Annual Report 2018/19
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**Health Partners Limited**

ABN 43 128 282 904

A Registered Private Health Insurer under the *Private Health Insurance Act 2007.*

**Registered Office**

Level 3, 101 Pirie Street
Adelaide SA 5000
**Chairperson’s Report**

**Introduction**

Health Partners’ commitment to operating a sustainable business that can offer genuine value to our members throughout their life is reflected in our focus on ensuring positive engagement with members, the community, good governance and sound risk management.

Change is occurring within private health insurance and while there remains significant opportunity for further reform in healthcare, Health Partners will continue to work closely with our industry associations, directly with Government and the broader health sector to advocate on behalf of our members.

**Our Achievements**

It is pleasing to report that over the past financial year through our pursuit of providing genuine value and exceptional service, we have delivered a strong business performance and financial result for our members.

As part of the Federal Government’s reform agenda for private health insurance, we introduced new Gold, Silver and Bronze hospital products from 1 April 2019 and took a voluntary decision to apply a young adult discount across our entire hospital product offering which also applied to existing members.

The Australian private health insurance industry continues to be a major funder of healthcare in Australia and Health Partners’ contribution to this is significant.

This year Health Partners paid a record $100,851,000 in hospital, medical gap and medical device payments. Of this amount, $7,145,000 was paid to public hospitals. We paid $41,888,000 in General Treatment services predominantly for Dental, Optical and other mainstream allied health modalities. In achieving this, we still maintained an underwriting surplus and strong investment returns to give a total increase in equity of $13,868,000.

**Challenges**

There is no doubt that affordability and out-of-pocket expenses continue to dominate the political and media commentary on private health insurance. While references are commonly made to average premium adjustments across the sector, it’s worth noting specific premium adjustments on individual products vary, with some achieving below average changes.

This year our average premium adjustment was 3.18% against our claims cost increase of 7.1%. This increase was the second year in a row that we have maintained an average increase of below 4.0%.

I can assure members that while premium setting remains a challenge, as a mutual organisation, Health Partners is acutely aware of affordability issues and will always endeavour to keep premium increases to the minimum required to deliver the quality products and services our members expect.

**Strategy**

In the first half of the financial year, the Board and Senior Management completed an extensive review of the Strategic Plan. This review considered current opportunities and challenges relating to private health insurance and also reflected upon the necessary steps to reposition our strategic priorities to generate value for members.

This process has resulted in a readjustment of the strategy to four specific goals including:

- Positioning Health Partners for sustainable growth.
- Strengthening of our Dental and Optical business.
- Assisting members in navigating the healthcare system at a lower cost.
- Being personal and easy to deal with.

Over this past year, we have also launched a significant new initiative in a ‘Guide for Going to Hospital’ to assist members to:

- plan for a hospitalisation,
- reduce medical out-of-pocket costs,
- return to home sooner; and
- understand the finances of the hospitalisation.

This is a significant initiative that will assist members, reduce claims costs and help minimise premium increases.

Health Partners’ ongoing focus on affordability has enabled us to contract with all major private hospitals locally and interstate, and retain strong relationships with allied health providers and pharmacies.
Our Workplace
Health Partners is proud to have built a reputation for being an employer of choice where employees feel welcome, integrated and included, while sharing accountability and responsibility, and we continue to build an inclusive workplace that values the individual and group differences and reflects the broader community we serve.

Health Partners is a leader in gender equality with women making up 50% of our executive leadership, 70% of our Management team and 80% of our multidisciplinary workforce.

Regulatory Regime
The Board has maintained a strong focus on best practice governance to ensure compliance with all financial, legal and prudential regulations of the Fund.

The regulatory legislation now applicable to private health insurers is overseen by the Australian Prudential Regulatory Authority ("APRA") and assists in the strengthening of our business.

We continue to embed enterprise risk management principles across all streams of our business and over the past twelve months we have:

• Strengthened risk and compliance capabilities within the business.
• Embedded the incident management and escalation process across the organisation to ensure a focus on financial and non-financial risk.
• Developed and implemented a framework to manage our information security risk in line with APRA Prudential requirements.
• Updated policies to meet APRA expectation on Governance, Audit and Actuarial matters.
• Voluntarily completed a self-assessment against the APRA Prudential Inquiry into the Commonwealth Bank and also the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry Report which resulted in valuable insights into non-financial risk management, accountabilities and risk culture.

Board of Directors
The Board and its Committees (Audit, Risk, Corporate Governance & Renumeration) met on a regular basis throughout the year to ensure compliance and good governance.

I am pleased to report that Ms Erma Ranieri, who previously held the position of Appointed Director, was appointed to fill a casual vacancy on the Board, effective from 1 May 2019.

Ms Ranieri has significant experience and expertise and her contribution as an elected Director will be most beneficial to the organisation.

Thank You
On behalf of the Health Partners Board, I would like to extend our gratitude to the professional and dedicated staff of Health Partners for their strong financial, business and strategic execution to benefit members.

I also acknowledge my fellow Directors for their commitment to best-practice governance to ensure the Fund remains well placed for sustainable growth that delivers on the needs of our members.

Jan McMahon
Chairperson
The Year in Review
As at 30 June 2019

The health fund

SA owned since
1937

Australia’s Most Satisfied Customers

143,000+
Member check-ins

89,500+
Members cared for

↑4.8%
Membership growth
(↑0.7% industry average)

$142M
Total benefits paid for members

Hospital procedures

33,363
Members supported during hospital admissions

390
Births in a private hospital

368
Knees replaced

253
Hips replaced

Paid on behalf of members

$276,680
Largest claim paid

$41M
Extras benefits paid

$101M
Hospital benefits paid

8,977
Free flu vaccinations

87.7¢
Of every dollar returned to members

Health services

22,960
Pairs of eyes examined at Health Partners Optical

66,565
Appointments at Health Partners Dental

55
Participating pharmacies

57
Physio practices

89,500+
Members cared for

143,000+
Member check-ins
Chief Executive Officer's Report

Our Fund remains acutely focused on fulfilling its role as a trusted health partner and we continue to be encouraged by direct feedback from our members.

While the Australian healthcare system and in particular, health insurers, continue to experience challenging market conditions, the vital contribution the private health insurance sector makes to the Australian healthcare landscape is often lost in the public debate surrounding affordability.

On a day-to-day basis, Health Partners members have indicated that overall, they are either satisfied or very satisfied with the manner in which we interact, provide information and advice, pay claims on their behalf and provide quality dental, optical and other health-related services.

Profitability & Efficiency

Our business and financial performance for the year was above expectation. Net membership growth for 2018/19 was 4.8%. This result reflects our product offering and pricing and also our capacity to engage and retain members despite a challenging market.

Our premium revenue increased by 6.1% to $165,519,000. Claims cost including risk equalisation increased by 7.1% to $142,739,000. Management Expenses totalled $16,516,000 being 10.0% of premium revenue. This resulted in an Underwriting Surplus of $6,264,000. Our investment strategy saw us generate returns of $6,396,000 and together with other income, resulted in an overall surplus of $13,374,000.

Financial Condition Report

In accordance with APRA Prudential Standard HPS 320 Actuarial and Related Matters, Health Partners Limited engaged an Appointed Actuary to prepare the annual Financial Condition Report for the Fund.

The financial condition of a health insurer is assessed by considering in detail the Operating Surplus, Capital Position, Capital Outlook and Risk Management Practices of the entity.

It is the view of the Appointed Actuary that the Fund’s overall position as at 30 June 2019 continues to be sound.

The Market

The role of private health insurance in the Australian healthcare system is vital and our sector will continue to work with the Government to deliver positive outcomes for Australia’s health consumers.

In the past year, on a national basis, private health insurance funds paid benefits for approximately 40% of all hospital admissions and approximately 60% of all surgical procedures. Health Partners' contribution to this was payment of benefits on behalf of members totalling $142,739,000.

Building a sustainable co-existent private and publicly funded universal healthcare system will require continued reform to address issues of affordability, youth participation and out-of-pocket costs, particularly as household disposable income remains flat and competition for discretionary consumer spending high.

With high claims growth the pressure on premiums remains and it is essential that a collaborative approach is in place that enables medical practitioners, hospitals (both private and public), medical device companies, diagnostic providers and allied health professionals to participate in the reform process.

Our Services

The range of services provided by Health Partners continues to grow, reflecting our commitment to providing quality, value for money products and services where and when our members need them.

Our two longstanding businesses, Health Partners Dental and Health Partners Optical, continue to thrive and are highly valued by our members.

The Dental business provided over 66,000 consultations for the year and Health Partners Optical over 22,900 optometrist consultations plus thousands of daily interactions to meet members’ optical needs. More detailed results of these two businesses are outlined in a separate section of the Annual Report.

To help our members achieve optimal health outcomes, we have also increased focus on “out of hospital care”, resulting in the expansion of our Hospital in the Home, Rehabilitation in the Home, Hospital Avoidance Programs and Newborn Support Program.

Another significant and positive initiative aimed at empowering our members in understanding hospital costs and settlement of claims, has been the development of our “Going to Hospital Guide” which explains the steps involved with hospitalisation from the time you consult your General Practitioner through to your recovery.
Summary
I am proud to report that 2018/19 has been a successful year for Health Partners and would like to thank the Board of Directors, the Executive Management team and the more than 250 staff working across our insurance, Dental and Optical businesses for their contribution, dedication and ongoing assistance to our members.

Byron Gregory
Chief Executive Officer
Corporate Governance Statement

Health Partners has a framework for responsible and sustainable governance. In order to be responsible in all aspects of its operations and activities, Health Partners has developed a series of policies to guide the Board, management and staff in achieving this expectation.

Health Partners is proud to be a mutual organisation owned by its members who are also its customers. It exists to serve the needs of members, primarily in their health-related interests and therefore has a strong customer service focus. Health Partners remains highly engaged with its members.

The framework for responsible and sustainable governance articulates the Company’s commitment to member engagement, governance, risk management, the environment, the community, human resources and to the financial affairs of the organisation.

Member Engagement

The aim of Health Partners is to maximise the benefits provided to members. Members are the “shareholders” of Health Partners and therefore the dividend provided is in the form of a maximisation of benefits to members. This requires reinvestment of any surplus to improve products, benefits, services, pricing and the financial stability of the business. This is the mutual dividend we provide our members.

Roles and Responsibilities of the Board and Management

The Board Charter identifies the Board’s roles and responsibilities, its membership and operation and the responsibilities that may be delegated to committees and/or to management. The Board has established four standing committees to assist in performing its responsibilities, by examining in detail particular issues and making recommendations to the Board in relation to Audit, Risk Management, Remuneration and Corporate Governance. The Board also has an Investment Advisory Committee to provide advice in investment decisions.

The key areas of focus for the Board in 2018/19 included:

• Representing the interests of the members of Health Partners in overseeing its operations.
• Setting strategic directions for Health Partners.
• Ensuring continuing improvements in organisational performance.
• Focusing on Board strategy and policy, including its operational implementation by the Chief Executive Officer.
• Ensuring that the framework and mechanisms are in place for the implementation of Australian Prudential Regulation Authority (“APRA”) CPS234 – Information Security on 1 July 2019.

Structure and Composition of the Board

The Constitution of Health Partners allows for six elected Directors and two Board Appointed Directors. In April 2019, Ms Erma Ranieri, a Board Appointed Director, was appointed to fill a casual vacancy as an elected Director, effective 1 May 2019. The Board has six elected Directors.

The profiles of the Directors including their skills, experience and year of appointment are set out on page 19 of the Annual Report. Details of Director attendance at Board and committee meetings during the year ended 30 June 2019 appears on page 17.

The Chairperson of the Board, Ms Jan McMahon, is an independent Director and was elected to this role for a three-year term by the Directors at the first meeting of Directors that followed the 2018 Annual General Meeting.

Members of all Board committees are appointed by the Board of Directors at the first meeting of Directors each year following the Annual General Meeting.

Director Independence

Directors are expected to bring independent views and judgement to Board deliberations at all times.

“Independent Director” means a Director who is not an Executive Director and is free from any business or other association that could materially interfere with the exercise of his or her independent judgement or could reasonably be perceived to do so.

To be considered independent, a Director must meet the definition of independence stated above and generally be independent in character and judgement and free from material relationships or circumstances which are likely to affect or could appear to affect judgement.

The Board has in place a Director Independence Policy and all Directors have been determined by the Board to be independent.

Each Director provides monthly updates of their interest, positions, associations and relationships and the Board regularly assesses the independence of each Director in light of the interests disclosed.
Board Skills Mix
The Company has in place a Board Skills Policy, Director Fit and Proper Policy and also a Director Core Competencies Policy.
In addition to base level competencies expected of all Directors, the Board recognises that there are a number of professional and industry-related specific skills that should be held collectively by the Board. Such skills are to be at greater levels than just a general understanding of the subject. These skills and experience requirements relate to finance, risk management, legal and governance, marketing and business development, the health industry, business strategy, information technology, and human resource management.

Board Performance Evaluation
Health Partners has in place a Board Performance Review Policy. Each year the Chairperson assesses the performance of the Board, its committees and the Directors individually. The review is extensive and considers matters relating to the requirements of the Board Charter, setting of strategy and policy, interaction with management, monitoring business performance, compliance and risk management, Board composition and structure, conduct at Board meetings and group behaviours, and the timing and quality of information provided to Directors.
The individual Director Performance Review covers issues including preparation for meetings, attendance at meetings, and contribution to Board discussion and function.
In respect of the performance of the Chief Executive Officer, a comprehensive performance review against established key performance indicators linked to the Company's vision, values and strategy is undertaken annually by the Board.

Committees of the Board
The Board of Directors has four standing committees which assist in the execution of its responsibilities. Each committee is governed by a Charter setting out the committee's role, responsibilities, membership and processes. The membership, role and responsibility of each committee is summarised in the table below.
During the reporting period, the Board endorsed changes to the composition of committees which included:
• Director Crawshaw retiring from the Risk Committee and being appointed to the Audit Committee.
• Director Prior retiring from the Audit Committee and being appointed to the Risk Committee.
In accordance with Prudential Standard CPS 510 – Governance, it was agreed to establish a Remuneration Committee.
### Committee Membership as at 30 June 2019

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<th>Committee</th>
<th>Chairperson</th>
<th>Members</th>
<th>Key Roles and Responsibilities</th>
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| **Audit Committee**              | Lindsay Oxlad (Chairperson) | Tom Adams, Kevin Crawshaw, Jan McMahon (Chairperson) | • Review and assessment of the appropriateness of accounting policies and principles that underpin the financial statements.  
  • Review of all statutory financial statements of Health Partners to ensure their accuracy and integrity and that they include all appropriate disclosures.  
  • Review of issues raised by the Risk Committee for potential inclusion in internal and/or external audit work programs.  
  • Recommend to the Board the appointment, reappointment, replacement and remuneration of the external Auditor.  
  • Review of the expertise of the external audit function and the external audit plan to ensure that it covers all financial reporting requirements.  
  • Internal and external processes.  
  • Internal control framework.  
  • Assessing Internal Auditor's and External Auditor’s independence. |
| **Corporate Governance Committee** | Jan McMahon (Chairperson) | Lindsay Oxlad, Deane Prior | • Maintenance and review of governance-related matters.  
  • Oversight of the scope and depth of Board policy and delegations and consideration on the impact of and implementation of compliance with new legislation and prudential standards.  
  • Ensuring an appropriate Board and committee structure.  
  • Facilitating an effective process for the evaluation and performance of the Board, Board committees and individual Directors.  
  • Assessment of Directors’ professional development plans and the review of professional development activities undertaken by Directors. |
| **Risk Committee**               | Deane Prior (Chairperson) | Jan McMahon, Lindsay Oxlad | • Developing and recommending to the Board policies relevant to the management of risk, an appropriate risk appetite and risk management strategy.  
  • Review and assessment of the strategies, policies, frameworks, models and procedures to govern the understanding, identification, measurement, reporting and mitigation of material risks.  
  • Initiating a review of the appropriateness, effectiveness and adequacy of the risk management framework.  
  • Oversight of the compliance framework including the annual assessment of the performance and independence of the compliance functions.  
  • Responsibility for the oversight of the preparation and maintenance of the Business Continuity Plan of Health Partners. |
| **Remuneration Committee**       | Jan McMahon (Chairperson) | Lindsay Oxlad, Deane Prior | • Ensuring good corporate governance in relation to remuneration and in particular the remuneration related requirements of APRA’s Prudential Standard CPS 510 – Governance.  
  • Conducting regular reviews of, and making recommendations to the Board on, the Remuneration Policy. This includes assessment of the Remuneration Policy’s effectiveness and compliance with the requirements of CPS 510 – Governance.  
  • Providing annual recommendations to the Board on the remuneration of the Chief Executive Officer, direct reports of the Chief Executive Officer, other persons whose activities may, in the Remuneration Committee’s opinion, affect the financial soundness of the institution and any other person that may be specified by APRA.  
  • Providing recommendations to the Board on the remuneration of the categories of persons covered by the Remuneration Policy.  
  • Coordinating with the Risk Committee to produce a properly integrated approach to remuneration. |
**Internal Audit**

Health Partners has an Internal Audit function. The Internal Audit Charter provides the Internal Auditor with unfettered access to all Health Partners’ activities, records, property and personnel.

The primary objective of the Internal Audit function is to assist the Audit Committee, the Board and management in the effective discharge of their responsibilities including the adequacy and effectiveness of the financial reporting process, internal control and compliance and effectiveness of the risk management framework.

An annual Internal Audit Plan is approved by the Audit Committee and adopted by the Board.

**Risk Management**

Health Partners has established a sound risk management framework and the Board is committed to ensuring that the principles set out in this framework are effectively implemented and that a strong risk management culture is maintained and further developed throughout the organisation.

The Board is assisted by its Risk Committee in development of and in monitoring the effectiveness of the risk management framework. The Health Partners Risk Appetite Statement addresses critical risk-related issues such as company-wide risk appetite, capital requirements, profit variability and risk management capacity with a particular focus on material risks as well as the roles and responsibilities of the Board, management and the Fund’s Appointed Actuary in relation to risk.

In 2018/19 the Board provided APRA with a Risk Declaration stating that Health Partners:

- Has in place systems for ensuring compliance with all prudential requirements.
- Has systems and resources for identifying, measuring, evaluating, monitoring, reporting and controlling or mitigating material risks, and the risk management framework, is appropriate for Health Partners, having regard to the size, business mix and complexity of Health Partners.
- Has risk management and internal control systems that are operating effectively and are adequate, having regard to the risks of Health Partners, they are designed to control.
- Has a risk management strategy that complies with Prudential Standard CPS 220 – Risk Management and that Health Partners has complied with each measure and control described in the risk management strategy.
- Is satisfied with the efficacy of the processes and systems surrounding the production of financial information.

As part of the process, senior Management provided assurances to the Risk Management Committee and the Board that the Risk Management Framework of the Company was being adhered to.

**Director Professional Development**

Health Partners has a Professional Development Policy to ensure that all Directors collectively maintain the skills necessary to carry out the functions of the Board competently and effectively.

Directors are subject to ongoing professional development which includes reinforcement of the professional requirements covered in the Director’s induction, maintaining the currency of skills or extending skills and new skill acquisition.

The Corporate Governance Committee ensures that Directors are informed of and attend relevant forums and seminars in order to develop and enhance their knowledge in corporate governance, health or health insurance industry matters and the changing environment of business operations.

**Standards of Ethical Behaviour**

Under its Code of Ethics, the Board is required to act at all times in a manner that recognises the importance that Health Partners places on the values of honesty, integrity, quality and trust in accordance with the duties and obligations imposed upon Board members by the Health Partners’ Constitution and by law.

This Code addresses a range of matters including a Director’s fiduciary duty to Health Partners including:

- The requirement of a Director to at all times exercise a reasonable degree of care, skill and diligence in the performance of his or her duties.
- Ensuring that Directors do not make improper use of confidential information gained through their position in the conduct of their personal affairs.
- Ensuring that Directors recognise that conflicts of interest may arise from time to time to the extent that Directors adopt a cautious, prudent and conservative approach in considering whether a conflict exists and, when in doubt, will assume that there is a conflict and act accordingly.
- The requirements in relation to conduct at meetings and conduct outside of meetings.
**Board Remuneration**

Any change to the total aggregate sum of remuneration available to Directors is approved by members of Health Partners at the Annual General Meeting.

The aggregate sum required as remuneration for Directors is reviewed annually by an independent remuneration consultant and takes into consideration a balance of:

- The mutual, not-for-profit status of Health Partners and the need to focus on appropriate containment of management costs of the Company.
- The requirement of appropriate skills and experience on the Board for effective governance and the benefit of members over the long term.
- The market level of Director fees required to attract appropriate candidates and the market level of Director fees for similar companies.

Director remuneration is allocated amongst Board members in accordance with a formula agreed by the Board. It is based on participation in Board meetings and also Board committees along with experience and qualifications of Directors appointed to positions as the Chair of the Board or Chair of a Board committee.

**The Environment**

Health Partners endeavours to conduct its business activities in an environmentally sound and responsible manner and to comply with legislative requirements and national standards.

**Community Responsibility**

In addition to serving the needs of our members, Health Partners has identified a responsibility to the broader community through being a good corporate citizen and making socially responsible business decisions. In achieving this, Health Partners seeks to establish mutually beneficial partnerships and programs in relation to health education and social services for the broader community. Also where appropriate, Health Partners may assist charities in the form of financial assistance, volunteering and promotional support and communities at community events.

**Commitment to Employees**

Health Partners’ employees are committed, loyal and passionate about the organisation and delivering excellent service to everyone with whom they interact.

There has been an ongoing commitment to full compliance with the Equal Employment Opportunity ("EEO"), Anti-discrimination / Anti-harassment legislation, Workplace Gender Equality Act 2012 and annual reporting to the Government agency.

Health Partners also has in place a structure to ensure that it meets its legislative requirements in relation to the Work Health and Safety Act 2012.

The Board recognises the contribution of management and staff to the success of the Company and in the achievement of its strategies and business outcomes for members.

Both the Board and management are committed to ensuring that the Company is an exemplar in the health insurance industry as an employer of choice and that staff receive fair and reasonable remuneration and employment conditions.
Health Related Business

Health Partners Dental and Optical
Both our Dental and Optical businesses are integral to providing affordable high quality services to all our members. These modalities account for over 48% of our total General Treatment claims each year.

In 2018/19, Dental claims totalled $14,514,267 or 34.9% of General Treatment costs and Optical $5,743,286 or 13.8% of General Treatment costs. Health Partners has been providing Dental services to members since 1988 and Optical services since 1991.

Health Partners members can choose to attend our owned and operated services or an external provider of their choice. The advantage of attending a Health Partners Dental and Optical Centre is not only experiencing the high standard of care and service, but also enjoying the very generous benefits that are paid to minimise out-of-pocket costs.

Health Partners Dental
Our Dental Centres are located in three strategic locations across Adelaide’s CBD and suburbs including:

- 101 Pirie Street, Adelaide - 19 surgeries.
- 27 Smart Road, Modbury - 8 surgeries.
- 118-120 Main South Road, Morphett Vale - 6 surgeries.

We employ 43 experienced dentists across all three locations and provide general and specialist services in modern and well equipped surgeries.

Our Dental Centres are fully accredited with the National Safety and Quality Health Service Standards (“NSQHS”) as part of Quality Innovation Performance’s (“QIP”) Private Dental Practice Accreditation. In March 2019, Health Partners Dental submitted a Quality Improvement Plan to QIP as part of a mid-cycle accreditation requirement which was accepted and approved as evidence of ongoing compliance against the NSQHS standards. This accreditation is recognised nationally and is tangible evidence of the high standards of care that is provided across all three Dental facilities.

Each location has innovative supporting technology such as Intra-Oral cameras, General and OPG x-rays as well as CEREC technology – delivering same day major dentistry. The sterilisation and infection control protocols are paramount ensuring a very high standard.

Dental Health
Health Partners Dental has a primary focus to ensure members attending our facilities receive more than standard dentistry. This is achieved through our comprehensive Oral Health Program which focuses on diagnosing and treating caries (decay), gum disease and helping to achieve the best oral health to suit individual needs.

Our dentists have the expertise to provide education and care in a range of diverse areas including dental erosion, dental care for young and middle-aged adults as well as teens, oral care during pregnancy, dental implants, daily oral health care, denture hygiene, sleep apnoea, same-day major dentistry and sports mouthguards.

Key performance measurements for 2018/19 include:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
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<tbody>
<tr>
<td>Total Revenue of Health Partners Dental</td>
<td>$19.34 million</td>
</tr>
<tr>
<td>Total Benefits Paid to Health Partners Dental on behalf of Members</td>
<td>$14.51 million</td>
</tr>
<tr>
<td>Total Operating Costs</td>
<td>$18.65 million</td>
</tr>
<tr>
<td>Total Dental Appointments</td>
<td>66,565</td>
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Capital Expenditure
During 2018/19, capital expenditure of $381,000 was approved by the Board to invest in and maintain high levels of equipment and services. This expenditure included:

<table>
<thead>
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<th>Description</th>
<th>Amount</th>
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<tr>
<td>6 new Dental chairs</td>
<td>$273,000</td>
</tr>
<tr>
<td>X-ray Units – Imaging Software</td>
<td>$44,000</td>
</tr>
<tr>
<td>Sterilisers and Disinfectors</td>
<td>$52,000</td>
</tr>
<tr>
<td>Nitrous Oxide Units</td>
<td>$12,000</td>
</tr>
</tbody>
</table>

Member Satisfaction
Health Partners Dental secured a 93% satisfaction rating among members during 2018/19.
**Dental Staff Education**

Ongoing education and professional development is integral to the high standards of care that is provided at Health Partners Dental.

Throughout the year, the education program included:

- A Paediatric Dental Update.
- CPR First Aid Training.
- Nitrous Oxide (“Happy Gas”) Training.
- Implant Restoration.
- Endodontics.

**Health Partners Optical**

Our Optical Centres are located at four strategic locations across Adelaide’s CBD and suburbs including:

- 101 Pirie Street, Adelaide
- 27 Smart Road, Modbury
- 118-120 Main South Road, Morphett Vale
- 92 King William Road, Goodwood.

We employ 11 qualified and experienced optometrists across the four locations and also 28 qualified optical dispensers. The services and quality care provided at all locations are highly regarded.

Each location provides general optometric services, retinal imaging and Optical Coherence Tomography (“OCT”) technology.

**Key performance measurements for 2018/19 include:**

<table>
<thead>
<tr>
<th>Total Revenue of Health Partners Optical</th>
<th>$11.16 million</th>
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</thead>
<tbody>
<tr>
<td>Total Benefits Paid to Health Partners Optical on behalf of Members</td>
<td>$5.74 million</td>
</tr>
<tr>
<td>Total Operating Costs</td>
<td>$9.42 million</td>
</tr>
<tr>
<td>Total Optometrist Appointments</td>
<td>22,960</td>
</tr>
</tbody>
</table>

**Capital Expenditure**

During 2018/19, the Board approved capital expenditure of $29,000 to invest in and maintain high levels of equipment and services. This expenditure included:

- Auto Refractor: $23,000
- Tonometer: $6,000

**Member Satisfaction**

Health Partners Optical achieved an 87% satisfaction rating among members for 2018/19.

**Optical Staff Education**

Ongoing education and professional development is integral to the high standards of care that is provided at Health Partners Optical.

Throughout the year, the education program included:

- New trends in laser vision techniques.
- Developments in lens technology.
- Contact lens trouble shooting and patient communication (Myopia focus).
- Aged macular degeneration management.
- Child behavioural vision and paediatric trends.

**Eye Health**

Health Partners Optical’s priority is to ensure that members attending our Optical Centres are offered more than standard optometric treatment. This is achieved through our comprehensive Eye Health Program which focuses on the signs, symptoms and early detection of eye conditions such as Glaucoma, Macular Degeration, Presbyopia and Cataracts.

We use the latest technology in our eye tests and members have access to OCT imaging at all our stores which provides the most comprehensive image of the eye available today.

Our experienced optometrists also guide members through the wearing of and caring for contact lenses, adapting to multi-focal lens and assist in identifying short sightedness in young children.
Community Support

Health Partners is proud of its commitment to partnering with organisations that share the same values in building a better local community and making a real difference in the lives of South Australians.

As South Australia’s longest serving and largest not-for-profit health fund, we are dedicated to providing assistance to a variety of organisations and charities that promote healthy and active lifestyles as well as supporting improved outcomes for families in need.

Health Partners has developed meaningful partnerships and provided a genuine contribution to charities focused on delivering better eye health care projects, finding a cure for spinal cord injury, stepping up the fight against prostate cancer and supporting women experiencing homelessness.

Health Partners highly values its not-for-profit ethos and is proud to support the following organisations:

- Sight for All Foundation.
- Trailblazer by the Sea.
- Neil Sachse Foundation.
- Catherine House.
Directors' Report

The Directors present their report, together with the financial report of Health Partners Limited (the "Company") for the year ended 30 June 2019.

Directors
The following persons were Directors of Health Partners Limited during the financial year up to the date of this report:
Ms Jan McMahon
Mr Kevin Crawshaw
Mr Lindsay Oxlad
Mr Tom Adams
Mr Deane Prior
Ms Erma Ranieri.
Further information on each Director is included in the Directors' Profiles.

Company Secretary
Mr Peter Sayers BBus, CPA was appointed to the position of Company Secretary in May 2014. Mr Sayers has held various positions within Health Partners since joining in 2000 and currently holds the role of Chief Financial Officer.

Objectives
The objective of Health Partners is to maintain its status as a respected, member-focused, not-for-profit health insurer in South Australia by:
• Operating a health insurance business.
• Operating a business which provides goods or services to manage or prevent diseases, injuries or conditions.
• Providing a financial service to assist people meet costs associated with treatment and goods or services that are provided to treat, manage or prevent diseases, injuries or conditions.
• Operating any business which a registered private health insurer may operate.
• Undertaking any activity incidental to any of these objectives.

Strategy
To achieve these objectives, Health Partners has developed a Strategic Plan with a focus on sustainable membership growth, the strengthening of our health-related businesses, assisting members navigate the healthcare system and being personal and easy to deal with.
Health Partners reviews and monitors this strategy on a regular basis.

Principal Activities
The principal activities of the Company were:
• Operating a registered private health insurance fund.
• Operating dental centres for members.
• Operating optical centres for members.
• Enhancing disease management and prevention benefits for members.
These activities have directly contributed to the Company meeting its objectives.
The operations of the health insurance fund and the associated health-related businesses have continued in a structured, strategic and efficient manner. This has enabled Health Partners to continue to provide members with ready access to Hospital and General Treatment services as and when required with minimal out-of-pocket expense. These traditional services have been complemented with hospital navigation and avoidance programs along with enhanced disease management and health prevention programs which assist in maintaining and improving the health status of our members.

Performance Measures
The Board has identified key performance indicators ("KPIs") that are used to monitor performance. These KPIs are linked to the strategic performance objectives determined in the Strategy.
Senior management monitor these KPIs and report to the Board regularly.
Results of Operations
Health Partners achieved a profit of $13,374,000 for the financial year 2018/19.
The total comprehensive income is $13,868,000 for the financial year 2018/19.

Review of Operations
A review of operations and the results of those operations for the year ended 30 June 2019 are set out in the Chairperson’s and Chief Executive Officer’s reports and also the Health Partners Health Related Business report.

Events Subsequent to Reporting Date
There have been no material events or transactions of an unusual nature that have occurred between the end of the financial year and the date of signing this report that, in the opinion of the Directors, significantly affected or will affect the future operations of the Company.

Membership
The Company is incorporated under the Corporations Act 2001 and is a company limited by guarantee. A member is a contributor who is primarily liable for a policy issued by Health Partners Limited. If the Company is wound up, each member must contribute up to $0.10 to the Company.

Environmental Regulation
The Company’s operations are not subject to any significant environmental regulations under either Commonwealth or State legislation. However, the Board believes that the Company has adequate systems in place for the management of its environmental requirements and is not aware of any breach of those environmental requirements as they apply to the Company.

Code of Ethics
Directors abide by a Code of Ethics policy. The objectives of the policy are to:

• Ensure the Board acts in the best interests of the members of the Company and with regard for the interests of all stakeholders of the Company.
• Achieve high standards of ethics, integrity and conduct by the Board.
• Satisfy key stakeholders as to the corporate governance of the Company.
• Ensure Directors are explicitly aware of the standard of conduct expected of them.
• Promote the accountability of Directors.

Indemnification of Directors and Officers
During or since the end of the previous financial year, the Company has paid premiums to insure current and former Directors and Officers of the Company against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of Director or Officer of the Company, other than conduct involving a wilful breach of duty or an improper use of inside information or position to gain advantage.

The Directors have not included details of the nature of the liabilities covered, the limit of liability covered or the amount of the premium paid in respect of the Directors and Officers liability insurance contract, as such disclosure is prohibited under the terms of the contract.
## Directors' Meetings

<table>
<thead>
<tr>
<th>Director</th>
<th>Board of Directors</th>
<th>Audit Committee</th>
<th>Risk Committee</th>
<th>Corporate Governance Committee</th>
<th>Remuneration Committee</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Held</td>
<td>Attended</td>
<td>Held</td>
<td>Attended</td>
<td>Held</td>
</tr>
<tr>
<td>Jan McMahon</td>
<td>10</td>
<td>10</td>
<td></td>
<td></td>
<td>4</td>
</tr>
<tr>
<td>Kevin Crawshaw</td>
<td>10</td>
<td>10</td>
<td>3</td>
<td>1*</td>
<td>4</td>
</tr>
<tr>
<td>Lindsay Oxlad</td>
<td>10</td>
<td>10</td>
<td>3</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Tom Adams</td>
<td>10</td>
<td>8</td>
<td>3</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Deane Prior</td>
<td>10</td>
<td>10</td>
<td>3</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Erma Ranieri</td>
<td>10</td>
<td>8</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Director Crawshaw retired from the Risk Committee in December 2018 and was appointed to the Audit Committee in January 2019. Director Prior retired from the Audit Committee in March 2019 following appointment to the Risk Committee in December 2018.

Signed in accordance with a resolution of the Directors.

---

Jan McMahon  
Chairperson

Lindsay Oxlad  
Director

Dated at Adelaide this 4th day of September 2019.
Lead Auditor’s Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Health Partners Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Health Partners Limited for the financial year ended 30 June 2019 there have been:

i. no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

Paul Cenko
Partner

Adelaide

4 September 2019
Jan McMahon (Independent Director)

Jan was elected as Health Partners’ Chairperson in September 2004. Jan has a strong association with Health Partners having served as a Director and Deputy Chairperson for over 20 years. She has more than 20 years’ experience working in the public sector within South Australia, serving on various public and private sector Boards, particularly in the areas of workplace safety and workers’ rehabilitation and compensation.

In 2015, Jan retired as General Secretary of the Public Service Association of South Australia and as SA Branch Secretary of the Community and Public Sector Union, one of the largest unions in Australia. Her long commitment to South Australia’s public sector employees includes roles as past President of the United Trades and Labor Council (UTLC, now SA Unions), Executive Member of the UTLC Council and a member of the Australian Council of Trade Unions.

As a leading advocate for a robust government sector and quality public sector services for the community, Jan has overseen the introduction of landmark wage equity within the public service in South Australia, the historic decision on 12 weeks’ paid maternity leave, and commitment by successive governments for a greater emphasis on youth recruitment. Jan holds a Bachelor of Arts (Honours) from Flinders University, majoring in Sociology, and is a Fellow of both the Australian Institute of Company Directors and the Australian Institute of Superannuation Trustees.

Jan is also the Chairperson of Health Partners’ Corporate Governance Committee, Chairperson of Health Partners’ Remuneration Committee, a member of Health Partners’ Risk Committee and attends Health Partners’ Audit Committee meetings.

Kevin Crawshaw (Independent Director)

Kevin worked in the Health Industry for most of his working life before retiring from a senior position in Country Health SA in 2011.

During his time with Country Health SA, he served as Chief Executive Officer of Northern Yorke Peninsula Health Service, Balaklava & Riverton Health Service and Eudunda & Kapunda Health Service; Manager of Corporate Services for Wakefield Health; and later as Director of the Office of the Chief Executive Officer.

In his capacity as a member-elected Director of Funds SA, he shared responsibility for the investment of around $30 billion (comprising mostly SA Government employees’ superannuation funds) for over 21 years before retiring in 2018. He was a member of that Board’s Human Resources and Audit Committees and has served as Chair of the latter committee.

Kevin was a Director of Savings & Loans Credit Union from 1988 until its amalgamation with Australian Central Credit Union in 2009, serving at various times on all three of that Board’s committees (Risk, Audit and Governance). He served as Chair of the Board for a period of six years and also Chair of the Audit Committee.

He is currently a member of Health Partners’ Audit Committee and has previously served as Chairperson of Health Partners’ Corporate Governance Committee and of Health Partners’ Risk Committee.

Kevin has a Bachelor of Science degree with Honours, a Diploma of Education and a Master of Business Administration and is a Fellow of the Australian Institute of Company Directors.
**Lindsay Oxlad (Independent Director)**

Lindsay was first elected to the Health Partners’ Board in 2000.

Lindsay’s career spans more than 45 years as an engineer, transport planner and policy advisor with both State and Commonwealth Governments and Non-Executive Director with Health Partners Ltd and Statewide Superannuation Trust.

Prior to his retirement from the State Government in mid-2016 and setting up as a specialist Consultant and Company Director in 2017, Lindsay was Manager, Road Transport, Department of Planning, Transport and Infrastructure, managing a specialist transport planning and engineering team.

Throughout his career, he has developed a wide range of valuable skills, particularly in audit, financial and investment management, risk management, industrial relations, project management, corporate governance and strategic planning.

Lindsay was also a Non-Executive Trustee Director of Statewide Superannuation Trust and member of the Investment Committee from 2001 to 2011.

Between 1991 and 2016, Lindsay was the President of the 15,000 member Public Service Association of South Australia Inc.

Lindsay has a Master’s Degree in Engineering, a Bachelor’s Degree in Civil Engineering and is a Registered Professional Engineer, Queensland; a Chartered Professional Engineer; a Fellow of the Institution of Engineers Australia; a Fellow of the Australian Institute of Company Directors; a Fellow of the US Institute of Transportation Engineers; a Member of the Chartered Institute of Logistics and Transport and a Member of the Australian Institute of Traffic Planning and Management.

Lindsay is the Chairperson of Health Partners’ Audit Committee and a member of Health Partners’ Risk, Health Partners’ Corporate Governance, Health Partners’ Remuneration and Health Partners’ Investment Advisory Committees.

**Tom Adams (Independent Director)**

Tom Adams is retired and has extensive experience in finance, superannuation, investments and administration.

Before his retirement, Tom was Deputy Chief Executive Officer of the Non-Government Schools Superannuation Fund. While working for the Fund, it had 75,000 members and approximately $1.6 billion of funds invested.

Tom spent five years in the position of Executive Officer of Independent Schools Superannuation Trust, where he was responsible to the Board for operations of the Fund including reviewing the administration, investments and compliance of the Trust. Ten years earlier, he was employed as the South Australian Branch Manager of Superpartners, a superannuation fund administrator, where he supervised 20 staff and the administration of superannuation transactions for over 80,000 members.

For 10 years, Tom was the Financial Controller of the Public Service Association, which involved advising members about the SA Government Superannuation Schemes and negotiating with the Government on changes to the Schemes. He also spent 24 years in banking, including Branch Manager, and managing the development and implementation of IT systems.

Tom is an Associate of the Financial Services Institute of Australasia and has a Diploma of Superannuation Administration – ASFA/Macquarie University.

Tom is also a member of Health Partners’ Audit Committee and Health Partners’ Investment Advisory Committee.
Deane Prior (Independent Director)

Deane has been a Director of the Board since November 2006.

He is a former executive officer of the South Australian Department of Treasury and Finance, and President of the Remuneration Tribunal of South Australia.

Until his retirement from the Department of Treasury and Finance, Deane had a long and extensive career in providing advice to the State Government on superannuation matters. Deane has also been a member of several Commonwealth-State task forces that have had an impact in shaping the superannuation environment at a national level.

During his term as President of the Remuneration Tribunal, Deane had a pivotal role and responsibility for determining the remuneration payable to the judiciary and certain other statutory office holders, and the allowances and other benefits payable to Members of Parliament.

Deane has served as a Director on several boards including an independent school board of directors, and on trustee companies responsible for delivering superannuation benefits to persons employed in the health and emergency services sector.

Deane has a wide range of valuable skills, particularly in the areas of financial management, business management and policy development.

He has a Bachelor of Arts Degree, with a major in economics, a Diploma in Public Administration, and is a Graduate of the Australian Institute of Company Directors.

Deane is the Chairperson of Health Partners’ Risk Committee, a member of Health Partners’ Corporate Governance Committee, Health Partners’ Investment Advisory Committee and Health Partners’ Remuneration Committee.

Erma Ranieri (Independent Director)

Erma was initially appointed to the Board as a Board Appointed Director. Erma became a Member Elected Director to fill a casual vacancy from 1 May 2019.

Erma is passionate about driving contemporary and accessible services that meet the needs of a 21st century, South Australian community.

Appointed on 1 July 2014 as Commissioner for Public Sector Employment, Erma has worked for more than 30 years in both the private and public sectors to help optimise productivity and employee wellbeing.

As Commissioner, Erma leads sector-wide reform to ensure the public sector is strong, confident, responsive and diverse to serve the South Australian community well.

The Premier expanded her role from September 2018 to spearhead responsibility for the public sector’s strategic workforce and leadership development.

Erma was named a 2014 Telstra Business Woman of the Year as SA Winner of the Telstra Community and Government Award for her role in leading transformational change throughout the public sector.

She is a Fellow of the Australian Institute of Company Directors and is President of the Institute of Public Administration Australia South Australia (IPAA SA).

With a focus on ensuring the public sector is an Employer of Choice, Erma challenges cultural and structural barriers to drive innovative, collaborative and connected services, and ensure the public sector reflects the diverse community it serves.

A proud member of Health Partners since 11 February 1989, Erma has experienced its extensive benefits since early in her public service career.

As a Director, she advocates choice and accessible health care services to help South Australians proactively manage and balance their health and wellbeing.
Health Partners Limited

Financial Statements

For the Year Ended 30 June 2019
HEALTH PARTNERS LIMITED
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 30 June 2019

<table>
<thead>
<tr>
<th>Note</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$'000</td>
<td>$'000</td>
</tr>
<tr>
<td></td>
<td>Restated</td>
<td></td>
</tr>
<tr>
<td>Premium revenue</td>
<td>165,519</td>
<td>155,933</td>
</tr>
<tr>
<td>Direct claims expense</td>
<td>(146,744)</td>
<td>(136,434)</td>
</tr>
<tr>
<td>Risk equalisation</td>
<td>2,946</td>
<td>2,057</td>
</tr>
<tr>
<td>Other recoveries</td>
<td>1,059</td>
<td>1,107</td>
</tr>
<tr>
<td>Net claims incurred</td>
<td>4</td>
<td>(142,739)</td>
</tr>
<tr>
<td>Management expenses</td>
<td>5</td>
<td>(16,516)</td>
</tr>
<tr>
<td>Underwriting profit</td>
<td></td>
<td>6,264</td>
</tr>
<tr>
<td>Other income</td>
<td>6</td>
<td>1,808</td>
</tr>
<tr>
<td>Other expenses</td>
<td>7</td>
<td>(1,094)</td>
</tr>
<tr>
<td>Net finance income</td>
<td>8</td>
<td>6,396</td>
</tr>
<tr>
<td>Profit for the year</td>
<td></td>
<td>13,374</td>
</tr>
<tr>
<td>Other comprehensive income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Items that will not be reclassified to profit or loss:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revaluation of land and buildings to fair value</td>
<td>18</td>
<td>494</td>
</tr>
<tr>
<td>Total items that will not be reclassified to profit or loss</td>
<td></td>
<td>494</td>
</tr>
<tr>
<td>Total comprehensive income for the year</td>
<td></td>
<td>13,868</td>
</tr>
</tbody>
</table>

The Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.
HEALTH PARTNERS LIMITED
STATEMENT OF FINANCIAL POSITION
As at 30 June 2019

<table>
<thead>
<tr>
<th>Note</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$'000</td>
<td>$'000</td>
</tr>
</tbody>
</table>

**Assets**

- **Cash and cash equivalents**
  - 12: 15,115
  - 2018: 19,196
- **Trade and other receivables**
  - 13: 8,367
  - 2018: 7,326
- **Inventories**
  - 14: 773
  - 2018: 815
- **Other financial assets**
  - 15: 109,912
  - 2018: 88,874

**Total current assets**

- 2019: 134,167
- 2018: 116,211

**Loan receivable**

- 16: 200
- 2018: 200

**Investment in associate**

- 17: 42
- 2018: -

**Property, plant and equipment**

- 18: 42,902
- 2018: 43,781

**Intangible assets**

- 19: 698
- 2018: 614

**Investment property**

- 20: 10,701
- 2018: 10,701

**Total non-current assets**

- 2019: 54,543
- 2018: 55,296

**Total assets**

- 2019: 188,710
- 2018: 171,507

**Liabilities**

- **Trade and other payables**
  - 21: 3,645
  - 2018: 4,214
- **Outstanding claims liability**
  - 22: 11,491
  - 2018: 9,666
- **Unearned premium liability**
  - 23: 13,179
  - 2018: 11,554
- **Employee benefits**
  - 24: 5,131
  - 2018: 4,736

**Total current liabilities**

- 2019: 33,446
- 2018: 30,170

**Total non-current liabilities**

- 2019: 540
- 2018: 481

**Total liabilities**

- 2019: 33,986
- 2018: 30,651

**Net assets**

- 2019: 154,724
- 2018: 140,856

**Equity**

- **Establishment equity**
  - 2019: 49,817
  - 2018: 49,817
- **Retained earnings**
  - 2019: 92,386
  - 2018: 79,012
- **Revaluation reserve**
  - 2019: 12,521
  - 2018: 12,027

**Total equity**

- 2019: 154,724
- 2018: 140,856

The Statement of Financial Position should be read in conjunction with the accompanying notes.
## HEALTH PARTNERS LIMITED
### STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2019

The Statement of Changes in Equity should be read in conjunction with the accompanying notes.

<table>
<thead>
<tr>
<th>For the year ended 30 June 2019</th>
<th>Establishment equity $’000</th>
<th>Revaluation reserve $’000</th>
<th>Retained earnings $’000</th>
<th>Total $’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance as at 1 July 2018</td>
<td>49,817</td>
<td>12,027</td>
<td>79,012</td>
<td>140,856</td>
</tr>
<tr>
<td>Total comprehensive income</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit</td>
<td>-</td>
<td>-</td>
<td>13,374</td>
<td>13,374</td>
</tr>
<tr>
<td>Revaluation of land and buildings to fair value</td>
<td>-</td>
<td>494</td>
<td>-</td>
<td>494</td>
</tr>
<tr>
<td>Total comprehensive income for the year</td>
<td>-</td>
<td>494</td>
<td>13,374</td>
<td>13,868</td>
</tr>
<tr>
<td>Balance as at 30 June 2019</td>
<td>49,817</td>
<td>12,521</td>
<td>92,386</td>
<td>154,724</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>For the year ended 30 June 2018</th>
<th>Establishment equity $’000</th>
<th>Revaluation reserve $’000</th>
<th>Retained earnings $’000</th>
<th>Total $’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance as at 1 July 2017</td>
<td>49,817</td>
<td>7,002</td>
<td>63,948</td>
<td>120,767</td>
</tr>
<tr>
<td>Total comprehensive income</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit</td>
<td>-</td>
<td>-</td>
<td>15,064</td>
<td>15,064</td>
</tr>
<tr>
<td>Revaluation of land and buildings to fair value</td>
<td>-</td>
<td>5,025</td>
<td>-</td>
<td>5,025</td>
</tr>
<tr>
<td>Total comprehensive income for the year</td>
<td>-</td>
<td>5,025</td>
<td>15,064</td>
<td>20,089</td>
</tr>
<tr>
<td>Balance as at 30 June 2018</td>
<td>49,817</td>
<td>12,027</td>
<td>79,012</td>
<td>140,856</td>
</tr>
</tbody>
</table>
HEALTH PARTNERS LIMITED
STATEMENT OF CASH FLOWS
For the year ended 30 June 2019

<table>
<thead>
<tr>
<th>Note</th>
<th>2019 $'000</th>
<th>2018 $'000</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Cash flows from operating activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Premiums received</td>
<td>167,160</td>
<td>156,378</td>
</tr>
<tr>
<td>Claims paid</td>
<td>(143,860)</td>
<td>(135,831)</td>
</tr>
<tr>
<td>Receipts from risk equalisation special account</td>
<td>2,807</td>
<td>2,165</td>
</tr>
<tr>
<td>Payments to risk equalisation special account</td>
<td>(451)</td>
<td>(24)</td>
</tr>
<tr>
<td>Other operating receipts</td>
<td>1,381</td>
<td>1,024</td>
</tr>
<tr>
<td>Payments to suppliers and employees</td>
<td>(15,056)</td>
<td>(11,024)</td>
</tr>
<tr>
<td><strong>Net cash from operating activities</strong></td>
<td>29</td>
<td>11,981</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Cash flows from investing activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Acquisition of property, plant &amp; equipment</td>
<td>18</td>
<td>(926)</td>
</tr>
<tr>
<td>Acquisition of intangible assets</td>
<td>19</td>
<td>(519)</td>
</tr>
<tr>
<td>Acquisition of investment property</td>
<td>20</td>
<td>-</td>
</tr>
<tr>
<td>Proceeds from sale of assets</td>
<td>107</td>
<td>-</td>
</tr>
<tr>
<td>Advance of loan</td>
<td>-</td>
<td>(200)</td>
</tr>
<tr>
<td>Interest and dividends received</td>
<td>3,754</td>
<td>2,990</td>
</tr>
<tr>
<td>Net disposals/(acquisition) of financial assets</td>
<td>(18,478)</td>
<td>(2,840)</td>
</tr>
<tr>
<td><strong>Net cash from/(used in) investing activities</strong></td>
<td></td>
<td>(16,062)</td>
</tr>
<tr>
<td><strong>Net increase/(decrease) in cash and cash equivalents</strong></td>
<td>(4,081)</td>
<td>4,545</td>
</tr>
<tr>
<td>Cash and cash equivalents at beginning of year</td>
<td>19,196</td>
<td>14,651</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents at end of year</strong></td>
<td>12</td>
<td>15,115</td>
</tr>
</tbody>
</table>

The Statement of Cash Flows should be read in conjunction with the accompanying notes.
HEALTH PARTNERS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2019

1. Company information
Health Partners Limited (the “Fund”) is a not-for-profit public company limited by guarantee domiciled in South Australia. The address of the Fund’s registered office is Level 3, 101 Pirie Street Adelaide, SA 5000. The Fund is primarily involved in the underwriting of health insurance.

2. Basis of preparation
(a) Statement of compliance
The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (“AASBs”) adopted by the Australian Accounting Standards Board (“AASB”), the Corporations Act 2001, National Health Act 1953 (as amended), Private Health Insurance Act 2007 and the Fund’s Constitution and Rules (as amended). The financial report of the Fund complies with International Financial Reporting Standards (“IFRSs”) adopted by the International Accounting Standards Board (“IASB”).

The financial statements were approved by the Board of Directors (the “Board”) on 4 September 2019.

(b) Basis of measurement
The financial statements have been prepared on a historical cost basis except for the following:
• Assets backing insurance liabilities – refer to note 3(d)
• Property, plant and equipment – refer to note 3(e)
• Investment property – refer to note 3(f)
• Provisions for outstanding claims – refer to note 3(k)

The methods used to measure fair values are discussed in note 2(e).

(c) Functional and presentation currency
The financial statements are presented in Australian Dollars, which is the Fund’s functional currency.

(d) Use of estimates and judgements
The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

Management have discussed with the Audit Committee the development, selection and disclosure of the Fund’s critical accounting policies and estimates and the application of these policies and estimates. These include expectations of future events that are believed to be reasonable under the circumstances.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described below:

(i) Estimation of outstanding claims (see also note 22)
A liability is recorded at the end of the year for the estimated cost of claims incurred but not settled at the reporting date, including the cost of incurred but not reported (“IBNR”) claims.

The estimated cost of claims includes direct expenses to be incurred in settling claims net of the expected recoveries. The Fund takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. Given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The estimation of IBNR claims of $10.711M (2018: $9.009M) is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Fund, where more information about the claim event is generally available. IBNR claims may not be reported until some months after the events giving rise to the claims that have happened. Longer tail classes of business will typically display greater variations between initial estimates and final outcomes because there is a greater degree of difficulty in determining case estimated claim reserves.
2. Basis of preparation (continued)
   (d) Use of estimates and judgements (continued)

   Shorter tail claims are typically reported soon after the claim event, and hence tend to display lower levels of volatility. The claims made upon the Fund are normally of the shorter tail class of business.

   In calculating the estimated cost of unpaid claims, the Fund uses a variety of estimation techniques, generally based upon statistical analysis of historical Fund experience that assumes the development pattern of the current claims will be consistent with past Fund experience. Allowance is made, however, for changes or uncertainties that might create distortions in 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.

   Details of specific techniques and assumptions in calculating the outstanding claims liability at reporting date and an analysis of outstanding claims liability are provided in note 22.

   (ii) Land and buildings (see also note 18)

   An external, independent valuation company, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the Fund’s land and buildings at least every three years. In the intervening years they are valued by the Directors based on the most recent independent valuation combined with current market information.

   The fair values are based on a market participant’s ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. In intervening years, estimates of the fair value of land and buildings are performed annually by the Board using methods such as market indicators, recent sales information and general market valuations.

(e) Measurement of fair values

   A number of the Fund’s accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

   When measuring the fair value of an asset or a liability, the Fund uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

   • Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
   • Level 2: inputs other than quoted prices included in Level 1 that are observable for the assets or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
   • Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

   Further information about the assumptions made in measuring fair values is included in the following notes:

   Note 2(d) Land and buildings
   Note 15 Other financial assets
   Note 18 Property, plant and equipment
   Note 20 Investment property
   Note 26 Financial instruments – fair values and risk management

(f) Rounding off

   The Fund is a company of a kind referred to in ASIC Corporations (Rounding in Financial/Directors’ Reports) Instrument 2016/191 dated 24 March 2016 and, in accordance with the Instrument, amounts in the financial statements and directors’ report have been rounded off to the nearest thousand dollars, unless otherwise stated.
(g) Restatement of Financial Statements

The financial statements previously presented income from optical and dental services provided to non-members as a reduction to gross claims expense in the Statement of Profit or Loss and Other Comprehensive Income. In the current year, this income is reflected in “other income” and the expenses in relation to this income reflected in “other expenses”. In addition, the comparative disclosure of claims recoveries has been changed to align with the current year disclosure. This increased disclosure had no effect on net claims incurred.

The effect of the restatements on the Statement of Profit or Loss and Other Comprehensive Income is as follows:

<table>
<thead>
<tr>
<th></th>
<th>Previously Reported</th>
<th>Adjustment</th>
<th>Restated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Premium revenue</td>
<td>155,933</td>
<td>-</td>
<td>155,933</td>
</tr>
<tr>
<td>Direct claims expense</td>
<td>(135,246)</td>
<td>(1,188)</td>
<td>(136,434)</td>
</tr>
<tr>
<td>Risk equalisation</td>
<td>2,057</td>
<td>-</td>
<td>2,057</td>
</tr>
<tr>
<td>Other recoveries</td>
<td></td>
<td>1,107</td>
<td>1,107</td>
</tr>
<tr>
<td><strong>Net claims incurred</strong></td>
<td>(133,189)</td>
<td>(81)</td>
<td>(133,270)</td>
</tr>
<tr>
<td>Management expenses</td>
<td>(15,011)</td>
<td>-</td>
<td>(15,011)</td>
</tr>
<tr>
<td><strong>Underwriting profit</strong></td>
<td>7,733</td>
<td>(81)</td>
<td>7,652</td>
</tr>
<tr>
<td>Other income</td>
<td>1,667</td>
<td>781</td>
<td>2,448</td>
</tr>
<tr>
<td>Other expenses</td>
<td>(425)</td>
<td>(700)</td>
<td>(1,125)</td>
</tr>
<tr>
<td>Net finance income</td>
<td>6,089</td>
<td>-</td>
<td>6,089</td>
</tr>
<tr>
<td><strong>Profit for the year</strong></td>
<td>15,064</td>
<td>-</td>
<td>15,064</td>
</tr>
</tbody>
</table>

The restatement had no effect on opening retained earnings or reserves as at 1 July 2017 or 1 July 2018. The restatement had no effect on amounts previously reported in the Statement of Financial position as at 30 June 2018.
3. Significant accounting policies

The accounting policies set out below and in the following notes have been applied consistently to all periods presented in the financial statements.

(a) Insurance contracts

Contracts under which the Fund accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified future event (the insured event) adversely affects the policyholder or other beneficiary, are classified as insurance contracts. Insurance risk is risk other than financial risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period.

The Fund has determined that all current contracts with policyholders are insurance contracts.

(b) Premium revenue

Premium revenues are recognised at fair value of the consideration received.

Premium revenues are exempt from goods and services tax (“GST”).

Premium revenues are inclusive of the Federal Government Rebate on Private Health Insurance. Premium revenue is recognised over the policy period and is based on time, which is considered to closely approximate the pattern of risks underwritten using the 365ths method.

Premium revenues received but not earned are recognised as unearned premiums in the Statement of Financial Position.

(c) Risk equalisation payments and recoveries

The Private Health Insurance Act 2007 requires all private health insurers to participate in Risk Equalisation.

On a quarterly basis, each private health insurer is required to pay or receive an amount from the Australian Prudential Regulation Authority (“APRA”). This payment or receipt is calculated on a state-wide basis and represents a redistribution of funds made by APRA to health funds to subsidise the inherent risk in claims costs.

Amounts paid to APRA are included in Risk Equalisation levies. Amounts payable to APRA are included in Risk Equalisation Special Account (“RESA”) levies.

Amounts received from APRA are included in Risk Equalisation recoveries. Amounts receivable from APRA are included in RESA recoveries.

(d) Assets backing insurance liabilities

As part of its investment strategy, the Fund seeks to manage its investment portfolio to ensure that a portion of its investments mature in accordance with the expected pattern of future cash flows arising from insurance liabilities.

The following assets held by the Fund have been determined to be assets backing insurance liabilities:

- Cash and cash equivalents.
- Trade and other receivables.
- Other financial assets including term deposits, listed securities and managed investments.

The following assets are not classified as assets backing insurance liabilities:

- Land, buildings, plant and equipment held by the Fund have been determined to be assets required to be fully used in the day-to-day operations of the Fund.
- Buildings classified as investment property.
3. Significant accounting policies (continued)

(e) Property, plant and equipment

(i) Recognition and measurement

Land and buildings are measured at fair value less accumulated depreciation. When a revaluation increases the carrying value of land and buildings, the increase is credited to the revaluation reserve in equity. To the extent the increase reverses a decrease previously recognised in profit or loss, the increase is first recognised in the profit or loss. When the carrying amount is decreased as a result of a revaluation, the decrease is recognised in profit or loss. To the extent the decrease reverses an increase previously recognised in equity, the decrease is first recognised in other comprehensive income, and presented in equity.

Items of plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Assets under construction are measured at cost.

Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and is recognised net within profit or loss. When revalued land and buildings are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

(ii) Subsequent expenditure

Subsequent expenditure is capitalised only if it is probable the future economic benefit associated with the expenditure will flow to the Fund and its cost can be measured reliably. The cost of the day-to-day servicing of property, plant and equipment is recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment from the date they are available for use. Land is not depreciated.

The estimated useful lives are as follows:

<table>
<thead>
<tr>
<th>Asset Type</th>
<th>Useful Life</th>
</tr>
</thead>
<tbody>
<tr>
<td>Building structure</td>
<td>66 years</td>
</tr>
<tr>
<td>Building works</td>
<td>40 years</td>
</tr>
<tr>
<td>Fixtures and fittings</td>
<td>10 years</td>
</tr>
<tr>
<td>Plant and equipment</td>
<td>5 years</td>
</tr>
<tr>
<td>Computer equipment</td>
<td>3 years</td>
</tr>
</tbody>
</table>

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

(iv) Reclassification to investment property

When the use of a property changes from owner-occupied to investment property, the property is remeasured to fair value and reclassified accordingly. Any gain arising on this remeasurement is recognised in profit or loss to the extent it reverses a previous impairment loss on the specific property, with any remaining gain recognised in other comprehensive income and presented in the revaluation reserve. Any loss is recognised in profit or loss.

(f) Investment property

Investment property is initially measured at cost and subsequently at fair value with any change therein recognised in profit or loss.

Any gains or loss on disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss. When investment property that was previously classified as property, plant and equipment is sold, any related amount included in the revaluation reserve is transferred to retained earnings.
3. Significant accounting policies (continued)

(g) Other financial assets

All financial investments are determined to be assets backing insurance liabilities and are accordingly designated as fair value through profit or loss upon initial recognition. They are initially recorded at the cost of acquisition excluding transaction costs and are subsequently remeasured to fair value at each reporting date.

Directly attributable transaction costs are recognised in the profit or loss as incurred.

Changes in the fair value are recognised as realised or unrealised investment gains or losses in profit or loss. Purchases and sales of investments are recognised on a trade date basis, being the date on which a commitment is made to purchase or sell the asset.

(h) Investment in associates

Associates are entities over which the Fund has significant influence but not control over the financial and operating policies. Investments in associates are accounted for using the equity method. They are initially recognised at cost and are subsequently adjusted to recognise the Fund’s share of post-acquisition profits or losses until the date on which significant influence ceases.

The Fund’s share of losses are recognised only until the carrying amount of the equity interest is reduced to nil. The equity interest in an associate includes, for this purpose, the carrying amount of the investment under the equity method and other long-term interests that in substance form part of the Fund’s net investment in the associate.

(i) Impairment

Non-financial assets

The carrying amounts of the Fund’s non-financial assets, other than inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset’s recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market conditions and the risks specific to the asset.

An impairment loss is recognised if the carrying amount of an asset or cash generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated across the assets in the unit (group of units) on a pro-rata basis.

An impairment loss recognised in prior periods is assessed at each reporting date for an indication that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(j) Unearned premium and unexpired risk liability

Premium revenue received but not earned is recognised as unearned premium liability in the Statement of Financial Position. Unearned premium is brought into account in future periods as it is earned.

The Liability Adequacy Test ("LAT") is required to be performed to determine whether the unearned premium liability is adequate to cover the present value of expected cash flows relating to future claims arising from rights and obligations under current insurance contracts, plus an additional risk margin to reflect the inherent uncertainty in the central estimate.

If the present value of the expected future cash flows relating to future claims, plus the additional risk margin to reflect the inherent uncertainty in the central estimate, exceeds the unearned premium liability, less related intangible assets and related deferred acquisition costs, then the unearned premium is deemed to be deficient. In applying the LAT the Fund applies a risk margin to reflect the inherent uncertainty in the central estimate based on the past experience of the Fund.
3. Significant accounting policies (continued)

(k) Provisions

A provision is recognised if, as a result of a past event, the Fund has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

**Outstanding claims**

The provision for outstanding claims is based on a central estimate of expected future claims payments against claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and an additional risk margin to allow for the inherent uncertainty in the central estimate. The expected future payments include those in relation to claims reported but not yet paid, claims IBNR, and estimated claims handling costs.

Claims handling costs include internal and external costs incurred in connection with the negotiation and settlement of claims. Internal costs include all direct expenses of the claims department and any part of the general administrative costs directly attributable to claims function. No discounting is applied to the provision given the generally short time period (less than 12 months) between claim incidence and settlement.

(l) Income tax


(m) New accounting standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 July 2018, and have not been applied in preparing these financial statements. Those which could be relevant to the Fund are set out below. The Fund does not plan to adopt these standards early.

**AASB 9 Financial Instruments** will come into effect for periods beginning on or after 1 January 2018. The new standard will modify the classification, measurement and impairment of the Fund’s financial assets. In October 2016, the AASB released an amendment allowing insurers to defer application of AASB 9 in line with the application of AASB 17 Insurance Contracts. The Fund will defer the application of AASB 9 until January 2022 and is in the process of assessing the impact of this standard on its financial statements.

**AASB 15 Revenue from Contracts with Customers** will come into effect for periods beginning on or after 1 January 2019 for not-for-profit entities. The revised standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer, replacing the existing notion of risks and rewards. However, insurance contracts are specifically excluded from AASB 15 as revenue from insurance contracts is covered under AASB 1023 General Insurance Contracts. As a result of this, the Fund does not expect this standard to have a material impact on its financial statements.

**AASB 16 Leases** will come into effect for periods beginning on or after 1 January 2019. The new standard primarily affects operating leases where the Fund is the lessee by removing the current distinction between operating and financing leases. The Fund’s preliminary analysis of leases indicates that the full value of operating leases as lessee (see note 25) will be recognised on the Statement of Financial Position as both a “right-of-use” asset and a lease liability. The Fund is in the process of completing its detailed analysis.

**AASB 17 Insurance Contracts** was released on 19 July 2017. The new standard is mandatory for reporting periods beginning on or after 1 January 2022 for all entities that issue insurance contracts in Australia. The Fund is assessing the impact on its financial statements resulting from the application of this standard.
4. Net claims incurred

The gross claims expense in profit or loss comprises the claims paid and the change in the liability for outstanding claims, both reported and incurred but not reported, including the risk margin to reflect the uncertainty in the central estimate and claim handling expenses.

<table>
<thead>
<tr>
<th>Note</th>
<th>2019 $’000</th>
<th>2018 $’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Claims expense</td>
<td>144,919</td>
<td>136,951</td>
</tr>
<tr>
<td>Changes in outstanding claims liability</td>
<td>1,825</td>
<td>(517)</td>
</tr>
<tr>
<td><strong>Direct claims expense</strong></td>
<td><strong>146,744</strong></td>
<td><strong>136,434</strong></td>
</tr>
<tr>
<td>Payments to risk equalisation special account</td>
<td>451</td>
<td>24</td>
</tr>
<tr>
<td>Receipts from risk equalisation special account</td>
<td>(3,397)</td>
<td>(2,081)</td>
</tr>
<tr>
<td><strong>Net risk equalisation levy/(recovery)</strong></td>
<td><strong>(2,946)</strong></td>
<td><strong>(2,057)</strong></td>
</tr>
<tr>
<td>Other recoveries</td>
<td>(1,059)</td>
<td>(1,107)</td>
</tr>
<tr>
<td><strong>Net claims expense</strong></td>
<td><strong>142,739</strong></td>
<td><strong>133,270</strong></td>
</tr>
</tbody>
</table>

In the period the Fund has received $8.493M (2018: $9.002M) in co-payments toward the provision of optical and dental benefits from members. These co-payments are included as a reduction to gross claims expense.

5. Management expenses

<table>
<thead>
<tr>
<th>Note</th>
<th>2019 $’000</th>
<th>2018 $’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation and amortisation</td>
<td>10</td>
<td>956</td>
</tr>
<tr>
<td>Directors' fees</td>
<td>420</td>
<td>412</td>
</tr>
<tr>
<td>Personnel expenses</td>
<td>8,015</td>
<td>7,109</td>
</tr>
<tr>
<td>Advertising and sponsorship</td>
<td>2,804</td>
<td>2,302</td>
</tr>
<tr>
<td>Other expenses</td>
<td>4,321</td>
<td>4,273</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>16,516</strong></td>
<td><strong>15,011</strong></td>
</tr>
</tbody>
</table>

In the current period the Fund has identified management expenses of $3.500M (2018: $3.255M) incurred in providing members with associated optical and dental benefits. These expenses are not included in the management expenses above.

6. Other income

<table>
<thead>
<tr>
<th>Note</th>
<th>2019 $’000</th>
<th>2018 $’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rental Income</td>
<td>958</td>
<td>636</td>
</tr>
<tr>
<td>Change in fair value of investment property</td>
<td>-</td>
<td>950</td>
</tr>
<tr>
<td>Share of profit from investment in associate</td>
<td>42</td>
<td>-</td>
</tr>
<tr>
<td>Other income</td>
<td>39</td>
<td>81</td>
</tr>
<tr>
<td>Other revenue - dental &amp; optical</td>
<td>769</td>
<td>781</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,808</strong></td>
<td><strong>2,448</strong></td>
</tr>
</tbody>
</table>

7. Other expenses

<table>
<thead>
<tr>
<th>Note</th>
<th>2019 $’000</th>
<th>2018 $’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net (profit)/loss on disposal of assets</td>
<td>(30)</td>
<td>59</td>
</tr>
<tr>
<td>Other expenses - investment property</td>
<td>411</td>
<td>366</td>
</tr>
<tr>
<td>Other expenses - dental &amp; optical</td>
<td>713</td>
<td>700</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,094</strong></td>
<td><strong>1,125</strong></td>
</tr>
</tbody>
</table>
HEALTH PARTNERS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2019

8. Net financial income

Interest income is recognised as it is earned. Dividend and distribution income is recognised in profit or loss on the date the Fund’s right to receive payment is established, which in the case of quoted securities, is the ex-dividend date.

<table>
<thead>
<tr>
<th>Finance Income</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest income</td>
<td>1,056</td>
<td>839</td>
</tr>
<tr>
<td>Dividends and distributions</td>
<td>2,780</td>
<td>2,212</td>
</tr>
<tr>
<td>Change in fair value of financial assets</td>
<td>2,946</td>
<td>3,376</td>
</tr>
<tr>
<td><strong>Finance expense</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brokerage and management fees</td>
<td>(386)</td>
<td>(338)</td>
</tr>
<tr>
<td><strong>Net finance income</strong></td>
<td>6,396</td>
<td>6,089</td>
</tr>
</tbody>
</table>

9. Personal expenses

<table>
<thead>
<tr>
<th>Description</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries and wages</td>
<td>20,002</td>
<td>19,531</td>
</tr>
<tr>
<td>Contributions to superannuation</td>
<td>1,992</td>
<td>1,916</td>
</tr>
<tr>
<td>Other associated personnel expenses</td>
<td>660</td>
<td>592</td>
</tr>
<tr>
<td>Annual leave and long service leave entitlements</td>
<td>2,686</td>
<td>2,416</td>
</tr>
<tr>
<td><strong>Allocated as:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Management expenses</td>
<td>8,015</td>
<td>7,109</td>
</tr>
<tr>
<td>Direct claims expense</td>
<td>17,325</td>
<td>17,346</td>
</tr>
<tr>
<td><strong>Total personal expenses</strong></td>
<td>25,340</td>
<td>24,455</td>
</tr>
</tbody>
</table>

10. Depreciation and amortisation

<table>
<thead>
<tr>
<th>Description</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation</td>
<td>18</td>
<td>2,222</td>
</tr>
<tr>
<td>Amortisation</td>
<td>19</td>
<td>435</td>
</tr>
<tr>
<td><strong>Allocated as:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Management expenses</td>
<td>5</td>
<td>956</td>
</tr>
<tr>
<td>Direct claims expense</td>
<td>1,701</td>
<td>1,664</td>
</tr>
<tr>
<td><strong>Total depreciation and amortisation</strong></td>
<td>2,657</td>
<td>2,579</td>
</tr>
</tbody>
</table>

11. Auditor’s remuneration

Auditor’s remuneration for the provision of other regulatory audit services is for the audit of the HRF 601 Quarterly Returns, HRF 602 Annual Return and the return associated with the Australian Government Rebate on Private Health Insurance.

<table>
<thead>
<tr>
<th>Description</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Auditors of the Fund – KPMG</td>
<td>$79,702</td>
<td>$76,000</td>
</tr>
<tr>
<td>Audit of financial reports</td>
<td>34,351</td>
<td>36,998</td>
</tr>
<tr>
<td>Other regulatory audit services</td>
<td>5,848</td>
<td>5,945</td>
</tr>
<tr>
<td>Other services – tax advice</td>
<td>7,000</td>
<td>7,000</td>
</tr>
<tr>
<td>Whistle-blower hotline</td>
<td>126,901</td>
<td>125,943</td>
</tr>
</tbody>
</table>

Annual Report 2018/19 35
12. Cash and cash equivalents
Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date and are used by the Fund in the management of short-term commitments.

<table>
<thead>
<tr>
<th></th>
<th>30 June 2019</th>
<th>30 June 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash at bank</td>
<td>15,115</td>
<td>19,196</td>
</tr>
<tr>
<td></td>
<td><strong>15,115</strong></td>
<td><strong>19,196</strong></td>
</tr>
</tbody>
</table>

13. Trade and other receivables
Trade and other receivables are stated at amounts to be received in the future, less any impairment losses. The recoverability of receivables is assessed on an ongoing basis and provision for impairment is made based on objective evidence having regard to past default experience. The impairment charge is recognised in the profit or loss. Receivables which are known to be uncollectable are written off.

<table>
<thead>
<tr>
<th></th>
<th>30 June 2019</th>
<th>30 June 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Premium debtors</td>
<td>413</td>
<td>430</td>
</tr>
<tr>
<td>Other debtors and prepayments</td>
<td>2,976</td>
<td>2,591</td>
</tr>
<tr>
<td>Risk equalisation receivable</td>
<td>1,345</td>
<td>755</td>
</tr>
<tr>
<td>Australian Government Rebate receivable</td>
<td>3,336</td>
<td>3,335</td>
</tr>
<tr>
<td>Interest receivable</td>
<td>297</td>
<td>215</td>
</tr>
<tr>
<td></td>
<td><strong>8,367</strong></td>
<td><strong>7,326</strong></td>
</tr>
<tr>
<td>Premium debtors impairment</td>
<td>(130)</td>
<td>(101)</td>
</tr>
<tr>
<td></td>
<td><strong>(130)</strong></td>
<td><strong>(101)</strong></td>
</tr>
</tbody>
</table>

Premium debtors are shown net of impairment losses amounting to $0.130M (2018: $0.101M) arising from the likely termination of memberships due to non-payment of amounts in arrears as at balance date.

No impairment losses have been booked for other debtors arising from the non-payment of amounts in arrears as at balance date.

14. Inventories
Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on a first-in first-out principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

<table>
<thead>
<tr>
<th></th>
<th>30 June 2019</th>
<th>30 June 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finished goods</td>
<td>773</td>
<td>815</td>
</tr>
<tr>
<td></td>
<td><strong>773</strong></td>
<td><strong>815</strong></td>
</tr>
</tbody>
</table>

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2019

15. Other financial assets
Other financial assets is comprised of investments in term deposits, listed securities and managed investments. As outlined in note 3(g), these assets are held to back insurance liabilities and are therefore measured at fair value. All investments are measured using Level 1 valuation techniques, with the exception of managed investments which use Level 2 valuation techniques. Managed investments includes debt securities held in unlisted managed funds, which are valued at the redemption price as established by the Fund Manager.

<table>
<thead>
<tr>
<th></th>
<th>30 June 2019 $’000</th>
<th>30 June 2018 $’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Term deposits</td>
<td>37,990</td>
<td>22,034</td>
</tr>
<tr>
<td>Listed securities</td>
<td>35,862</td>
<td>33,209</td>
</tr>
<tr>
<td>Managed investments</td>
<td>35,709</td>
<td>32,450</td>
</tr>
<tr>
<td>Other investments</td>
<td>351</td>
<td>1,181</td>
</tr>
<tr>
<td></td>
<td>109,912</td>
<td>88,874</td>
</tr>
</tbody>
</table>

16. Loan receivable

Loan receivable - J & J Health Services Pty Ltd

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>200</td>
<td>200</td>
</tr>
</tbody>
</table>

An interest free loan of $0.200M was issued to J & J Health Services Pty Ltd on 10 November 2017, which is to be repaid in full over a five-year term in accordance with the loan agreement.

The recoverability of the loan has been assessed and no impairment indicators are present as at 30 June 2019.

As the loan is both planned and expected to be repaid, it is deemed that this does not form part of the Fund’s net investment in J & J Health Services Pty Ltd.

17. Investment in associate
Health Partners acquired 4 shares in J & J Health Services Pty Ltd (operating as “Your Health Navigator”) on 9 November 2017 for $1 per share, which constitutes 40% of the issued shares in the Company.

The following table summarises the financial information of J & J Health Services Pty Ltd as included in its own financial statements and reconciles the summarised financial information to the carrying amount of the Fund’s interest in J & J Health Services Pty Ltd.

<table>
<thead>
<tr>
<th>Percentage of ownership</th>
<th>40%</th>
<th>40%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current assets</td>
<td>527</td>
<td>205</td>
</tr>
<tr>
<td>Non-current assets</td>
<td>2</td>
<td>32</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>(223)</td>
<td>(177)</td>
</tr>
<tr>
<td>Non-current liabilities</td>
<td>(200)</td>
<td>(200)</td>
</tr>
<tr>
<td><strong>Net assets of J &amp; J Health Services Pty Ltd</strong></td>
<td>106</td>
<td>(140)</td>
</tr>
<tr>
<td>Share of net assets (40%)</td>
<td>42</td>
<td>(56)</td>
</tr>
<tr>
<td><strong>Carrying amount of investment in associate</strong></td>
<td>42</td>
<td>-</td>
</tr>
</tbody>
</table>

The Fund’s share of losses are recognised only until the carrying amount of the equity interest is reduced to nil.

J & J Health Services Pty Ltd made a profit (after tax) of $0.246M in year ending 30 June 2019 of which the Fund has recognised $0.042M in other income (see note 6).

<table>
<thead>
<tr>
<th></th>
<th>$’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit for the year ending 30 June 2019</td>
<td>246</td>
</tr>
<tr>
<td>Share of profit (40%)</td>
<td>98</td>
</tr>
<tr>
<td>Share of accumulated losses carried forward (40%)</td>
<td>(56)</td>
</tr>
<tr>
<td><strong>Share of profit recognised in the year ending 30 June 2019</strong></td>
<td>42</td>
</tr>
</tbody>
</table>
### 18. Property, plant and equipment

<table>
<thead>
<tr>
<th></th>
<th>Freehold land at fair value</th>
<th>Buildings at fair value</th>
<th>Plant and equipment at cost</th>
<th>Work in progress</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$'000</td>
<td>$'000</td>
<td>$'000</td>
<td>$'000</td>
<td>$'000</td>
</tr>
<tr>
<td><strong>Cost/Fair Value</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance 1 July 2017</td>
<td>9,140</td>
<td>15,684</td>
<td>15,736</td>
<td>3,479</td>
<td>44,039</td>
</tr>
<tr>
<td>Acquisitions</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>4,729</td>
</tr>
<tr>
<td>Revaluation</td>
<td>1,568</td>
<td>3,074</td>
<td>-</td>
<td>-</td>
<td>4,642</td>
</tr>
<tr>
<td>Reclassification to/(from) WIP</td>
<td>92</td>
<td>1,343</td>
<td>2,044</td>
<td>(3,479)</td>
<td>-</td>
</tr>
<tr>
<td>Disposals</td>
<td>-</td>
<td>(24)</td>
<td>(883)</td>
<td>-</td>
<td>(907)</td>
</tr>
<tr>
<td><strong>Balance 30 June 2018</strong></td>
<td>10,800</td>
<td>24,275</td>
<td>17,428</td>
<td>-</td>
<td>52,503</td>
</tr>
<tr>
<td>Balance 1 July 2018</td>
<td>10,800</td>
<td>24,275</td>
<td>17,428</td>
<td>-</td>
<td>52,503</td>
</tr>
<tr>
<td>Acquisitions</td>
<td>-</td>
<td>-</td>
<td>690</td>
<td>236</td>
<td>926</td>
</tr>
<tr>
<td>Revaluation</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Reclassification to/(from) WIP</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Disposals</td>
<td>-</td>
<td>-</td>
<td>(719)</td>
<td>-</td>
<td>(719)</td>
</tr>
<tr>
<td><strong>Balance 30 June 2019</strong></td>
<td>10,800</td>
<td>24,275</td>
<td>17,399</td>
<td>236</td>
<td>52,710</td>
</tr>
<tr>
<td><strong>Depreciation and impairment losses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance 1 July 2017</td>
<td>-</td>
<td>-</td>
<td>7,775</td>
<td>-</td>
<td>7,775</td>
</tr>
<tr>
<td>Depreciation for the period</td>
<td>-</td>
<td>383</td>
<td>1,795</td>
<td>-</td>
<td>2,178</td>
</tr>
<tr>
<td>Revaluation offset</td>
<td>-</td>
<td>(383)</td>
<td>-</td>
<td>-</td>
<td>(383)</td>
</tr>
<tr>
<td>Disposals</td>
<td>-</td>
<td>-</td>
<td>(848)</td>
<td>-</td>
<td>(848)</td>
</tr>
<tr>
<td><strong>Balance 30 June 2018</strong></td>
<td>-</td>
<td>-</td>
<td>8,722</td>
<td>-</td>
<td>8,722</td>
</tr>
<tr>
<td>Balance 1 July 2018</td>
<td>-</td>
<td>-</td>
<td>8,722</td>
<td>-</td>
<td>8,722</td>
</tr>
<tr>
<td>Depreciation for the period</td>
<td>-</td>
<td>494</td>
<td>1,728</td>
<td>-</td>
<td>2,222</td>
</tr>
<tr>
<td>Revaluation offset</td>
<td>-</td>
<td>(494)</td>
<td>-</td>
<td>-</td>
<td>(494)</td>
</tr>
<tr>
<td>Disposals</td>
<td>-</td>
<td>-</td>
<td>(642)</td>
<td>-</td>
<td>(642)</td>
</tr>
<tr>
<td><strong>Balance 30 June 2019</strong></td>
<td>-</td>
<td>-</td>
<td>9,808</td>
<td>-</td>
<td>9,808</td>
</tr>
<tr>
<td><strong>Carrying amounts</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>As 1 July 2017</td>
<td>9,140</td>
<td>15,684</td>
<td>7,961</td>
<td>3,479</td>
<td>36,264</td>
</tr>
<tr>
<td>At 30 June 2018</td>
<td>10,800</td>
<td>24,275</td>
<td>8,706</td>
<td>-</td>
<td>43,781</td>
</tr>
<tr>
<td>As 1 July 2018</td>
<td>10,800</td>
<td>24,275</td>
<td>8,706</td>
<td>-</td>
<td>43,781</td>
</tr>
<tr>
<td>At 30 June 2019</td>
<td>10,800</td>
<td>24,275</td>
<td>7,591</td>
<td>236</td>
<td>42,902</td>
</tr>
</tbody>
</table>
18. Property, plant and equipment (continued)

Valuation of land and buildings

Freehold land and buildings are measured at fair value, being the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date, having regard to the highest and best use of the asset for which the other parties would be willing to pay.

For the year ended 30 June 2018, the Board adopted an independent valuation of the Fund’s freehold land and buildings conducted by external, independent valuer (m3property), having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The valuations were performed and completed in June 2018 and were determined on the basis of open market values for highest and best use.

For the year ended 30 June 2019, the Board has adopted a Board Valuation based on the independent valuation conducted by m3property in June 2018.

The following valuation approaches adopted by m3property in deriving the market value of each property are listed below:

- **Capitalisation Approach**
  
  Capitalisation approach has regard to the rental value of the property and required that four essential factors be considered: market rental income, outgoings expenditure, rate of capitalisation, and any other capital adjustments that might be required in order to account for any shortfall in rental income, premium income or capital expenditure required.

  The estimated fair value would increase if:
  
  - Expected rental income per square meter increased.
  - Outgoings expenditure payable decreased.
  - The capitalisation rate decreased.

  The estimated fair value would decrease if the converse to the above outlined input changes applied.

- **Discount Cash Flows Approach**
  
  Discounted cash flows approach involves formulating a projection of net income over a specified time period, typically 10 years. A discount rate is then applied to the estimated future cash flows to derive a market value for the property.

  The estimated fair value would increase if:
  
  - Average CPI forecast increased;
  - Average projected growth rates increased;
  - Capital expenditure allowance increased.
  - Acquisition and disposal costs decreased;
  - Terminal capitalisation rate decreased.
  - Discount rate decreased.

  The estimated fair value would decrease if the converse to the above outlined input changes applied.

- **Direct Comparison Approach**
  
  Direct comparison approach has regard to sales of other properties in similar locations and adjustments made for small points of difference.

  The estimated fair value would increase / (decrease) if:
  
  - Observed sales prices for similar properties were higher / (lower).
18. Property, plant and equipment (continued)

The following table outlines the valuation technique and significant unobservable inputs used in measuring the Level 3 fair value of land and buildings.

<table>
<thead>
<tr>
<th>Valuation technique</th>
<th>Significant unobservable inputs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Property: 101 Pirie Street, Adelaide, South Australia</strong></td>
<td></td>
</tr>
</tbody>
</table>
| Capitalisation Approach | • Gross rental income of $417 per square metre  
  • Outgoings expenditure of $106 per square metre  
  • Capitalisation rate of 6.75%  
  • Capital adjustments include capital expenditure and lease incentives |
| Discount Cash Flows Approach | • Average CPI forecast of 2.32% over the 10 year projected period  
  • Average projected growth rates of between 2.32% to 3.02%  
  • Capital expenditure allowance of $167 per square metre over the 10 year projection  
  • Acquisition costs of 2.50% and disposal costs of 0.50% have been assumed on purchase/selling prices  
  • Terminal capitalisation rate of 7%  
  • Discount rate of 8% |
| **Property: Lot 2, 27 Smart Road, Modbury, South Australia** |
| Capitalisation Approach | • Gross rental income of $400 per square metre  
  • Outgoings expenditure of $2 per square metre  
  • Capitalisation rate of 5.75%  
  • No capital adjustments |
| Direct Comparison Approach | • Sale price of $3,648 to $7,687 per square metre  
  • Property considered to be at the upper end of price ranges observed |
| **Property: 118-120 Main South Road, Morphett Vale, South Australia** |
| Capitalisation Approach | • Gross rental income of $458 per square metre.  
  • Outgoings expenditure of $66 per square metre.  
  • Capitalisation rate of 5.75%  
  • Capital adjustments include capital expenditure and lease incentives |
| Direct Comparison Approach | • Sale price of $3,648 to $7,687 per square metre  
  • Property considered to be at the upper end of price ranges observed |
19. Intangible assets

Computer software acquired by the Fund is deemed to have a useful life of three years. All computer software is amortised using the straight-line method.

Amortisation of intangible assets is included in “Management expenses” in the Statement of Comprehensive Income.

<table>
<thead>
<tr>
<th>Cost</th>
<th>Computer software</th>
<th>Work in progress</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance 1 July 2017</td>
<td>1,646</td>
<td>95</td>
<td>1,741</td>
</tr>
<tr>
<td>Acquisitions</td>
<td>209</td>
<td>16</td>
<td>225</td>
</tr>
<tr>
<td>Reclassification to/(from) WIP</td>
<td>85</td>
<td>(85)</td>
<td>-</td>
</tr>
<tr>
<td>Disposals</td>
<td>(68)</td>
<td>-</td>
<td>(68)</td>
</tr>
<tr>
<td><strong>Balance 30 June 2018</strong></td>
<td>1,872</td>
<td>26</td>
<td>1,898</td>
</tr>
<tr>
<td>Balance 1 July 2018</td>
<td>1,872</td>
<td>26</td>
<td>1,898</td>
</tr>
<tr>
<td>Acquisitions</td>
<td>412</td>
<td>107</td>
<td>519</td>
</tr>
<tr>
<td>Reclassification to/(from) WIP</td>
<td>10</td>
<td>(10)</td>
<td>-</td>
</tr>
<tr>
<td>Disposals</td>
<td>(257)</td>
<td>-</td>
<td>(257)</td>
</tr>
<tr>
<td><strong>Balance 30 June 2019</strong></td>
<td>2,037</td>
<td>123</td>
<td>2,160</td>
</tr>
</tbody>
</table>

Amortisation and impairment losses

<table>
<thead>
<tr>
<th>Cost</th>
<th>Computer software</th>
<th>Work in progress</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance 1 July 2017</td>
<td>951</td>
<td>-</td>
<td>951</td>
</tr>
<tr>
<td>Amortisation for the period</td>
<td>401</td>
<td>-</td>
<td>401</td>
</tr>
<tr>
<td>Disposals</td>
<td>(68)</td>
<td>-</td>
<td>(68)</td>
</tr>
<tr>
<td><strong>Balance 30 June 2018</strong></td>
<td>1,284</td>
<td>-</td>
<td>1,284</td>
</tr>
<tr>
<td>Balance 1 July 2018</td>
<td>1,284</td>
<td>-</td>
<td>1,284</td>
</tr>
<tr>
<td>Amortisation for the period</td>
<td>435</td>
<td>-</td>
<td>435</td>
</tr>
<tr>
<td>Disposals</td>
<td>(257)</td>
<td>-</td>
<td>(257)</td>
</tr>
<tr>
<td><strong>Balance 30 June 2019</strong></td>
<td>1,462</td>
<td>-</td>
<td>1,462</td>
</tr>
</tbody>
</table>

Carrying amounts

<table>
<thead>
<tr>
<th>Cost</th>
<th>Computer software</th>
<th>Work in progress</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at 1 July 2017</td>
<td>695</td>
<td>95</td>
<td>790</td>
</tr>
<tr>
<td>Balance at 30 June 2018</td>
<td>588</td>
<td>26</td>
<td>614</td>
</tr>
<tr>
<td>Balance at 1 July 2018</td>
<td>588</td>
<td>26</td>
<td>614</td>
</tr>
<tr>
<td>Balance at 30 June 2019</td>
<td>575</td>
<td>123</td>
<td>698</td>
</tr>
</tbody>
</table>
20. Investment property

Investment property comprises premises which are surplus to current operating requirements and are leased to third parties. This includes Level 5-7 of the Adelaide CBD property and a portion the Morphett Vale property which are currently being leased (see note 25).

Reconciliation of carrying amount

<table>
<thead>
<tr>
<th></th>
<th>$'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance 1 July 2017</td>
<td>7,566</td>
</tr>
<tr>
<td>Acquisitions</td>
<td>2,185</td>
</tr>
<tr>
<td>Changes in fair value (unrealised)</td>
<td>950</td>
</tr>
<tr>
<td><strong>Balance at 30 June 2018</strong></td>
<td><strong>10,701</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>$'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance 1 July 2018</td>
<td>10,701</td>
</tr>
<tr>
<td><strong>Balance at 30 June 2019</strong></td>
<td><strong>10,701</strong></td>
</tr>
</tbody>
</table>

Measurement of fair value

The fair value of investment property was determined by external, independent property valuers, having appropriate professional qualifications and recent experience in the location and category of the property being valued. The fair value measurement for investment property of $10.701M (2018: $10.701M) has been categorised as a Level 3 fair value based on the inputs to the valuation technique used.

The valuation techniques and significant unobservable inputs used in measuring the Level 3 fair value of the property at the date of transfer were the same as those applied to the valuation of land and buildings at the reporting date (see note 18).

Changes in fair value are recognised as gains in profit or loss and included in ‘other income’. All gains are unrealised.

21. Trade and other payables

<table>
<thead>
<tr>
<th></th>
<th>30 June 2019</th>
<th>30 June 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade creditors</td>
<td>637</td>
<td>836</td>
</tr>
<tr>
<td>Sundry payables and accruals</td>
<td>3,008</td>
<td>3,378</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3,645</strong></td>
<td><strong>4,214</strong></td>
</tr>
</tbody>
</table>

Trade and other payables are stated at their cost. Trade payables are non-interest bearing and are normally settled on 30-60 day terms.
22. Outstanding claims

<table>
<thead>
<tr>
<th>Variable</th>
<th>Movement in variable</th>
<th>Change in profit (loss)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average claim size</td>
<td>+5%</td>
<td>(7,337)</td>
</tr>
<tr>
<td></td>
<td>-5%</td>
<td>7337</td>
</tr>
<tr>
<td>Average claim frequency</td>
<td>+10%</td>
<td>(14,674)</td>
</tr>
<tr>
<td></td>
<td>-10%</td>
<td>14,674</td>
</tr>
</tbody>
</table>

The risk margin has been determined based on an analysis of the past claims experience of the Fund. Past volatility has been assumed to be indicative of the future volatility. The claims development process adopted by the Fund has regard to this volatility; however, typically, uncertainty regarding the timing and amount of claim payments is resolved within six months.

The outstanding claims estimate is derived using all data combined in an aggregate model. As such diversification benefits have been implicitly allowed for in this process. The outstanding claims provision has been estimated based on historical experience and future expectations as to claims expected to be received. The calculation was determined taking into account one month of actual post-balance date claims.

Based on historical evidence, approximately 60% of outstanding claims are received within one month of balance date, and accordingly 40% of the outstanding claims provision requires estimation. Reasonable changes in assumptions would not have a material impact on the outstanding claims balance.

The assumptions regarding uncertainty were applied to the central estimate in order to provide a 75% (2018: 75%) probability of sufficiency for the outstanding claims provision.

The risk margin has been applied over the total central estimate of expected future claims.

The Fund conducts sensitivity analysis to quantify the risk exposure to changes in the key underlying variables. The valuations included in the reported results are calculated using certain assumptions about these variables as described above. The movement in any key variable will impact the performance and equity of the Fund.

The table below describes how a change in each assumption will affect the insurance liabilities and shows an analysis of the sensitivity of the profit/(loss) to changes in the assumptions, excluding risk equalisation payments and recoveries.
23. Unearned premium liability & unexpired risk liability

(a) Unearned premiums

The unearned premium liability reflects premiums paid in advance by members as at the reporting date.

<table>
<thead>
<tr>
<th></th>
<th>30 June 2019</th>
<th>30 June 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unearned premium liability</td>
<td>13,179</td>
<td>11,554</td>
</tr>
</tbody>
</table>

(b) Liability adequacy test

At each reporting date, the Fund is required to perform the Liability Adequacy Test ("LAT") in order to determine whether the unearned premium liability is adequate to cover the expected cash flows from future claims arising from the rights and obligations under current insurance contracts plus an additional risk margin to reflect the inherent uncertainty in the central estimate.

The risk margin of 4.0% (2018: 4.0%) applied to the benefits, risk equalisation, state levies, and claims related expense cash flows, has been estimated to equate to a probability of adequacy of approximately 75% (2018: 75%).

No deficiency was identified as at 30 June 2019, therefore no unexpired risk liability was recognised.

24. Employee benefits

Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Fund has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Long-term employee benefits

The Fund’s obligation in respect of long-term service benefits is the amount of future benefit that employees have earned in return for their service with the Fund plus related on-costs. The benefit is discounted to determine its present value. The discount rate is determined by reference to market yields at the end of the reporting period on high quality corporate bonds that have maturity dates approximating the terms of the Fund's obligations.

Post-employment benefits

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution superannuation funds are recognised as an expense in profit or loss when they are due.

<table>
<thead>
<tr>
<th></th>
<th>30 June 2019</th>
<th>30 June 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accrued salaries and wages</td>
<td>1,040</td>
<td>958</td>
</tr>
<tr>
<td>Liability for annual leave</td>
<td>1,626</td>
<td>1,559</td>
</tr>
<tr>
<td>Liability for long service leave</td>
<td>2,465</td>
<td>2,219</td>
</tr>
<tr>
<td></td>
<td>5,131</td>
<td>4,736</td>
</tr>
<tr>
<td>Non-current</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liability for long service leave</td>
<td>540</td>
<td>481</td>
</tr>
</tbody>
</table>

Defined contribution plans

The Fund makes contributions to several defined contribution superannuation plans. The amount recognised as expense was $1.992M (2018: $1.916M) for the period ended 30 June 2019.
25. Operating leases

(a) Leases as lessee

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in profit as an integral part of the total lease expense, over the term of the lease.

The Fund leases property in Goodwood and Modbury under non-cancellable operating leases. Lease payments comprise a base rental, which is reviewed on an annual basis to reflect movements in the consumer price index or other operating criteria.

As at 30 June 2019, the future minimum lease payments under non-cancellable leases were payable as follows:

<table>
<thead>
<tr>
<th></th>
<th>30 June 2019</th>
<th>30 June 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not later than one year</td>
<td>199</td>
<td>176</td>
</tr>
<tr>
<td>Later than one year but not later than five years</td>
<td>277</td>
<td>411</td>
</tr>
<tr>
<td>Later than five years</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>476</strong></td>
<td><strong>587</strong></td>
</tr>
</tbody>
</table>

The operating lease rental expense for the period ended 30 June 2019 was $0.175M (2018: $0.223M).

(b) Leases as lessor

Payments received under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives paid are recognised in profit or loss as an integral part of the total lease income, over the term of the lease.

The Fund leases out its investment property (see note 20), which includes property in Adelaide CBD and Morphett Vale. Each of the leases contains an initial non-cancellable period of 5 to 10 years, with annual rents increasing at an average fixed rate of 3.5% p.a.

As at 30 June 2019, the future minimum lease payments under non-cancellable leases were receiveable as follows:

<table>
<thead>
<tr>
<th></th>
<th>30 June 2019</th>
<th>30 June 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not later than one year</td>
<td>1,073</td>
<td>550</td>
</tr>
<tr>
<td>Later than one year but not later than five years</td>
<td>3,634</td>
<td>1,630</td>
</tr>
<tr>
<td>Later than five years</td>
<td>887</td>
<td>859</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>5,594</strong></td>
<td><strong>3,039</strong></td>
</tr>
</tbody>
</table>

The operating lease rental income for the period ended 30 June 2019 was $0.958M (2018: $0.636M).
26. Financial instruments – Fair values and risk management

(a) Risk Management Framework

The Fund has exposure to the following financial risks from their use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

The Board has overall responsibility for the establishment and oversight of the risk management framework. The Board has established the Audit Committee and Risk Committee, which reports to the Board regularly on its activities.

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

The Risk Committee recommends to the Board strategies, policies and procedures relevant to the management of risk. This also includes reviewing the adequacy of the risk management framework in relation to the risks faced by the Fund as well as the Fund’s risk appetite. The Audit Committee oversees how management monitors compliance within the Fund’s risk management policies and procedures. The Audit Committee is assisted in its oversight role by Internal Audit, which undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

(b) Credit risk

Credit risk is the risk of financial loss to the Fund if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Fund’s receivables from members, for both premium revenue and health-related business.

(i) Cash and cash equivalents

The Fund held cash and cash equivalents of $15.115M at 30 June 2019 (2018: $19.196M), which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with Authorised Deposit-taking Institutions (“ADIs”), which are rated AA- based on rating agency Standard & Poor’s ratings.

(ii) Trade and other receivables

Trade receivables include trade receivables for the Fund and health-related businesses.

Australian Government Private Health Insurance Rebate receivable

The Federal Government Rebate contributes approximately 30% of the Fund’s premium revenue. The Private Health Insurance Act 2007 (“Act”) details the obligations of Department of Human Services to assess and grant payments under the scheme. Payment is made by the Department of Human Services within 14 days.

Risk equalisation receivable

The Act and The Private Health Insurance (Risk Equalisation Policy) Rules 2007 detail the compulsory participation of the Fund in the risk equalisation arrangements. Payment is made by APRA from the RESA under the obligations of the Risk Equalisation Policy.

Premium debtors

The Board has established Fund rules which limit premium debtors to three months in payment arrears. Debtors greater than three months in arrears are subject to payment plans or their memberships are terminated under Fund rules. There are no significant individual amounts and there is no significant concentration of credit risk. In accordance with fund rules, members are prevented from claiming benefits while their premiums are in arrears.

Trade and other receivables

The Fund’s exposure to credit risk is influenced mainly by the individual characteristics of each member. Individual amounts are insignificant and there is no concentration of credit risk. The Fund has established an allowance for impairment that represents the Fund’s estimate of incurred losses in respect of trade and other receivables.
26. Financial instruments – Fair values and risk management (continued)

(iii) Other financial assets

The Board has established an investment policy that sets out principles for management of the Fund’s other financial assets. The policy sets out the Fund’s investment objectives, asset allocation limits and asset concentration limits.

The Fund held term deposits of $37.990M as at 30 June 2019 (2018: $22.034M), which represents its maximum credit exposure on these assets. Term deposits are held with ADIs, which are rated AA- to BBB-, based on rating agency Standard & Poor’s ratings. The Fund’s unrated asset limit or credit exposure with a particular entity is 10% of the value of total assets of the Fund for any individual asset, up to a maximum of 20% for all unrated ADIs.

Exposure to credit risk

The carrying amount of the Fund’s financial assets represents the maximum credit exposure. The Fund’s maximum exposure to credit risk at the reporting date was:

<table>
<thead>
<tr>
<th>Note</th>
<th>Carrying amount 30 June 2019</th>
<th>Carrying amount 30 June 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$'000</td>
<td>$'000</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>12</td>
<td>15,115</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>13</td>
<td>8,367</td>
</tr>
<tr>
<td>Other financial assets</td>
<td>15</td>
<td>109,912</td>
</tr>
<tr>
<td>Loan receivable</td>
<td>16</td>
<td>200</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>133,594</strong></td>
<td><strong>115,596</strong></td>
</tr>
</tbody>
</table>

Impairment losses

The ageing of the Fund’s trade and other receivables at the reporting date was:

<table>
<thead>
<tr>
<th>Gross 30/06/2019</th>
<th>Impairment 30/06/2019</th>
<th>Gross 30/06/2018</th>
<th>Impairment 30/06/2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>$'000</td>
<td>$'000</td>
<td>$'000</td>
<td>$'000</td>
</tr>
<tr>
<td>0–30 days</td>
<td>8,206</td>
<td>-</td>
<td>7,131</td>
</tr>
<tr>
<td>31–60 days</td>
<td>90</td>
<td>-</td>
<td>109</td>
</tr>
<tr>
<td>61–90 days</td>
<td>54</td>
<td>-</td>
<td>53</td>
</tr>
<tr>
<td>More than 90 days</td>
<td>147</td>
<td>(130)</td>
<td>134</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>8,497</strong></td>
<td><strong>(130)</strong></td>
<td><strong>7,427</strong></td>
</tr>
</tbody>
</table>

The movement in the allowance for impairment in respect of trade and other receivables during the year was as follows:

<table>
<thead>
<tr>
<th>Carrying amount 30 June 2019</th>
<th>Carrying amount 30 June 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>$'000</td>
<td>$'000</td>
</tr>
<tr>
<td>Opening balance at beginning of period</td>
<td>101</td>
</tr>
<tr>
<td>Impairment cost/(recoveries) recognised</td>
<td>29</td>
</tr>
<tr>
<td><strong>Balance at end of period</strong></td>
<td><strong>130</strong></td>
</tr>
</tbody>
</table>
26. Financial instruments – Fair values and risk management (continued)

(c) Liquidity risk

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

Typically the Fund ensures that it has sufficient cash on demand to meet expected operational expenses for a period of at least 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot be reasonably predicted, such as natural disasters. At 30 June 2019, the Fund maintained $37.990M (2018: $22.034M) in term deposits that can be drawn down to meet short to medium-term financing needs.

It is a requirement for all private health insurers to meet the solvency obligations of the Solvency Standard (as detailed in note 31) issued by APRA. The Solvency Standard determines a reserve based on a run-off view of the Fund in order to ensure that the Fund will be able to meet its liabilities in the event the Fund is terminated. The Solvency ratio is reported to the Board each month. The Fund is required to report to APRA on a quarterly basis with details on how the Fund is meeting the solvency obligations of the Solvency Standard.

Exposure to liquidity risk

The following are the contractual maturities of financial liabilities and financial assets:

<table>
<thead>
<tr>
<th>Contractual cash flows</th>
<th>0-6 months</th>
<th>6-12 months</th>
<th>1-2 years</th>
<th>2-5 years</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$'000</td>
<td>$'000</td>
<td>$'000</td>
<td>$'000</td>
<td>$'000</td>
</tr>
</tbody>
</table>

**30 June 2019**

Financial assets

- Cash and cash equivalents: $15,115
- Trade and other receivables: $8,367
- Other financial assets: $109,912
- Loan receivable: $200

Total: $133,594

Financial liabilities

- Other payables: $3,645
- Outstanding claims: $11,491

Total: $15,136

**30 June 2018**

Financial assets

- Cash and cash equivalents: $19,196
- Trade and other receivables: $7,326
- Other financial assets: $88,874
- Loan receivable: $200

Total: $115,596

Financial liabilities

- Other payables: $4,214
- Outstanding claims: $9,666

Total: $13,880
(d) Market risk

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

The Fund has no direct exposure to currency or foreign exchange risks. The Board has implemented an investment policy to minimise market risks on investments. The policy outlines the asset allocation of investments between growth assets (equities and property) and defensive assets (fixed interest and cash).

**Exposure to market risk - Interest rate risk**

At the reporting date the interest rate sensitivity of the Fund’s interest-bearing financial instruments to interest rate fluctuations was:

<table>
<thead>
<tr>
<th>Interest rate risk</th>
<th>30 June 2019</th>
<th>30 June 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$’000</td>
<td>$’000</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>15,115</td>
<td>19,196</td>
</tr>
<tr>
<td>Term deposits</td>
<td>37,990</td>
<td>22,034</td>
</tr>
<tr>
<td>Other investments</td>
<td>351</td>
<td>1,181</td>
</tr>
<tr>
<td><strong>Net profit sensitivity</strong></td>
<td>53,456</td>
<td>42,411</td>
</tr>
</tbody>
</table>

**Exposure to market risk - Price risk**

The Fund is exposed to price risk, which arises from other financial assets held to back insurance liabilities. For such investments, a 10% increase/(decrease) in the market price at the reporting date will increase/(decrease) equity and profit or loss by the amount shown below:

<table>
<thead>
<tr>
<th>Price risk</th>
<th>30 June 2019</th>
<th>30 June 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$’000</td>
<td>$’000</td>
</tr>
<tr>
<td>Listed securities</td>
<td>35,862</td>
<td>33,209</td>
</tr>
<tr>
<td>Managed investments</td>
<td>35,709</td>
<td>32,450</td>
</tr>
<tr>
<td><strong>Net profit sensitivity</strong></td>
<td>71,571</td>
<td>65,659</td>
</tr>
</tbody>
</table>

(e) Capital Management

It is a requirement of all private health insurers to meet the capital adequacy obligations of the Capital Adequacy Standard issued by APRA. The Capital Adequacy Standard assesses the financial strength of the Fund as an ongoing operation; in particular, the ability to remain solvent for at least the next three years. The Capital Adequacy ratio is reported to the Board each month. The Fund is required to report to APRA on a quarterly basis with details on how the Fund is meeting the capital adequacy obligations of the Capital Adequacy Standard.

The Board’s policy is to maintain a strong capital base so as to meet regulatory requirements, maintain member confidence and to sustain future development of the business. The Board has adopted a Capital Management Plan, which outlines capital target levels (Capital Ratio) required to be held by the Fund. The Capital Ratio is reported monthly to the Board.

(f) Fair values

**Fair values versus carrying amounts**

The fair values of financial assets and liabilities are represented by the carrying amounts shown in the Statement of Financial Position.

The basis for determining fair values is disclosed in note 2(e).
27. Insurance contracts – Risk management policies and procedures

The financial condition and operation of the Fund are affected by a number of key risks including insurance risk, financial risk, compliance risk and operational risk. The Fund’s policies and procedures in respect of managing these risks are set out below.

Objectives in managing risks arising from insurance contracts and policies to mitigate those risks

The Fund has an objective to control insurance risk and thereby reduce the volatility of operating profits. The Fund’s risk management framework is the principal means by which insurance risk, and all other identified risks, are managed.

The Fund has developed a risk management policy that outlines the risk management framework. This policy is in accordance with APRA requirements and has been approved by the Board. The policy incorporates the measuring and reporting of KPIs, developed to minimise risk, to the Board on a quarterly basis.

Risks arising from entering into insurance contracts are specifically addressed as part of the Fund’s risk management framework. Each identified risk is analysed according to an established risk management process and appropriate treatment strategies are adopted in order to manage the Fund’s exposure to risk.

Key aspects of the process established in the risk management framework to mitigate risk include:

- The maintenance and use of management information systems, which provide up-to-date, reliable data on the risks to which the business is exposed.
- Models, using information from management information systems, are used to calculate premiums and monitor claims patterns. Past experience, relevant industry benchmarks and statistical methods are used as part of the process.
- Risk Equalisation is used to limit the Fund’s exposure to claims. The Fund is required by Government legislation to participate in reinsurance arrangements administered by APRA.
- The mix of assets in which the Fund invests is driven by the nature and term of the insurance liabilities. The management of assets and liabilities is closely monitored to attempt to match the maturity dates of assets with the expected pattern of claims.
- The diversification of business over large numbers of uncorrelated individuals reduces variability in loss experience.

Underwriting risk is the risk that the Fund does not charge premiums appropriate for the exposure profile it insures. The risk on any policy will vary according to many factors. Underwriting risk is partially managed by the Fund issuing contracts for each policy which include the terms and conditions associated with the policy.

The Fund must comply with community rating as detailed in the Act. Community rating states that a fund must not improperly discriminate against any person, including discrimination based on medical condition, age, race, gender and where a person lives. All persons covered by the same policy pay the same premium, regardless of their risk profile.

Any proposed changes to premiums must comply with the requirements of the Act and the Department of Health. Any submission to change premiums must be substantiated and supported by the Fund’s Appointed Actuary. The submission is made annually in December to the Department of Health. Any submission must be approved by the Minister. Approved premium changes are effective from no earlier than 1 April in the year following the submission.

28. Capital and other commitments

Contracted but not provided for and payable:

<table>
<thead>
<tr>
<th></th>
<th>30 June 2019</th>
<th>30 June 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$’000</td>
<td>$’000</td>
</tr>
<tr>
<td>Within 1 year:</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>
29. Reconciliation of cash flows from operating activities

<table>
<thead>
<tr>
<th>Note</th>
<th>2019 $'000</th>
<th>2018 $'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash flows from operating activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit for the year</td>
<td>13,374</td>
<td>15,064</td>
</tr>
<tr>
<td>Adjustments for:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>2,222</td>
<td>2,178</td>
</tr>
<tr>
<td>Amortisation of intangible assets</td>
<td>435</td>
<td>401</td>
</tr>
<tr>
<td>Net (profit)/loss on the disposal of assets</td>
<td>(30)</td>
<td>59</td>
</tr>
<tr>
<td>Revaluation to fair value of investments</td>
<td>(2,946)</td>
<td>(3,376)</td>
</tr>
<tr>
<td>Revaluation of investment property</td>
<td>-</td>
<td>(950)</td>
</tr>
<tr>
<td>Net investment income</td>
<td>(3,368)</td>
<td>(2,652)</td>
</tr>
<tr>
<td>Share of profit from investment in associate</td>
<td>(42)</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>9,645</td>
<td>10,724</td>
</tr>
<tr>
<td>Changes in:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>(1,041)</td>
<td>200</td>
</tr>
<tr>
<td>Inventories</td>
<td>42</td>
<td>(67)</td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>1,056</td>
<td>1,045</td>
</tr>
<tr>
<td>Provision for outstanding claims</td>
<td>1,825</td>
<td>(518)</td>
</tr>
<tr>
<td>Employee benefits</td>
<td>454</td>
<td>350</td>
</tr>
<tr>
<td>Cash generated from operating activities</td>
<td>11,981</td>
<td>11,734</td>
</tr>
</tbody>
</table>
30. Related parties

(a) Key management personnel

Transactions with key management personnel
In addition to their salaries, the Fund also provides non-cash benefits to key management personnel, and contributes to defined contribution plan superannuation funds on their behalf.

Key management personnel compensation
The key management personnel compensation included in Personnel Expenses (see note 9) is as follows:

<table>
<thead>
<tr>
<th></th>
<th>30 June 2019</th>
<th>30 June 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short-term employee benefits</td>
<td>1,921,263</td>
<td>1,898,173</td>
</tr>
<tr>
<td>Long-term employee benefits</td>
<td>165,171</td>
<td>135,601</td>
</tr>
<tr>
<td>Post-employment benefits</td>
<td>171,936</td>
<td>161,154</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,258,370</strong></td>
<td><strong>2,194,928</strong></td>
</tr>
</tbody>
</table>

(b) Directors Remuneration

<table>
<thead>
<tr>
<th>Director</th>
<th>Salary Fee</th>
<th>Superannuation</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>McMahon, J</td>
<td>100,332</td>
<td>9,530</td>
<td>109,862</td>
</tr>
<tr>
<td>2018</td>
<td>97,911</td>
<td>9,301</td>
<td>107,212</td>
</tr>
<tr>
<td>Crawshaw, K</td>
<td>70,269</td>
<td>6,671</td>
<td>76,940</td>
</tr>
<tr>
<td>2018</td>
<td>73,775</td>
<td>7,007</td>
<td>80,782</td>
</tr>
<tr>
<td>Oxlad, L</td>
<td>71,293</td>
<td>6,772</td>
<td>78,065</td>
</tr>
<tr>
<td>2018</td>
<td>65,262</td>
<td>6,195</td>
<td>71,457</td>
</tr>
<tr>
<td>Adams, T</td>
<td>66,799</td>
<td>6,340</td>
<td>73,139</td>
</tr>
<tr>
<td>2018</td>
<td>65,262</td>
<td>6,195</td>
<td>71,457</td>
</tr>
<tr>
<td>Prior, D</td>
<td>75,512</td>
<td>7,174</td>
<td>82,686</td>
</tr>
<tr>
<td>2018</td>
<td>73,775</td>
<td>7,007</td>
<td>80,782</td>
</tr>
<tr>
<td>Ranier, E</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2018</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Remuneration</strong></td>
<td><strong>384,205</strong></td>
<td><strong>36,487</strong></td>
<td><strong>420,692</strong></td>
</tr>
<tr>
<td>2018</td>
<td><strong>375,985</strong></td>
<td><strong>35,705</strong></td>
<td><strong>411,690</strong></td>
</tr>
</tbody>
</table>

Directors are also eligible to receive a reduction in their private health insurance premiums with Health Partners.

(c) Related Party Transactions

The Fund paid $2.568M to J & J Health Services Pty Ltd (operating as “Your Health Navigator”) for in-home hospital services provided to members for the year ending 30 June 2019 (2018: 1.078M). These payments have been accounted for as direct claims expenses in the profit or loss.

The Fund also issued a loan of $0.200M to J & J Health Services Pty Ltd on 10 November 2017 to help support the ongoing operations of the entity (see note 16).
31. Solvency requirement

The Solvency Standard is established under the Private Health Insurance (Health Benefits Fund Administration) Rules 2007 and is an integral component of the prudential reporting and management regime for registered health benefits organisations.


32. Subsequent events

There have been no material events or transactions of an unusual nature that have occurred between the end of the financial year and the date of signing this report that, in the opinion of the Directors, significantly affected or will affect the future operations of the Fund.
Health Partners Limited

For the year ended 30 June 2019.

1. In the opinion of the Directors of Health Partners Limited:
   (a) the financial statements and accompanying notes are in accordance with the Corporations Act 2001, including:
      (i) giving a true and fair view of the financial position of the Company as at 30 June 2019 and of its performance for the financial year ended on that date; and
      (ii) complying with Australian Accounting Standards and the Corporations Regulation 2001.
   (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. The Directors draw attention to Note 2(a) to the financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the Directors.

Jan McMahon
Chairperson

Lindsay Oxlad
Director

Dated at Adelaide this 4th day of September 2019.
Independent Auditor’s Report

To the member of Health Partners Limited

Opinion

We have audited the Financial Report of Health Partners Limited (the Fund).

In our opinion, the accompanying Financial Report of the Fund is in accordance with the Corporations Act 2001, including:

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

The Financial Report comprises:

- Statement of financial position as at 30 June 2019;
- Statement of profit or loss and other comprehensive income, Statement of changes in equity, and Statement of cash flows for the year then ended;
- Notes including a summary of significant accounting policies; and
- Directors’ Declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 Fund 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 fulfilled our other ethical responsibilities in accordance with the Code.

Other Information

Other Information is financial and non-financial information in Health Partners Limited’s annual reporting which is provided in addition to the Financial Report and the Auditor’s Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we 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.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor’s Report we have nothing to report.
Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

• preparing the Financial Report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001;

• implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and

• assessing the Fund’s ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

Auditor’s responsibilities for the audit of the Financial Report

Our objective is:

• 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 Australian Auditing Standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They 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 the Financial Report.


KPMG

Paul Cenko
Partner

Adelaide
4 September 2019
Health Partners Directory

Health Partners Administration (Registered Office)
Level 3, 101 Pirie Street, Adelaide SA 5000
P: 1300 113 113
F: (08) 8113 2259

Health Partners Member Care
101 Pirie Street, Adelaide 5000
27 Smart Road, Modbury 5092
118-120 Main South Road, Morphett Vale 5162
P: 1300 113 113
F: (08) 8113 2259
E: ask@healthpartners.com.au
W: healthpartners.com.au

Hours of Business:
Adelaide
Monday to Thursday 8:30am - 5:30pm
Friday 9:00am - 5:30pm
Saturday 9:00am - 1:00pm

Modbury
Monday to Friday 8:30am - 5:00pm
Saturday 9:00am - 1:00pm

Morphett Vale
Monday to Friday 8:30am - 5:00pm
Saturday 9:00am - 1:00pm

Phone services available 8:00am – 8:00pm Monday to Friday and 9:00am – 1:00pm Saturday.

Health Partners Dental
Level 1, 101 Pirie Street, Adelaide 5000
Level 1, 27 Smart Road, Modbury 5092
118-120 Main South Road, Morphett Vale 5162
P: 1300 114 114

Hours of Business:
Adelaide
Monday to Thursday 8:00am - 6:30pm
Friday 8:00am - 5:00pm

Modbury
Monday and Wednesday 8:00am - 5:30pm
Tuesday and Thursday 8:00am - 7:30pm
Friday 8:00am - 5:00pm

Morphett Vale
Monday and Wednesday 8:00am - 5:30pm
Tuesday and Thursday 8:00am - 7:30pm
Friday 8:00am - 5:00pm
Alternate Saturdays 9:00am - 1:00pm

Phone services available 8:00am – 8:00pm Monday to Friday.

Health Partners Optical
101 Pirie Street, Adelaide 5000
P: 1300 115 115

Hours of Business:
Monday to Wednesday 8:30am - 5:30pm
Thursday 8:30am - 8:30pm
Friday 9:00am - 5:30pm
Saturday 9:00am - 1:00pm

92 King William Road, Goodwood 5034
P: 1300 116 116

Hours of Business:
Monday to Wednesday 8:30am - 5:30pm
Thursday 8:30am - 8:30pm
Friday 9:00am - 5:30pm
Saturday 9:00am - 1:00pm

27 Smart Road, Modbury 5092
P: 1300 127 127

Hours of Business:
Monday to Wednesday 8:30am - 5:30pm
Thursday 8:30am - 8:30pm
Friday 9:00am - 5:30pm
Saturday 9:00am - 1:00pm

118-120 Main South Road, Morphett Vale 5162
P: 1300 191 191

Hours of Business:
Monday to Wednesday 8:30am - 5:30pm
Thursday 8:30am - 8:30pm
Friday 9:00am - 5:30pm
Saturday 9:00am - 1:00pm