822** | 128,272 |
| Provision for doubtful debts | (a) | **(20,000)** | (20,000) |
| | | **203,822** | 108,272 |
| Accrued interest | | **252,707** | 173,892 |
| 30% rebate receivable | | **273,193** | 267,531 |
| GST refundable | | **5,149** | 4,251 |
| Sundry debtors | | **8,825** | 10,031 |
| | | **743,696** | 563,977 |

### (a) Provision for Impairment

| | 2008 $ | 2007 $ |
|---|---|---|
| Opening balance | **20,000** | 20,000 |
| Doubtful debts provided for during the year | **-** | - |
| Bad debts written off | **-** | - |
| Closing balance | **20,000** | 20,000 |

### (b) Contributions in arrears ageing analysis

| | Gross Receivable | Provision for impairment | Net carrying amount |
|---|---|---|---|
| **2008** | **$** | **$** | **$** |
| Past due less than 30 days | **110,977** | **-** | **110,977** |
| Past due 30 to 60 days | **96,312** | **(3,467)** | **92,845** |
| Past due 60 to 90 days | **6,308** | **(6,308)** | **-** |
| Past due in excess of 90 days | **10,225** | **(10,225)** | **-** |
| | **223,822** | **(20,000)** | **203,822** |
| **2007** | | | |
| Past due less than 30 days | 93,507 | - | 93,507 |
| Past due 30 to 60 days | 21,033 | (6,268) | 14,765 |
| Past due 60 to 90 days | 8,250 | (8,250) | - |
| Past due in excess of 90 days | 5,482 | (5,482) | - |
| | 128,272 | (20,000) | 108,272 |

| | 2008 $ | 2007 $ |
|---|---|---|
| **6 Property Plant and Equipment** | | |
| BUILDINGS | | |
| Leasehold improvements at cost | 5,059 | 5,059 |
| Less: accumulated depreciation | (5,059) | (4,810) |
| Total Buildings | - | 249 |
| PLANT AND EQUIPMENT | | |
| Furniture and fittings at cost | 80,728 | 77,671 |
| Less: accumulated depreciation | (65,708) | (60,242) |
| | 15,020 | 17,429 |
| Motor vehicles at cost | 34,665 | 34,665 |
| Less: accumulated depreciation | (18,519) | (5,693) |
| | 16,146 | 28,972 |
| Computers and electronics at cost | 192,273 | 162,606 |
| Less: accumulated depreciation | (160,455) | (147,887) |
| | 31,818 | 14,719 |
| Total plant and equipment | 62,984 | 61,120 |
| Total property, plant and equipment | 62,984 | 61,369 |

### Movements in Carrying Amounts

| | Leasehold improve-ments $ | Plant and equipment $ | Total $ |
|---|---|---|---|
| Balance at the beginning of year | 249 | 61,120 | 61,369 |
| Additions | - | 32,724 | 32,724 |
| Depreciation expense | (249) | (30,860) | (31,109) |
| Carrying amount at end of year | - | 62,984 | 62,984 |

# Notes to the Financial Statements

For the Year Ended 30 June 2008

| | | 2008 $ | 2007 $ |
|---|---|---|---|
| 7 | **Trade and Other Payables** | | |
| | Health Benefits Risk Equalisation Trust | **248,070** | 172,103 |
| | Unpresented cheques | **21,997** | 66,788 |
| | Sundry creditors | **62,899** | 59,117 |
| | Total Payables | **332,966** | 298,008 |
| 8 | **Provisions** | | |
| | Outstanding claims | | |
| | Member benefits | **584,863** | 465,336 |
| | Administration allowance | **49,785** | 36,032 |
| | Risk Equalisation allowance | **65,352** | 59,993 |
| | | **700,000** | 561,361 |
| | Employee entitlements | | |
| | Annual leave | **41,428** | 35,587 |
| | Long service leave | **14,502** | 13,288 |
| | | **55,930** | 48,875 |
| | Total Provisions | **755,930** | 610,236 |

### Movements in provision for outstanding claims

| | Member benefits $ | Admistration allowance $ | Risk Equalisation allowance $ | Total $ |
|---|---|---|---|---|
| Opening balance 1 July 2007 | 465,336 | 36,032 | 59,993 | 561,361 |
| Payments in current financial year for claims with prior service date | (394,788) | - | (67,029) | (461,817) |
| Additional provision made during year | 514,315 | 13,753 | 72,388 | 600,456 |
| Balance at 30 June 2008 | 584,863 | 49,785 | 65,352 | 700,000 |

| | | 2008 $ | 2007 $ |
|---|---|---|---|
| 9 | **Deferred Revenue** | | |
| | Contributions received in advance | **807,681** | 762,246 |
| | Unclosed business in advance | **45,000** | 42,000 |
| | Total Deferred Revenue | **852,681** | 804,246 |

## 10 Members' Guarantee

The Company is limited by guarantee, incorporated and domiciled in Australia. If the Company is wound up, the Constitution provides that each member is required to contribute a maximum of $1.00 each towards meeting any outstanding obligations of the Company. At 30 June 2008 the number of members was 3,637 (2007: 3,542).

## 11 Cash Flow Information

### Reconciliation of cash flow from operations with net surplus

| | | |
|---|---|---|
| Net surplus for the period | **1,076,048** | 1,231,500 |
| Non-cash flows in profit | | |
| Depreciation, amortisation and impairments | **31,109** | 23,926 |
| Loss on disposal of plant and equipment | **-** | 269 |
| Changes in assets and liabilities | | |
| Trade and other receivables | **(179,719)** | 5,345 |
| Prepayments | **4,402** | (6,265) |
| Employee entitlements | **7,055** | 4,642 |
| Outstanding claims | **138,639** | (317,796) |
| Deferred income | **48,435** | 27,538 |
| Trade and other payables | **34,958** | 22,153 |
| Cashflow from operations | **1,160,927** | 991,312 |

## 12 Financial risk management

### (a) Risk management objectives and policies

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The Board has established the Finance, Audit and Risk Management Committee, which is responsible for developing and monitoring risk management policies. The committee reports regularly to the Board of Directors on its activities.

Risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company through its training and management standards and procedures, aim to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Finance, Audit and Risk Management Committee oversees how management monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

The Company has undertaken the following strategies to manage the risks arising from financial instruments.

## 12 Financial risk management (continued)

### (b) Capital management

The Board's policy is to maintain a strong capital base so as to ensure that the Company continues as a going concern and to sustain future development of the business, while maximising benefit returns to members. The Board of Directors closely monitors the gross underwriting margin, which is defined as operating income less benefit and levy costs.

The Board seeks to maintain a balance between the higher contribution rates and the advantages and security afforded by a higher level of capital. The Board has determined that the minimum level of capital to be retained should be equal to a Capital Adequacy prudential ratio of 2.0.

The minimum Capital Adequacy prudential ratio requirement set by the private health insurance regulatory body (PHIAC) is 1.0. The Capital adequacy ratio is defined as total assets divided by total liabilities (including an allowance for a Capital Adequacy Reserve).

### (c) Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from contributors and investment securities.

Credit risk from contributors is mitigated primarily by the Company's policy that contributors in arrears are not eligible to claim benefits. Unfinancial contributors' membership may be terminated by the Company where contributions are in arrears by more than 60 days.

The Company limits its exposure to credit risk from investments by only investing in liquid securities and only with recognised Australian financial institutions with a satisfactory industry credit rating. Given these high credit ratings, management does not expect any counterparty to fail to meet its obligations.

**Concentration of risk**

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each contributor. The demographics of the Company's customer base, including the default risk of the industry and country in which customers operate, has less of an influence on credit risk. As a restricted membership private health insurer whose membership is based in the forestry, timber, paper and downstream processing industries, the Company is potentially exposed to the economic circumstances of those industries.

**Maximum exposure to credit risk**

The Company's maximum exposure to credit risk is generally the carrying amount of the financial instrument, as reflected in the balance sheet.

## 12 Financial risk management (continued)

### (d) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Company is primarily exposed to interest rate risk arising from changes in market interest rate on its variable rate investments and borrowings. Financial instruments held by the Company do not give rise to any material direct exposures to currency or equity price risk.

Management periodically reviews its interest rate exposure and consideration is given to potential renewals of existing positions and the mix of fixed and variable interest rate investments.

### (e) Net Fair Value

The net fair values of:

- Term receivables, government and fixed interest securities and bonds are determined by discounting the cash flows, at the market interest rates of similar securities, to their present value.

- Other loans and amounts due are determined by discounting the cash flows, at market interest rates of similar borrowings to their present value.

- Other assets and other liabilities approximate their carrying value.

Financial assets where the carrying amount exceeds net fair values have not been written down as the economic entity intends to hold these assets to maturity. Fair values are materially in line with carrying values.

### (f) Solvency risk

Solvency risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

In accordance with the Health Benefits Organisations – Standard 2003, the Solvency requirement of the Company as at 30 June 2008 was $1,648,000. In relation to the Company's capital adjusted total assets, this gives a Solvency ratio of 2.7, compared to the minimum ratio of 1.0 under the Solvency Prudential Standard.

## 13 Key Management Personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company. Key management personnel comprise the Directors of the Company and members of the executive management listed below, who are responsible for the day to day financial and operational management of the company:

**Directors**

John Guest
Philip Wilkinson
John Perkins
Wayne Tibbits
Mark Fishwick
Phillip Boon
Julie Milnes
Matthew Fryett
Paul Smith

Other Key Management Personnel

| | |
|---|---|
| Ron Coghill | General Manager |

### Key management personnel compensation

| | 2008 | 2007 |
|---|---|---|
| | $ | $ |
| Salaries and fees | **130,984** | 123,853 |
| Superannuation contributions | **9,122** | 8,733 |
| Non-cash benefits | **15,687** | 15,794 |
| **Total** | **155,793** | 148,380 |

## 14 Related Party Transactions

The Company has received services from entities related to directors. The nature of services provided and the aggregate amount paid for those services is listed below. All transactions have been entered into on terms and conditions no more favourable than those available to other suppliers.

| | | |
|---|---|---|
| McWilky's (formerly Wilky's Electrical), a business part owned by Mr P Wilkinson, provided electrical contracting services to HCI | **-** | 2,220 |

# Directors' Declaration

The directors of the Company declare that:

1. The financial statements and notes, as set out on pages 6 to 20, are in accordance with the Corporations Act 2001 and:

   (a) comply with Accounting Standards and the Corporations Regulations 2001; and

   (b) give a true and fair view of the financial position as at 30 June 2008 and of the performance for the year ended on that date of the Company.

2. In the directors opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.

John Guest ..........J. Guest..........
**Director**

Burnie
15 September 2008

GARROTT
Chartered Accountants

# INDEPENDENT AUDITOR'S REPORT

To the members of Health Care Insurance Ltd

We have audited the accompanying financial report of Health Care Insurance Ltd, which comprises the balance sheet as at 30 June 2008, and the income statement and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration

**Directors' Responsibility for the Financial Report**

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001.

This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of a 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**

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we 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 directors, as well as evaluating the overall presentation of the financial report.

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


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*Offices at Burnie, Devonport and Smithton*

GARROTT and GARROTT
Chartered Accountants

**Independence**

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001 and relevant professional ethical pronouncements.

**Auditor's Opinion**

In our opinion, the financial report of Health Care Insurance Ltd is in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the company's financial position as at 30 June 2008 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

**GARROTT & GARROTT**
Chartered Accountants

Ian R Wright
**Partner**

Launceston

Date: