Annual Report
2018–2019

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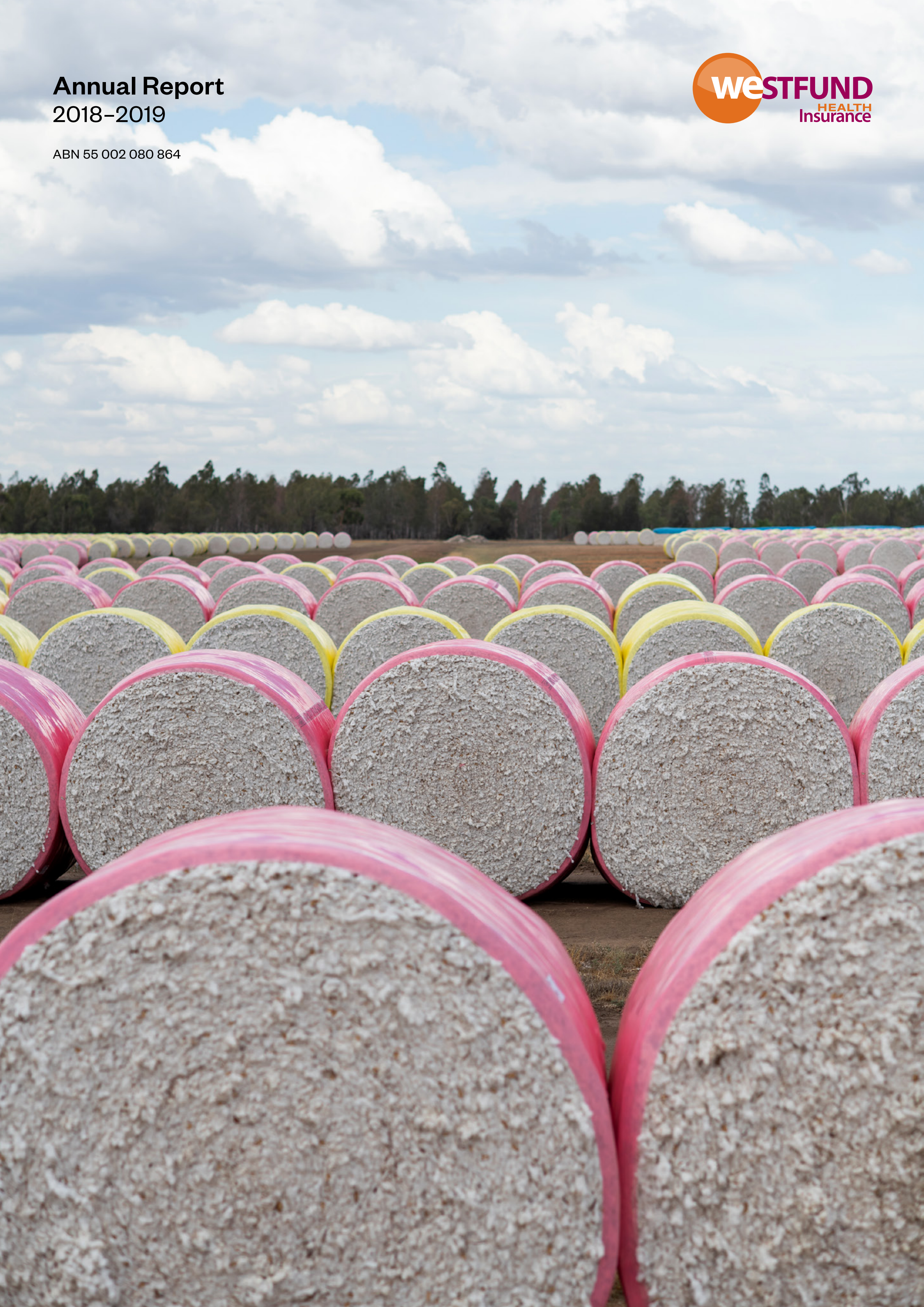

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Report from the Chair

I AM PLEASED to present Westfund's annual report for 2019, a year in which we worked hard to deliver value to our members. Westfund continues to be committed to its vision of becoming the preferred Australian health insurer founded on community values and committed to genuine member focused experiences.

As Chair, I am well aware of the privilege and great responsibility that comes with leading one of Australia's most respected regional health insurers. On behalf of the Board, I would like to take this opportunity to recognise Howard Fisher AM the outgoing Chair, who retired from the Board in November 2018. Howard served on the Board for 35 years and as the Chair for 31 years. During his tenure Howard played a pivotal role in transforming Westfund into one of Australia's most highly respected and best performing Health Funds. I would like to thank Howard for his distinguished service and wish him and his family a prosperous and rewarding future.

Westfund's core values, including our commitment to being a genuine member focused, not-for-profit fund, ensured a strong year of financial performance, achieving a healthy surplus of $17.7m as reflected in the annual results. This is a pleasing result, as it allows Westfund to provide greater value to members as evidenced in the fact that in 2019, Westfund returned 89% of premium contributions as benefits to members. The Board fully supports this commitment and will continue to explore opportunities that will ensure Westfund is well-placed for future success as well as in delivering value to our members.

The Board also recognises the importance of maintaining the highest standards of corporate governance through its corporate governance framework, policies and practices in order to protect and enhance the interests of members.

The Board manages Westfund within the legislative and regulatory requirements, as well as within the parameters of the Fund Rules and the Westfund Constitution. In addition, to assist the Board in fulfilling its responsibilities, the Board has established three Board Sub-Committees, namely the Risk, Audit and Remuneration Nomination and Governance Committees.

The Board is committed to ensuring Westfund continues to meet and exceed industry standards in relation to risk, capital management and other regulatory and prudential rules that apply to our sector. Westfund recognises that managing enterprise wide risks is good management practice, supports achieving organisational objectives (strategic, operational, financial and regulatory) and is an integral part of sound corporate governance. Westfund has a Risk Management Strategy and Framework consistent with the international standard, ISO 31000:2009, which sets out principles for organisation to follow in order to achieve effective risk management. Where required the Risk Management Strategy and Framework is supported by risk policies such as Capital Management Plan, Work Health and Safety Policy, Whistleblowing Policy, Business Continuity Management Plan, Information Security Policy and Complaints Policy. The Board also sets and regularly reviews Westfund's risk appetite statement on at least an annual basis.

On behalf of my fellow directors, I would like to thank our members for their continued support, Chief Executive Officer Matt Banning, his executive team and all Westfund staff for their dedication and commitment throughout the year, the results of which are evident in this report. The achievements of the year and work that is ongoing means Westfund is well-placed for future success in a challenging environment and will continue to meet the needs and expectations of our members.

Graeme Osborne
Chair

WESTFUND HAS CONTINUED its journey to realise its vision to become the preferred Australian health insurer founded on community values and committed to genuine member focused experiences in the 2019 financial year.

Sound progress has been made during the year with implementation of our strategic plan, headlined by our three key themes of growth, member experience and people. The current financial year also saw $800,000 in premium relief being granted to our regional members who were directly impacted by the severe drought. I had the privilege of visiting some of our members in the Narromine region and seeing firsthand the impact of several years of below average rainfall. It is incredible to see the resilience of these members and how they can still keep a smile on their faces as they patiently wait for rain.

Affordability continues to be a concern for our members which led to Westfund launching new products from 1 January 2019 giving our members the ability to choose the most appropriate hospital and general treatment cover. Westfund also had the lowest average premium increase in the industry in 2019 at 1.64%, along with implementing federal government private health insurance reforms. These reforms which saw our health insurance products classified into Gold, Silver, Bronze and Basic covers were the greatest reforms the industry has seen this century.

The 2019 financial year also saw record growth in membership, benefits paid to members and income generated from investments, making it one of the most successful years in the funds 60+ year history. The 2018-19 operating surplus of $17.7m that was achieved has been reinvested to benefit Westfund members. The Fund achieved above industry average membership growth of 14% taking its membership base to just over 53,300 policies with our premium revenue increasing by 10% to $206m in 2019. Westfund also returned 89% of revenue ($184m claims expense) in benefits to our members.

All of this would not be possible without the ongoing commitment demonstrated each and every day by the entire Westfund team across our 13 locations. On behalf of the Executive Management Team, I would like to take this opportunity to thank all staff for their effort over the last 12 months and I look forward to another successful year in 2020.

Matt Banning
Chief Executive Officer

Board of Directors

THE DIRECTORS PRESENT their report, together with the financial statements, on the company for the year ended 30 June 2019.

Directors

The following persons were directors of the company during the whole of the financial year and up to the date of this report, unless otherwise stated:

Graeme Osborne
Chair

Wesley Anderson
Deputy Chair

Bradley Williams

Brian Kelly

Geoffrey Wheeler

Jordan Tilse

Michael Serong

Phillip Burgett

Howard Fisher AM
(retired on 14 November 2018)

Company objectives

The company's purpose is to support members' long-term well-being with premium services that facilitate choice, access and affordability of healthcare.

The company's members are its customers and sole stakeholders. The company's financial driver is sustaining high value services and benefits for its members.

The company's short-term objectives are to:

- improve and promote the value of membership in the face of heightened price sensitivity, increased competition, reduced Government incentive and tough economic conditions;
- maintain industry-leading member retention;
- continue development of sales and service channels;
- grow membership while maintaining sustainable products;
- build reputation to support membership retention and growth;
- remain financially strong; and
- enhance employee well-being at work and attract and retain quality employees.

The company's long-term objectives are to:

- become the preferred Australian health insurer founded on community values and committed to genuine member focussed experiences;
- maximise member value through high quality, value-for-money health insurance products and an integrated health service offering supported by highly personalised service;
- finance health outcomes to the benefit of members;
- maintain a profit-for-members approach, with surpluses in excess of requirements used for the benefit of members; and
- provide regional employment and career opportunities.

Strategy for achieving the objectives

To achieve these objectives, the company has adopted the following strategies:

- increase the company's brand awareness and presence in Australia;
- utilise the company's significant capital reserves to assist in reducing the annual premium increase to members;
- increase the value of the company's membership by providing additional services;
- modernise the way in which the company interacts with its members;
- provide member facing staff with the required training and tools to excel in their job; and
- attract and retain quality staff to work for the company in regional locations.

Principal activities

The continuing principal activities of the company during the year were to provide health insurance and healthcare services to members.

Contribution on winding up

The company is incorporated under the Corporations Act 2001 and is a company limited by guarantee. If the company is wound up, the constitution states that each member is required to contribute a maximum of $1 each towards meeting any outstanding obligations of the company. As at 30 June 2019 there were 53,427 (2018: 47,491) members and the collective liability of these members was $53,427 (2018: $47,491).

Board of Directors
Director Profiles

GRAEME OSBORNE
GAICD
Chair

Graeme was appointed as Board Chair in 2018 and has been a non-executive director since 1996. He has experience in private health insurance, industrial relations and the superannuation, mining and financial services industries. He is a director of Auscoal Superannuation Pty Ltd where he serves as a member of the Audit, Risk and Compliance committee. He also serves as a member of Mine Superannuation's Insurance committee and Remuneration and Nomination committee. He is currently District Vice President of the Construction, Forestry, Maritime, Mining and Energy Union – South Western District.

Special responsibilities:
Member of the Audit Committee, member of the Risk Committee and member of the Remuneration Nomination and Governance Committee.

WESLEY ANDERSON
FIPA, AFAIM, MAICD
Deputy Chair

Wesley has been a non-executive director since 2004 and was appointed as Deputy Chair in 2018. He has a strong background in the banking and finance sectors. He held the position of Chief Executive Officer of Family First Credit Union for 28 years and was previously Deputy President of the Credit Union Foundation of Australia.

Special responsibilities:
Chair of the Risk Committee and member of the Audit Committee.

BRAD WILLIAMS
BBM, MIML, GAICD
Non-Executive Director

Bradley was appointed as a director in 2017. He has a strong background in finance, banking and business development. He has held various positions at Community First Credit Union and Westpac Bank and is a director of Bradfin Pty Ltd, a mortgage broking company. He is currently Head of Industry Relationships at Unity Bank.

Special responsibilities:
Member of the Audit Committee.

BRIAN KELLY
GAICD
Non-Executive Director

Brian was appointed as a director in 2010. He has strong experience in the mining industry and has held the position of Regional Manager at Western Mines Rescue Station for a number of years with expertise in work health and safety and emergency response. Prior to this he was Production Manager at mining company Centennial Coal. Brian is a member of the Mine Managers' Association of Australia.

Special responsibilities:
Chair of the Remuneration Nomination and Governance Committee.

GEOFF WHEELER
GAICD
Non-Executive Director

Geoffrey was appointed as a director in 2017. He has experience in mining, business and hospitality, human resources and club management. He is currently General Manager of the Lithgow Workmen's Club.

Special responsibilities:

Member of the Remuneration Nomination and Governance Committee.

JORDAN TILSE
BA, LLB, GAICD
Non-Executive Director

Jordan was appointed as a director in 2017. She has a number of years' experience in top tier law firms as a solicitor advising on employment law matters and corporate governance across various industries including banking, finance and insurance. She has also acted as solicitor assisting the Royal Commission into Trade Union Governance and Corruption. Jordan is founder and principal of Melbourne based law firm Sefton Davis which specialises in advising clients on employment matters including restructures, redundancies, workplace grievances and workplace training and investigations.

Special responsibilities:

Member of the Risk Committee.

MICHAEL SERONG
BA, LLB, GAICD
Non-Executive Director

Michael was appointed as a director in 2014. He is an employment and labour lawyer with a background in business and corporate law, including finance, investment and insurance. He has particular expertise in Private Health Insurance law and regulation and has advised private health insurers over many years. He has held partnerships in a number of law firms during his career and is currently a consultant with Norton Rose Fulbright based in Melbourne.

Special responsibilities:

Member of the Remuneration Nomination and Governance Committee.

PHILLIP BURGETT
BCOM, FCA, GAICD
Non-Executive Director

Phillip was appointed as a director in 2012. He has extensive experience in providing independent audit, risk management and corporate governance services in health, local government, finance and insurance sectors. He is currently an independent member on public sector (local government) audit and risk management committees. Phillip has previously been a partner of accounting and business advisory firm Morse Group.

Special responsibilities:

Chair of the Audit Committee and member of the Risk Committee.

Board of Directors

Company Secretary

Dominique Fox has been the Company Secretary since 2017. Dominique is the Executive Manager Risk and Compliance. Her qualifications and professional memberships include BSc, GradDipEc and GAICD, FGIA and FCIS.

Meetings of Directors

The number of meetings of the company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2019, and the number of meetings attended by each director were:

	Full Board		Audit Committee	
	Attended	Held	Attended	Held
Graeme Osborne – Chair	6	7	4	5
Wesley Anderson – Deputy Chair	6	7	5	5
Bradley Williams	7	7	5	5
Brian Kelly	7	7	-	-
Geoffrey Wheeler	7	7	-	-
Jordan Tilse	7	7	-	-
Michael Serong	7	7	-	-
Phillip Burgett	6	7	5	5
Howard Fisher AM	3	3	2	3

	Risk Committee		Remuneration Nomination and Governance Committee	
	Attended	Held	Attended	Held
Graeme Osborne – Chair	4	4	3	3
Wesley Anderson – Deputy Chair	4	4	-	-
Brian Kelly	-	-	3	3
Geoffrey Wheeler	-	-	3	3
Jordan Tilse	4	4	-	-
Michael Serong	-	-	2	3
Phillip Burgett	4	4	-	-
Howard Fisher AM	-	2	1	2

Held: represents the number of meetings held during the time the director held office or was a member of the relevant committee.

Matt Banning
Chief Executive Officer

Liz Casmiri
Executive Manager Health Care Services

Ron Charlton
Executive Manager Operations

Dominique Fox
Executive Manager Risk and Compliance
Company Secretary

John Pallister
Executive Manager Technology Services

Chris Phillips
Executive Manager Finance

Bill Sheffield
Executive Manager People and Culture

Positions held as at 30 June 2019.

Westfund Limited
Financial Statements
30 June 2019

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The financial statements cover Westfund Limited as an individual entity. The financial statements are presented in Australian dollars, which is Westfund Limited's functional and presentation currency.

Westfund Limited is a not-for-profit unlisted public company limited by guarantee, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Westfund Limited
59 Read Avenue
Lithgow NSW 2790

A description of the nature of the company's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 16 September 2019. The directors have the power to amend and reissue the financial statements.

Directors' Report

Rounding of amounts

The company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors

Graeme Osborne
Chair

Phillip Burgett
Director

16 September 2019
Lithgow

Auditor’s Independence Declaration

To the Directors of Westfund Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Westfund Limited for the year ended 30 June 2019, I declare that, to the best of my knowledge and belief, there have been:

- no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- no contraventions of any applicable code of professional conduct in relation to the audit.

Grant Thornton

Grant Thornton Audit Pty Ltd
Chartered Accountants

A Sheridan
Partner – Audit & Assurance

16 September 2019
Sydney

Statement of Profit or Loss and Other Comprehensive Income
For the year ended 30 June 2019

	Note	2019 $'000	2018 $'000
Premium revenue		205,926	187,072
Claims expense		(184,166)	(159,497)
Risk equalisation trust fund income		13,511	11,546
State levies		(2,787)	(2,320)
Net claims incurred		(173,442)	(150,271)
Gross margin before claims and underwriting expenses		32,484	36,801
Claims handling expenses		(15,564)	(15,929)
Other underwriting expenses		(8,857)	(9,589)
Underwriting expenses		(24,421)	(25,518)
Underwriting result		8,063	11,283
Investment revenue calculated using the effective interest method		26	7
Other revenue	4	6,740	7,778
Net fair value gain on investment properties	12	-	300
Gain on the revaluation of financial instruments at fair value through profit or loss		12,614	3,917
Depreciation and amortisation expense	5	(1,928)	(2,225)
Reversal of impairment/(impairment) of assets	11	6	(1,478)
Impairment of goodwill	13	(527)	-
Cost of goods sold		(3,171)	(3,441)
Fund administration expenses		(4,163)	(4,430)
Surplus before income tax expense		17,660	11,711
Income tax expense		-	-
Surplus after income tax expense for the year attributable to the members of Westfund Limited		17,660	11,711
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year attributable to the members of Westfund Limited		17,660	11,711

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

Statement of Financial Position
As at 30 June 2019

	Note	2019 $'000	2018 $'000
Assets			
Current assets			
Cash and cash equivalents		286	369
Trade and other receivables	6	9,292	8,521
Inventories		278	415
Financial assets at fair value through profit or loss	7	50,966	160,374
Security deposits		78	38
Deferred acquisition costs	8	1,000	-
Other	9	3,311	950
Total current assets		65,211	170,667
Non-current assets			
Financial assets at fair value through profit or loss	10	132,127	14,740
Deferred acquisition costs	8	2,499	-
Property, plant and equipment	11	12,084	14,594
Investment properties	12	7,245	5,760
Intangibles	13	684	1,133
Total non-current assets		154,639	36,227
Total assets		219,850	206,894
Liabilities			
Current liabilities			
Trade and other payables	14	1,179	5,712
Employee benefits		2,472	2,275
Provisions	15	17,374	15,839
Other	16	29,633	31,415
Total current liabilities		50,658	55,241
Non-current liabilities			
Employee benefits		512	633
Total non-current liabilities		512	633
Total liabilities		51,170	55,874
Net assets		168,680	151,020
Equity			
Retained surpluses		168,680	151,020
Total equity		168,680	151,020

The above statement of financial position should be read in conjunction with the accompanying notes.

Statement of Changes in Equity
For the year ended 30 June 2019

	Asset revaluation reserve $'000	Retained surpluses $'000	Total equity $'000
Balance at 1 July 2017	-	139,309	139,309
Surplus after income tax expense for the year	-	11,711	11,711
Other comprehensive income for the year, net of tax	-	-	-
Total comprehensive income for the year	-	11,711	11,711
Balance at 30 June 2018	-	151,020	151,020
Balance at 1 July 2018	-	151,020	151,020
Surplus after income tax expense for the year	-	17,660	17,660
Other comprehensive income for the year, net of tax	-	-	-
Total comprehensive income for the year	-	17,660	17,660
Balance at 30 June 2019	-	168,680	168,680

The asset revaluation reserve is used to recognise changes in the fair value of land and buildings, excluding investment properties. The value is currently $nil as previous revaluations have been fully exhausted by subsequent downward revaluations.

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Statement of Cash Flows
For the year ended 30 June 2019

	Note	2019 $'000	2018 $'000
Cash flows from operating activities			
Surplus before income tax expense for the year		**17,660**	11,711
Adjustments for:			
Depreciation and amortisation	5	**1,928**	2,225
Net fair value movement and impairment on land and buildings, investment properties and goodwill		**521**	1,178
Fair value movement on investments		**-**	19
Net loss on disposal of non-current assets		**8**	23
Amortisation of deferred acquisition costs		**525**	-
Interest received		**(26)**	(7)
		20,616	15,149
Change in operating assets and liabilities:			
Decrease/(increase) in trade and other receivables		**(771)**	338
Decrease/(increase) in inventories		**137**	(24)
Increase in prepayments		**(2,378)**	(184)
Increase in other operating assets		**(4,047)**	(94)
Increase/(decrease) in trade and other payables		**(3,688)**	4,565
Increase in employee benefits		**76**	305
Increase/(decrease) in other provisions		**1,535**	(891)
Increase/(decrease) in other operating liabilities		**(2,627)**	153
		8,853	19,317
Interest received		**26**	7
Net cash from operating activities		**8,879**	19,324
Cash flows from investing activities			
Net change in investments		**(7,979)**	(17,631)
Payments for property, plant and equipment	11	**(552)**	(1,123)
Payments for intangibles	13	**(431)**	(526)
Net cash used in investing activities		**(8,962)**	(19,280)
Cash flows from financing activities			
Net cash used in investing activities		**-**	-
Net increase/(decrease) in cash and cash equivalents		**(83)**	44
Cash and cash equivalents at the beginning of the financial year		**369**	325
Cash and cash equivalents at the end of the financial year		**286**	369

The above statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the Financial Statements
30 June 2019

Note 1. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

New or amended Accounting Standards and Interpretations adopted

The company has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The following new Accounting Standard adopted is most relevant to the company:

AASB 9 Financial Instruments

The company has adopted AASB 9 from 1 July 2018, applying the standard retrospectively. The standard replaced AASB 139 'Financial Instruments: Recognition and Measurement'. The standard introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows which arise on specified dates and that are solely principal and interest. A debt investment shall be measured at fair value through other comprehensive income if it is held within a business model whose objective is to both hold assets in order to collect contractual cash flows which arise on specified dates that are solely principal and interest as well as selling the asset on the basis of its fair value. All other financial assets are classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading or contingent consideration recognised in a business combination) in other comprehensive income ('OCI').

Despite these requirements, a financial asset may be irrevocably designated as measured at fair value through profit or loss to reduce the effect of, or eliminate, an accounting mismatch. For financial liabilities designated at fair value through profit or loss, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch).

New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity.

New impairment requirements use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment is measured using a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. For receivables, a simplified approach to measuring expected credit losses using a lifetime expected loss allowance is available.

Consistent with AASB 1023 'General Insurance Contracts', financial assets backing insurance liabilities are measured and classified at fair value through profit or loss and there the impact of AASB 9 has been minimal, as detailed below.

There were also consequential changes to AASB 101 'Presentation of Financial Statements' from the introduction of AASB 9.

The impact on adoption is as follows:

- the company now recognises impairment of trade receivables and assets held at amortised cost based on ECL rather than only incurred credit losses, as was the case under AASB 139. The company has used the simplified approach to measuring ECL which uses a lifetime expected loss allowance for all trade receivables. There was no impact on the change in impairment modelling; and
- interest income is now shown separately on the face of profit or loss. This resulted in the reclassification of 'investment income' split between 'interest revenue calculated using the effective interest method' and 'gain on the revaluation of financial instruments at fair value through profit or loss'.

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for not-for-profit oriented entities.

Historical cost convention

The financial statements have been prepared under the historical cost convention, except for, the revaluation of financial assets and liabilities at fair value through profit or loss, investment properties and certain classes of property, plant and equipment.

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

Revenue recognition

Revenue arises from the sale of goods and the rendering of services. It is measured by reference to the fair value of consideration received or receivable, excluding taxes, rebates, and discounts. The company applies the revenue recognition criteria set out below to each separately identifiable component of the sales transaction in order to reflect the substance of the transaction.

Premium revenue

Premium revenue is recorded on an accruals basis, reflecting contributions received adjusted for the opening and closing contributions in advance and in arrears. Contributions received in advance are recorded as a liability and contributions in arrears, to the extent recoverable, are recorded as an asset in the statement of financial position. Premiums on unclosed business are brought to account using estimates based on payment cycles nominated by the policyholder. Unearned premiums are those portion of members premiums that are unpaid as at the reporting date, but are not due to be received until the relevant billing cycle due date that falls after the reporting date.

Eye care centres revenue

Revenue from eye care centres is recognised upon the delivery of goods and services to customers.

Dental centres revenue

Revenue from dental centres is recognised upon the delivery of goods and services to customers.

Rental income

Rent revenue from investment properties is recognised on a straight-line basis over the lease term. Lease incentives granted are recognised as part of the rental revenue. Contingent rentals are recognised as income in the period when earned.

Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established.

Interest

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Claims expense

Claims are recorded as an expense in the period in which the service has been provided to the member. The cost of claims therefore represents the claims paid during the period adjusted for the opening and closing provision for outstanding claims. The provision provides for claims received but not assessed and claims incurred but not received and is based on an actuarial assessment taking into account historical patterns of claims incidence and processing. No discount is applied to the provision due to the generally short period between claims incidence and settlement. The provision also provides for the expected payment to or receipt from the Risk Equalisation Trust Fund ('RETF') in relation to outstanding claims. The provision also allows for an estimate of expenses to cover the cost of processing the claims.

Risk equalisation

Amounts payable to or receivable from the RETF are recognised in profit or loss in the period for which the payments or receipts relate.

Any amounts due or owing at the reporting date in relation to the period are brought to account as an asset or liability.

Income tax

The company is a private insurer within the meaning of the Private Health Insurance Act 2007 and is exempt from income tax assessment under section 50-30 of the Income Tax Assessment Act 1997.

Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the company's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

Notes to the Financial Statements
30 June 2019

Note 1. Significant accounting policies (continued)

A liability is classified as current when: it is either expected to be settled in the company's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days.

The company has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

Deferred acquisition costs

Direct acquisition costs incurred in obtaining health insurance contracts, including broker commissions, are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in profit or loss in subsequent reporting periods. Deferred acquisition costs are amortised on a straight-line basis in accordance with the expected pattern of the incidence of risk under the open ended insurance contracts to which they relate, which includes expectations of members remaining insured.

Inventories

Inventories are stated at the lower of cost and net realisable value on a 'first in first out' basis. Costs of purchased inventory are determined after deducting rebates and discounts received or receivable.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

Investments and other financial assets

Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. Such assets are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on both the business model within which such assets are held and the contractual cash flow characteristics of the financial asset unless, an accounting mismatch is being avoided.

Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the company has transferred substantially all the risks and rewards of ownership. When there is no reasonable expectation of recovering part or all of a financial asset, it's carrying value is written off.

Financial assets at amortised cost

Financial assets at amortised cost are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the asset is derecognised or impaired.

Financial assets at fair value through profit or loss

Financial assets not measured at amortised cost or at fair value through other comprehensive income are classified as financial assets at fair value through profit or loss. Typically, such financial assets will be either: (i) held for trading, where they are acquired for the purpose of selling in the short-term with an intention of making a profit, or a derivative; or (ii) designated as such upon initial recognition where permitted. Fair value movements are recognised in profit or loss.

Impairment of financial assets

The company recognises a loss allowance for expected credit losses on financial assets which are either measured at amortised cost or fair value through other comprehensive income. The measurement of the loss allowance depends upon the company's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain.

Where there has not been a significant increase in exposure to credit risk since initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses. The amount of expected credit loss recognised is measured on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate.

For financial assets measured at fair value through other comprehensive income, the loss allowance is recognised within other comprehensive income. In all other cases, the loss allowance is recognised in profit or loss.

Assets backing private health insurance liabilities

As part of the investment strategy, the company actively manages its investment portfolio to ensure that a portion of its investments mature in accordance with the expected pattern of future cash flows arising from private health insurance liabilities.

All insurance backing financial assets are classified as fair value through the profit or loss.

Investment properties

Investment properties principally comprise of freehold land and buildings held for long-term rental and capital appreciation that are not occupied by the company. Investment properties are initially recognised at cost, including transaction costs, and are subsequently remeasured annually at fair value. Movements in fair value are recognised directly to profit or loss.

Investment properties are derecognised when disposed of or when there is no future economic benefit expected.

Transfers to and from investment properties to property, plant and equipment are determined by a change in use of owner-occupation. The fair value on the date of change of use from investment properties to property, plant and equipment are used as deemed cost for the subsequent accounting. The existing carrying amount of property, plant and equipment is used for the subsequent accounting cost of investment properties on the date of change of use.

Property, plant and equipment

Land, building structures and improvements are shown at fair value, based on periodic, at least every three years, valuations by external independent valuers, less subsequent depreciation and impairment for buildings. The valuations are undertaken more frequently if there is a material change in the fair value relative to the carrying amount. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Increases in the carrying amounts arising on revaluation of land and buildings are credited in other comprehensive income through to the asset revaluation reserve in equity. Any revaluation decrements are initially taken in other comprehensive income through to the asset revaluation reserve to the extent of any previous revaluation surplus of the same asset. Thereafter the decrements are taken to profit or loss.

Plant and equipment and motor vehicles is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment (excluding land) over their expected useful lives as follows:

Buildings structures and improvements	7-40 years
Leasehold improvements	5 years
Plant and equipment	3-7 years
Motor vehicles	5 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

Leasehold improvements are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the company. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss. Any asset revaluation reserve surplus relating to the item disposed of is transferred directly to retained profits.

Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to the ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

Notes to the Financial Statements
30 June 2019

Note 1. Significant accounting policies (continued)

Finance leases are capitalised. A lease asset and liability are established at the fair value of the leased assets, or if lower, the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the finance costs, so as to achieve a constant rate of interest on the remaining balance of the liability.

Leased assets acquired under a finance lease are depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the company will obtain ownership at the end of the lease term.

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

Intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Goodwill

Goodwill arises on the acquisition of a business. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

Computer software

Significant costs associated with computer software are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite useful life of three years.

Impairment of non-financial assets

Goodwill is not subject to amortisation and is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Trade and other payables

These amounts represent liabilities for goods and services provided to the company prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Unexpired risk liability

At each reporting date, the adequacy of the unearned premium liability is assessed by considering current estimates of all expected future cash flows relating to future claims against current private health insurance contracts.

If the present value of the expected future cash flows relating to future claims plus an additional risk margin to reflect the inherent uncertainty in the central estimate exceeds the unearned premium liability then the premium is deemed to be deficient. The company applies a risk margin to achieve the same probability of sufficiency for future claims as achieved by the estimate of the outstanding claims liability.

Provisions

Provisions are recognised when the company has a present (legal or constructive) obligation as a result of a past event, it is probable the company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation.

Outstanding claims provision

A provision is made for outstanding claims at the reporting date, measured as the central estimate of the expected payments against claims incurred but not settled under insurance contracts. The expected future payments include those in relation to claims reported but not yet paid and claims incurred but not yet reported, together with allowances for RETF consequences and claims handling expenses.

Employee benefits

Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

Other long-term employee benefits

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Defined contribution superannuation expense

Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

For quoted investments, fair value is determined based on current bid price. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Assets and liabilities measured at fair value are classified into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

Notes to the Financial Statements
30 June 2019

Note 1. Significant accounting policies (continued)

Comparative information

Comparatives have been revised, where appropriate, to conform to changes in presentation in the current year and to enhance comparability. There was no net effect on the surplus for the financial year ended 30 June 2018 nor net asset position as at 30 June 2018.

Rounding of amounts

The company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the company for the annual reporting period ended 30 June 2019. The company's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the company, are set out below.

AASB 15 Revenue from Contracts with Customers

This standard is applicable to annual reporting periods beginning on or after 1 January 2018 (for-profit entities) or 1 January 2019 (not-for-profit entities). The standard provides a single standard for revenue recognition and replaces AASB 118 'Revenue' which covers contracts for goods and services and AASB 111 'Construction Contracts' which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The majority of the company's revenue is recognised under AASB 1023 'General Insurance Contracts' which is not impacted by the adoption of AASB 15. There is no material impact of this standard on the company's non-insurance revenue. The company will adopt this standard from 1 July 2019.

AASB 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset and lease liability are recognised at the commencement of the lease. The right-of-use asset is recognised at an amount that is equivalent to the initial measurement of the lease liability, adjusted for lease prepayments, lease incentives received, initial direct costs incurred, and an estimate of any future restoration, removal or dismantling costs. The lease liability is recognised at the present value of future lease payments comprising fixed lease payments less incentives, variable lease payments, residual guarantees payable, payment of purchase options where exercise is reasonably certain, and any anticipated termination penalties. The lease payments are discounted at the rate implicit in the lease, or where not readily determinable, the entity's incremental borrowing rate. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. For lessor accounting, the standard does not substantially change how a lessor accounts for leases.

Impact of adoption of AASB 16

The company will adopt AASB 16 from 1 July 2019 and has elected to use the modified transitional approach not to restate comparatives. Furthermore, the company has elected to continue to account for leases as operating leases where the lease term ends within 12 months of the date of initial application. As detailed in note 22, the company's undiscounted operating leases, on transition is $954,000. The impact on adoption will not be material, as summarised as follows:

- $145,000 expiring within 12 months and therefore will continue to be accounted for as operating leases using the transitional provisions; and
- $809,000 representing long-term leases that will be capitalised as a right-of-use asset with corresponding lease liability from 1 July 2019, discounted using the company's incremental borrowing rate at the date of initial application.

AASB 17 Insurance Contracts

This standard is applicable to annual reporting periods beginning on or 1 January 2021. The standard replaces AASB 4 'Insurance Contracts', AASB 1023 'General Insurance Contracts' and AASB 1038 'Life Insurance Contracts' and will enhance comparability of accounting between products, companies and across jurisdictions by establishing principles for the recognition, measurement, presentation and disclosure of insurance contracts issued, including reinsurance contracts held and investment contracts with a discretionary participation feature. The standard reflects the view that an insurance contract combines features of both a financial instrument and a service contract. AASB 17 combines current measurement of future cash flows with the recognition of profit over the period services are provided under the contract; presents insurance service results and insurance revenue separately from insurance finance income or expenses; and requires an accounting policy choice on a portfolio-by-portfolio basis of whether to recognise all insurance finance income or expenses in profit or loss or partially in other comprehensive income. Insurance obligations will be accounted for using current values – instead of historical cost. The information needs be updated regularly, providing more useful information to the users of financial statements. Further key principles of AASB 17 include the following:

- insurance contracts are those where the entity accepts significant insurance risk from the policyholder;
- accounted for separately are specified embedded derivatives, direct investment components and performance obligations within the insurance contract;
- division of contracts into groups that are recognised and measured at a risk-adjusted present value of the future fulfilment cash flows plus or minus unearned profits cash flows plus or minus unearned profits;
- the profit from contract groups is recognised over the insurance coverage period, with anticipated losses recognised immediately; and
- disclosure of information so as to assess the effect that contracts have on the financial position, financial performance and cash flows of the entity, including qualitative and quantitative information about amounts recognised, significant judgements made and the nature and extent of the risks from insurance contracts.

The company expects to adopt this standard from 1 July 2021 and is yet to assess its impact.

Other amending accounting standards

Other amending accounting standards issued but not mandatory are not considered to have a significant impact on the financial statements of the company as they provide either clarification of existing accounting treatment or editorial amendments.

Notes to the Financial Statements
30 June 2019

Note 2. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Provision for outstanding claims

As disclosed in note 1, a liability for outstanding claims is recognised at the reporting date, measured based on the central estimate of the expected payments against claims incurred but not settled at the reporting date. This 'central estimate' of outstanding claims is an estimate which is intended to contain no intentional over or under estimation. For this reason the inherent uncertainty in the central estimate must also be considered and a risk margin is added. The estimated cost of claims includes allowances for the RETF consequences and claims handling expense. Given the inherent uncertainty in establishing claims provisions, it is likely that actual results will differ from the original estimate.

The company uses estimation techniques in calculating the estimated cost of unpaid claims based upon statistical analysis of historical data. Allowance is made, however, for changes or uncertainties which may distort the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims, including changes to the company's processes which might accelerate or slow down the notification and/or recording of paid or incurred claims, compared with statistics from previous periods. The calculation was determined taking into account benefits paid as at the reporting date.

The risk margin is based on an analysis of the past experience of the company. The analysis examined the volatility of the past payments that has not been explained by the model adopted to determine the central estimate. This past volatility has been assumed to be indicative of the future volatility. The central estimates are calculated gross of any risk equalisation recoveries. A separate estimate is made of the amounts that will be recoverable from the RETF based upon the gross provision.

Details of specific key estimates and judgements used in deriving the outstanding claims liability as at the reporting date are detailed in note 3.

Unexpired risk liability

Claims are recorded as an expense in the period in which the service has been provided to the member. The cost of claims therefore represents the claims paid during the period adjusted for the opening and closing provision for unpresented and outstanding claims. The provision for unpresented and outstanding claims provides for claims received but not assessed and claims incurred but not received. The provision is based on an actuarial assessment taking into account historical patterns of claims incidence and processing. No discount is applied to the provision due to the generally short period between claims incidence and settlement. The provision also provides for the expected payment to or receipt from the RETF in relation to the amount provided for unpresented and outstanding claims. The provision also allows for an estimate of expenses to cover the cost of processing the claims.

No deficiency was identified as at 30 June 2018 and 30 June 2017 that resulted in an unexpired risk liability needing to be recognised. This test is also extended beyond the recognised unearned premium liability to include premiums renewable until the next repricing review, usually 1 April each year.

Goodwill

The company tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill have suffered any impairment, in accordance with the accounting policy stated in note 1. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

Direct acquisition costs

The company pays an upfront commission to brokers on signing up new members. These upfront commissions are likely to give rise to future premium revenue beyond the current period and are able to be measured and directly attributed to a particular insurance contract. The company considers the duration of a health insurance contract to be an open-ended agreement as the company stands ready to continue to insure its members under continuing policies. However, general insurers amortise deferred acquisition costs usually over one year, as their policies generally have a defined term of one year. With health insurance, if the contract term is considered to be only the term to which the member has agreed to, or paid to, the deferred acquisition cost would be amortised over that term. This does not consider the open-ended nature of a health insurance contract, the contract periods to which future premium revenue will arise, nor the expected pattern of the incidence of risk under the insurance contracts to which the costs relate. For these reasons the company has assessed that it is more appropriate to use average retention rates to determine the appropriate member contract life and related amortisation period for members who purchase insurance through the broker channel.

The company re-performs this analysis at least annually for reassessment. For the year ended 30 June 2019, the average member contract life has been assessed as 4 years. This resulted in a decrease in acquisition cost to the profit or loss of $3,490,000. The recoverability of the related deferred acquisition costs is also considered as part of the liability adequacy test performed. As described in note 15, the company has no deficiency in the unearned premium liability at 30 June 2019.

Employee benefits provision

As discussed in note 1, the liability for employee benefits expected to be settled more than 12 months from the reporting date are recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

Notes to the Financial Statements
30 June 2019

Note 3. Actuarial assumptions and methods

Actuarial methods

The estimate for the outstanding claims provision is derived based on three valuation classes, namely hospital, medical and general treatment services.

In calculating the provision for unpaid claims two methods are used. For recent service months, the Bornhuetter-Ferguson method is given some weighting which progressively blends payment experience and prior forecasts of incurred costs. For other months, a chain ladder method is used. This assumes that the notification pattern of the current claims will be consistent with historical experience.

Actuarial assumptions

The following assumptions have been made in determining the outstanding claims liability:

Variables	2019 Hospital %	2019 Medical %	2019 General treatment %	2018 Hospital %	2018 Medical %	2018 General treatment %
Assumed portion paid to date	**89.23**	**90.45**	**96.77**	88.92	89.59	96.52
Expense rate	**3.50**	**3.50**	**3.50**	3.65	3.65	3.65
Risk equalisation rate	**(9.60)**	**(9.60)**	**(9.60)**	(9.40)	(9.40)	-
Risk margin	**11.00**	**11.00**	**11.00**	9.00	9.00	9.00

The risk margin of 11% (2018: 9%) of the underlying liability has been estimated to equate to a probability of adequacy of approximately 75% (2018: 75%).

Process used to determine assumptions

A description of the processes used to determine these assumptions is provided below:

Factor	
Chain ladder development factors	Chain ladder development factors were selected based on observations of historical claim payment experience. Particular attention was given to the development of the most recent 12 months. An increase/decrease would lead to a higher/lower projection of the ultimate liability and a corresponding increase/decrease in claims expense respectively.
Bornhuetter-Ferguson unpaid factors	Bornhuetter-Ferguson unpaid factors were selected based on historical patterns of payment (by notification) to ultimate incurred claims. Essentially, the proportion of ultimate incurred claims to be paid by notification month is selected based on observations from the historical notification. The "unpaid proportion" is then multiplied by a prior forecast of incurred claims for each service month to determine the outstanding claims estimate. An increase/decrease would lead to a higher/lower projection of the ultimate liability and a corresponding increase/decrease in claims expense respectively.
Discount rate	As insurance claims for the company are generally settled within one year, no discounting of claims is usually applied as the difference between the undiscounted value of claims payments and the present value of claims payments is not likely to be material.
Expense rate	Claims handling expenses were calculated by reference to past experience of total claims handling costs as a percentage of total past payments. An increase/decrease in this expense would have a corresponding effect on the claims expense.
Risk equalisation allowance	Risk equalisation is a mechanism designed to help support community rating. The company has been a net recipient from the pool for the last five financial years. This allowance represents the expected receipt from the pool in respect of the outstanding claims.
Risk margin	The risk margin has been based on an analysis of the past experience of the company. This analysis examined the volatility of past payments that has not been explained by the model adopted to determine the central estimate. This past volatility has been assumed to be indicative of the future volatility and has been set at a level estimated to equate to a probability of adequacy of 75% (2018: 75%). An increase/decrease in the risk margin would have a corresponding effect on the claims expense.

Notes to the Financial Statements
30 June 2019

Note 3. Actuarial assumptions and methods (continued)

Sensitivity analysis – insurance contracts

The company conducts sensitivity analysis to quantify the exposure to risk of changes in the key underlying variables as disclosed above. The movement in any key variable will impact the performance and equity of the company.

Impact on key variables

Variables	Movement in variable %	Adjustments on surplus/ (deficit) $'000	Adjustments on equity $'000
Chain ladder development factors	10.0%	(603)	(603)
	(10.0%)	611	611
Bornhuetter-Ferguson unpaid factors	5.0%	(650)	(650)
	(5.0%)	650	650
Expense rate	1.0%	(183)	(183)
	(1.0%)	180	180
Risk equalisation	1.0%	(166)	(166)
	(1.0%)	166	166
Risk margin	1.0%	(155)	(155)
	(1.0%)	155	155

Note 4. Other revenue

	2019 $'000	2018 $'000
Eye care centres revenue	**3,048**	3,117
Dental centres revenue	**3,322**	4,153
Rental income	**365**	280
Other revenue	**5**	228
	6,740	7,778

Note 5. Expenses

	2019 $'000	2018 $'000
Surplus before income tax includes the following specific expenses:		
Depreciation		
Building structures and improvements	293	555
Leasehold improvements	473	440
Plant and equipment	659	733
Motor vehicles	150	170
Total depreciation	1,575	1,898
Amortisation		
Computer software	353	327
Total depreciation and amortisation	1,928	2,225
Rental expense relating to operating leases		
Minimum lease payments	912	947
Employee costs		
Salaries, wages and employment entitlements	16,772	17,766
Payroll tax	840	797
Superannuation	1,396	1,317
Other	640	842
Total employee costs	19,648	20,722

Note 6. Trade and other receivables

	2019 $'000	2018 $'000
Current assets		
Trade receivables	938	317
Premiums in arrears	419	355
Less: allowance for expected credit losses of premiums in arrears	(116)	(110)
	303	245
Medicare rebates	3,794	3,493
RETF refund	4,036	3,469
Investment income receivable	221	997
	9,292	8,521

Allowance for expected credit losses

The company has recognised a loss of $6,000 (2018: $6,000) in profit or loss in respect of impairment of premiums in arrears and $nil (2018: $nil) in respect of impairment of trade receivables.

Notes to the Financial Statements
30 June 2019

Note 6. Trade and other receivables (continued)

The ageing of trade receivables and premiums in arrears and allowance for expected credit losses provided for above are as follows:

	Expected credit loss rate		Carrying amount		Allowance for expected credit losses	
	2019 %	2018 %	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Not overdue	-	-	**16**	28	-	-
0 to 3 months overdue	-	-	**922**	289	-	-
Over 6 months overdue and premiums in arrears	**27.7%**	31.0%	**419**	355	**116**	110
			1,357	672	**116**	110

Movements in the provision for impairment of receivables are as follows:

	2019 $'000	2018 $'000
Opening balance	**110**	104
Additional provisions recognised	**6**	6
Closing balance	**116**	110

Note 7. Financial assets at fair value through profit or loss

	2019 $'000	2018 $'000
Current assets		
Term deposits	**34,515**	137,012
Cash at call	**16,451**	23,362
	50,966	160,374

Refer to note 19 for further information on fair value measurement.

Note 8. Deferred acquisition costs

	2019 $'000	2018 $'000
Current assets		
Deferred acquisition costs	**1,000**	-
Non-current assets		
Deferred acquisition costs	**2,499**	-

Movements in deferred acquisition costs

Movements in deferred acquisition costs (both current and non-current) are set out below:

	2019 $'000	2018 $'000
Additions	**4,024**	-
Amortisation	**(525)**	-
Carrying amount at the end of the year	**3,499**	-

Note 9. Other

	2019 $'000	2018 $'000
Current assets		
Prepayments	2,719	341
Unclosed business	592	609
	3,311	950

Note 10. Financial assets at fair value through profit or loss

	2019 $'000	2018 $'000
Non-current assets		
Mortgage backed securities	1,830	1,830
Managed funds	130,297	12,910
	132,127	14,740

Refer to note 19 for further information on fair value measurement.

Note 11. Property, plant and equipment

	2019 $'000	2018 $'000
Non-current assets		
Land, building structures and improvements	11,565	12,971
Less: accumulated depreciation	(1,954)	(1,711)
	9,611	11,260
Leasehold improvement	2,983	2,957
Less: accumulated depreciation	(2,540)	(2,067)
	443	890
Plant and equipment	8,726	8,317
Less: accumulated depreciation	(7,015)	(6,350)
	1,711	1,967
Motor vehicles	961	1,028
Less: accumulated depreciation	(642)	(551)
	319	477
	12,084	14,594

Notes to the Financial Statements
30 June 2019

Note 11. Property, plant and equipment (continued)

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

	Land, building structures and improvements $'000	Leasehold improvement $'000	Plant and equipment $'000	Motor vehicles $'000	Total $'000
Balance at 1 July 2017	13,957	871	2,198	555	17,581
Additions	132	393	506	92	1,123
Disposals	-	-	(4)	-	(4)
Revaluation decrements or impairment	(1,478)	-	-	-	(1,478)
Transfers to investment properties (note 12)	(796)	66	-	-	(730)
Depreciation expense	(555)	(440)	(733)	(170)	(1,898)
Balance at 30 June 2018	11,260	890	1,967	477	14,594
Additions	123	26	403	-	552
Disposals	-	-	-	(8)	(8)
Transfers to investment properties (note 12)	(1,479)	-	-	-	(1,479)
Depreciation expense	(293)	(473)	(659)	(150)	(1,575)
Balance at 30 June 2019	9,611	443	1,711	319	12,084

Valuations of land and buildings

Refer to note 19 for details on the revaluation of land and buildings.

The net revaluation decrease in 2018 and subsequent part reversal in 2019 has been recognised fully in profit or loss as there is no revaluation surplus available in reserves to offset the revaluation decrease.

Note 12. Investment properties

	2019 $'000	2018 $'000
Non-current assets		
Investment properties – fair value	**7,245**	5,760

Reconciliation

Reconciliation of the fair values at the beginning and end of the current and previous financial year are set out below:

	2019 $'000	2018 $'000
Opening fair value	**5,760**	4,730
Revaluation increments	**6**	300
Transfer from property, plant and equipment (note 11)	**1,479**	730
Closing fair value	**7,245**	5,760

Valuations of investment properties

Refer to note 19 for details on the fair value of investment properties.

Rental income and expenses

Investment properties are leased out on operating leases. Rental income amounts to $365,000 (2018: $280,000) included within other revenue, as detailed in note 4. Direct lessor property expenses of $133,000 (2018: $85,000) payable by the lessor were reported within other expenses, of which $nil (2018: $45,000) was incurred on vacant properties that did not generate rental income.

	2019 $'000	2018 $'000
Lessor commitments		
Minimum lease commitments receivable but not recognised in the financial statements:		
Within one year	**449**	283
One to five years	**1,454**	1,145
More than five years	**-**	126
	1,903	1,554

Note 13. Intangibles

	2019 $'000	2018 $'000
Non-current assets		
Goodwill – at cost	**527**	527
Less: impairment	**(527)**	-
Computer software – at cost	**3,681**	3,250
Less: accumulated amortisation	**(2,997)**	(2,644)
	684	606
	684	1,133

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

	Goodwill $'000	Computer software $'000	Total $'000
Balance at 1 July 2017	527	407	934
Additions	-	526	526
Amortisation expense	-	(327)	(327)
Balance at 30 June 2018	527	606	1,133
Additions	-	431	431
Impairment of assets	(527)	-	(527)
Amortisation expense	-	(353)	(353)
Balance at 30 June 2019	-	684	684

Notes to the Financial Statements
30 June 2019

Note 13. Intangibles (continued)

Impairment testing

Goodwill is assessed for impairment on an annual basis as per note 1. Goodwill was assessed based on the following cash generating units, being a change from the previous year:

	2019 $'000	2018 $'000
Dental	274	-
Eye care	253	-
Dental and eye care	-	527
	527	527

The recoverable amount of the company's goodwill has been determined by a value-in-use calculation using a discounted cash flow model. Based on the cash flow model, the carrying amount exceeded the recoverable amount and since the goodwill could no longer be supported it was therefore fully impaired.

Note 14. Trade and other payables

	2019 $'000	2018 $'000
Current liabilities		
Trade payables	821	5,327
Accrued expenses	358	385
	1,179	5,712

Refer to note 18 for further information on financial instruments and insurance risks.

Note 15. Provisions

	2019 $'000	2018 $'000
Current liabilities		
Lease make good	119	91
Outstanding claims	17,255	15,748
	17,374	15,839

Movements in provisions

Movements in each class of provision during the current financial year, other than employee benefits, are set out below:

2019	Lease make good $'000	Outstanding claims $'000
Carrying amount at the start of the year	91	15,748
Additional provisions recognised	28	169,910
Amounts used	-	(168,403)
Carrying amount at the end of the year	119	17,255

Lease make good

The provision represents the present value of the estimated costs to make good the premises leased by the company at the end of the respective lease terms.

Outstanding claims

The provision represents outstanding claims either being processed at the end of the reporting date or yet to be received by the company in accordance with the terms and conditions of each health insurance policy. Refer to note 3 for actuarial assumptions and methods used.

	2019 $'000	2018 $'000
Outstanding claims – central estimate of the expected future payment for claims incurred future payment for claims incurred	**14,971**	13,893
Claims handling expense	**574**	555
Risk margin	**1,710**	1,300
Net outstanding claims liability	**17,255**	15,748

Provision for unexpired risk liability

2019	Unearned premium $'000	Unearned unclosed business $'000	Constructive obligation $'000	Total $'000
Inflows				
Hospital and general treatment combined premium	28,179	590	161,085	189,854
Outflows				
Central estimate of future benefits	(23,737)	(497)	(136,757)	(160,991)
Central estimate of future management expenses	(1,267)	(27)	(7,244)	(8,538)
Risk margin	(1,000)	(21)	(5,760)	(6,781)
Total outflows	(26,004)	(545)	(149,761)	(176,310)
Net surplus	2,175	45	11,324	13,544

2018	Unearned premium $'000	Unearned unclosed business $'000	Constructive obligation $'000	Total $'000
Inflows				
Hospital and general treatment combined premium	30,806	609	149,475	180,890
Outflows				
Central estimate of future benefits	(25,435)	(503)	(123,411)	(149,349)
Central estimate of future management expenses	(1,008)	(20)	(4,894)	(5,922)
Risk margin	(1,017)	(20)	(4,936)	(5,973)
Total outflows	(27,460)	(543)	(133,241)	(161,244)
Net surplus	3,346	66	16,234	19,646

The total unexpired risk liability was $nil (2018: $nil).

The reporting date liability adequacy test has identified a surplus and as such no provision for unexpired risk liability has been recognised.

The provision for unexpired risk liability is determined as the excess of benefits, risk equalisation, state levies, claims related expenses plus a risk margin over the premiums for the relevant period. Projected benefits, risk equalisation, state levies and claims related expenses were determined from projections adjusted for recent experience and based on no membership growth.

Notes to the Financial Statements
30 June 2019

Note 15. Provisions (continued)

The risk margin of 4% (2018: 4%) applied to the benefits, risk equalisation, state levies and claims related expenses cash flows has been estimated to equate to a probability of adequacy of approximately 75% (2018: 75%).

Note 16. Other

	2019 $'000	2018 $'000
Current liabilities		
Deferred commissions payable	**864**	-
Unearned unclosed business	**590**	609
Unearned premiums	**28,179**	30,806
	29,633	31,415

Note 17. Capital management

The company operates in the private health insurance industry and is subject to prudential capital regulations determined in accordance with the capital adequacy and solvency standards which are set out by the Australian Prudential Regulation Authority ('APRA').

APRA Prudential Standard HPS 110 'Capital Adequacy'

This standard requires amongst other things that the company holds sufficient assets in its health benefits fund to provide adequate capital for the conduct of the health benefits fund in accordance with the Private Health Insurance Act 2007, and in the interests of policyholders of the Fund. The company's compliance with the capital adequacy standard is an indication of its future strength, on a going concern basis.

Each private health insurer must have, and comply with, a written, Board endorsed, capital management policy, which as a key component must include a capital management plan. The company's capital management plan contains:

- a description of the Board's risk appetite as it relates to capital needs and the process used to determine that appetite;
- target capital levels which have regard to access to capital and the impact on premiums of holding more or less capital than the amount determined;
- details of how the capital target is calculated; and
- clearly defined capital trigger points and corrective actions for each of the trigger points which specifies the actions and timeframes for those actions that the company may utilise to return capital to the target levels.

The Board's policy is to maintain a strong capital base and to hold capital in accordance with the company's capital management plan. At the end of the reporting period, the company had capital well in excess of the minimum statutory requirements and slightly above the target capital range endorsed by the Board in the capital management plan.

The Board reviews the capital management plan on an annual basis.

APRA Prudential Standard HPS 100 'Solvency Standard'

This standard requires, as far as practicable, that at any time the financial position of a health benefits fund conducted by the company will be able to meet, out of the Fund's assets, all liabilities that are referable to the Fund, as those liabilities become due. It is also a requirement of the Solvency Standard that the company have and comply with a Board endorsed liquidity management plan for each health benefits fund it conducts. The liquidity management plan includes Board approved minimum liquidity requirements and management action triggers should liquidity fall below the minimum set down by the Board.

The company has a Board endorsed liquidity management plan in place and all liquidity requirements were met at 30 June 2019 and 30 June 2018.

The Board reviews the solvency of the company on a regular basis.

Note 18. Financial instruments and insurance risks

Financial risk management objectives

The company's activities expose it to a variety of financial risks: market risk (including price risk and interest rate risk), credit risk and liquidity risk and insurance risk. The company's overall strategy seeks to assist the company in meeting its financial targets, while minimising potential adverse effects on financial performance.

The Audit Committee and the Risk Committee have been delegated responsibility by the Board for, amongst other issues, monitoring and managing financial risk exposures of the company. An investment policy has been developed by the Board and is subject to regular review.

Market risk

Price risk

The company is not exposed to any direct equity price risk as it does not hold any such financial assets at fair value. However, the company is exposed indirectly to the market where it invests is assets such as managed funds.

Interest rate risk

The company's main interest rate risk arises from its financial assets. Financial assets held at variable rates (cash and cash equivalents, cash at call, security deposits, mortgage backed securities and managed funds) expose the company to interest rate risk, whereas financial assets held at fixed rates (term deposits) expose the company to fair value interest rate risk.

As at the reporting date, the company had the following financial assets exposed to interest rate risk:

	2019 $'000	2018 $'000
Cash at bank	**254**	334
Cash at call	**16,451**	23,362
Mortgage backed securities	**1,830**	1,830
Managed funds	**130,297**	12,910
Net exposure to cash flow interest rate risk	**148,832**	38,436

An official increase/decrease in interest rates of 50 (2018: 50) basis points would have a favourable/adverse effect on surplus before tax and retained surpluses of $744,000 (2018: $192,000) per annum. The percentage change is based on the expected volatility of interest rates using market data and analysts forecasts.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the company. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The company does not hold any collateral.

The company has adopted a lifetime expected loss allowance in estimating expected credit losses to premiums in arrears and trade receivables through the use of a provisions matrix using fixed rates of credit loss provisioning. These provisions are considered representative across all customers of the company based on historical collection rates and forward-looking information that is available. Generally, premiums in arrears and trade receivables are written off when there is no reasonable expectation of recovery. Refer to note 6.

Management monitors credit risk by actively assessing the rating quality and liquidity of counter parties. The below table demonstrates the translation of grading used to assess the investments held by the company.

Notes to the Financial Statements
30 June 2019

Note 18. Financial instruments and insurance risks (continued)

APRA grade	Maximum exposure*	Standard & Poor's	Moody's	AM Best
1	90 - 100%	AAA, AA+, AA, AA-	Aaa, Aa1, Aa2, Aa3	A++, A+
2	20 - 50%	A+, A, A-, BBB+, BBB, BBB-	A1, A2, A3, Baa1, Baa2, Baa3	A, A-, B++, B+
3	5%	BB+, BB, BB-, B+, B, B-	Ba1, Ba2, Ba3, B1, B2, B3	BB+, BB, BB-, B+, B, B-
4	5%	Below B-	Below B3	Below B-
Unrated	5%	-	-	-

Analysis of Standard & Poor's ratings:

AAA to AA-	Encompasses the major Australian banks and the Australian government
A+ to A-	Enables exposure to the regional Australian banks that offer good risk/rewards
BBB+ to BBB-	Provides for greater exposure to regional Australian banks and hybrid securities, but a maximum of 20% is set as a prudent level when combined with liquidity requirements
Unrated	Enables access to a wide range of ASX Listed instruments and non-bank securities such as credit unions and building societies

The investment policy adopted by the company complies with the company's risk appetite and is designed to meet the standards set by APRA. Below is an analysis of the company's credit risk as at the reporting date.

2019	APRA grading 1 $'000	APRA grading 2 $'000	APRA grading 3 $'000	APRA grading 4 $'000	Unrated $'000	Total $'000
Cash and cash equivalents	-	254	-	-	32	286
Loans and receivable	-	-	-	-	9,292	9,292
Term deposits, cash at call and security deposits	50,966	-	-	-	-	50,966
Mortgage backed securities	-	1,830	-	-	-	1,830
Managed funds	-	130,297	-	-	-	130,297
	50,966	132,381	-	-	9,324	192,671
% of total	26%	69%	-	-	5%	100%

2018	APRA grading 1 $'000	APRA grading 2 $'000	APRA grading 3 $'000	APRA grading 4 $'000	Unrated $'000	Total $'000
Cash and cash equivalents	-	334	-	-	35	369
Loans and receivables	-	-	-	-	8,521	8,521
Term deposits, cash at call and security deposits	155,412	5,000	-	-	-	160,412
Mortgage backed securities	-	1,830	-	-	-	1,830
Managed funds	-	12,910	-	-	-	12,910
	155,412	20,074	-	-	8,556	184,042
% of total	84%	11%	-	-	5%	100%

*Maximum allowable per the company's investment policy.

Liquidity risk

Vigilant liquidity risk management requires the company to maintain sufficient liquid assets (mainly cash and cash equivalents) to be able to pay debts as and when they become due and payable.

The company manages liquidity risk by maintaining adequate cash reserves and continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

Remaining contractual maturities

The following tables detail the company's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

Notes to the Financial Statements
30 June 2019

Note 18. Financial instruments and insurance risks (continued)

2019	Weighted average interest rate %	1 year or less $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Remaining contractual maturities $'000
Non-derivatives						
Non-interest bearing						
Trade payables	-	821	-	-	-	821
Other liabilities	-	29,633	-	-	-	29,633
Total non-derivatives		30,454	-	-	-	30,454

2018	Weighted average interest rate %	1 year or less $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Remaining contractual maturities $'000
Non-derivatives						
Non-interest bearing						
Trade payables	-	5,327	-	-	-	5,327
Other liabilities	-	31,415	-	-	-	31,415
Total non-derivatives		36,742	-	-	-	36,742

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

Insurance risk

Insurance risk is the risk of fluctuations in the timing, frequency and severity of claim settlements relative to expectations.

The provision of private health insurance in Australia is governed by the Private Health Insurance Act 2007 and shaped by a number of regulatory factors. These factors include:

(a) the principle of community rating. This principle prevents private health insurers from discriminating between people on the basis of their health status, age, race, sex, sexuality, the frequency that a person needs treatment, or claims history;

(b) risk equalisation which supports the principle of community rating. Private health insurance averages out the cost of hospital treatment across the industry. The risk equalisation scheme transfers money from private health insurers with younger healthier members with lower average claims payments to those insurers with an older and less healthy membership and which have higher average claims payments;

(c) the Private Health Insurance Act 2007 limits the types of treatments that private health insurers are able to offer as part of their health insurance business; and

(d) premiums for health insurance can only be changed with the approval of the Minister for Health.

Note 19. Fair value measurement

Fair value hierarchy

The following tables detail the company's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the company can access at the measurement date
Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
Level 3: Unobservable inputs for the asset or liability

2019	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Term deposits	34,515	-	-	34,515
Cash at call	16,451	-	-	16,45
Mortgage backed securities	-	1,830	-	1,830
Managed funds	-	130,297	-	130,297
Land and buildings	-	-	9,611	9,611
Investment properties	-	-	7,245	7,245
Total assets	50,966	132,127	16,856	199,949

2018	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Term deposits	137,012	-	-	137,012
Cash at call	23,362	-	-	23,362
Mortgage backed securities	-	1,830	-	1,830
Managed funds	-	12,910	-	12,910
Land and buildings	-	-	11,260	11,260
Investment properties	-	-	5,760	5,760
Total assets	160,374	14,740	17,020	192,134

There were no transfers between levels during the financial year.

The carrying amounts of trade and other receivables, financial assets and trade and other payables are assumed to approximate their fair values due to their short-term nature.

Valuation techniques for fair value measurements categorised within level 2 and level 3

Land and building was independently valued by Herron Todd White Ltd as at 30 June 2018. These valuations have been conducted on the basis of market value and have been performed through a review of sale and rental values of comparable properties within close proximity. The directors consider that there has been no material change to the valuations as at 30 June 2019.

Investment properties are revalued annually based on independent assessments by a member of the Australian Property Institute having recent experience in the location and category of investment property being valued. Valuations are based on current prices in an active market for similar properties of the same location and condition, subject to similar leases and takes into consideration occupancy rates and returns on investment. The fair value was independently valued by Herron Todd White Ltd in May 2019.

Mortgage backed securities and managed funds at fair value are revalued monthly based on current market price provided by the custodian.

Movements in level 3 assets during the current and previous financial year are set out in notes 11 and 12.

Notes to the Financial Statements
30 June 2019

Note 20. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by Grant Thornton, the auditor of the company:

	2019	2018
Audit services – Grant Thornton		
Audit or review of the financial statements	81,900	79,600
Other services – Grant Thornton		
Audit of APRA returns	10,900	10,600
Other assurance related services	14,600	14,200
	25,500	24,800
	107,400	104,400

Note 21. Contingent liabilities

The company has given bank guarantees as at 30 June 2019 of $142,000 (2018: $165,000) to various landlords.

Note 22. Commitments

	2019 $'000	2018 $'000
Lease commitments – operating		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	523	486
One to five years	431	458
	954	944

Operating lease commitments includes contracted amounts for premises, for the operation of health care centres, under non-cancellable operating leases expiring within one to four years with, in some cases, options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated.

Lessor commitments are detailed in note 12.

Note 23. Related party transactions

Parent entity

Westfund Limited is the parent entity.

Key management personnel

Disclosures relating to key management personnel are set out in note 24.

Transactions with related parties

Directors and key management personnel may hold insurance policies with the company. These are on normal commercial terms and conditions and at market rates.

Receivable from and payable to related parties

There were no trade receivables from or trade payables to related parties at the current and previous reporting date.

Loans to/from related parties

There were no loans to or from related parties at the current and previous reporting date.

Note 24. Key management personnel disclosures

Compensation

The aggregate compensation made to directors and other members of key management personnel of the company is set out below:

	2019	2018
Short-term employee benefits	**1,991,663**	2,249,942
Post-employment benefits	**48,908**	206,021
Termination benefits	**95,493**	223,323
	2,136,064	2,679,286

Note 25. Events after the reporting period

No matter or circumstance has arisen since 30 June 2019 that has significantly affected, or may significantly affect the company's operations, the results of those operations, or the company's state of affairs in future financial years.

Directors' Declaration
30 June 2019

In the directors' opinion:

- the financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the financial statements and notes give a true and fair view of the company's financial position as at 30 June 2019 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the directors

Graeme Osborne
Chair

Phillip Burgett
Director

16 September 2019
Lithgow

Independent Auditor's Report
To the Members of Westfund Limited

Report on the audit of the financial report

Opinion

We have audited the financial report of Westfund Limited (the Company), which comprises the statement of financial position as at 30 June 2019, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the Directors' declaration. In our opinion, the accompanying financial report of the Company is in accordance with the Corporations Act 2001, including:

- giving a true and fair view of the Company's financial position as at 30 June 2019 and of its performance for the year ended on that date; and
- complying with Australian Accounting Standards and the Corporations Regulations 2001.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report. We are independent of the Company in accordance with the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Information other than the financial report and auditor's report thereon

The Directors are responsible for the other information. The other information comprises the information included in the Company's annual report for the year ended 30 June 2019, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independent Auditor's Report
To the Members of Westfund Limited

Responsibilities of the Directors for the financial report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001. The Directors' responsibility also includes such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf. This description forms part of our auditor's report.

Grant Thornton Audit Pty Ltd
Chartered Accountants

A Sheridan
Partner – Audit & Assurance

16 September 2019
Sydney