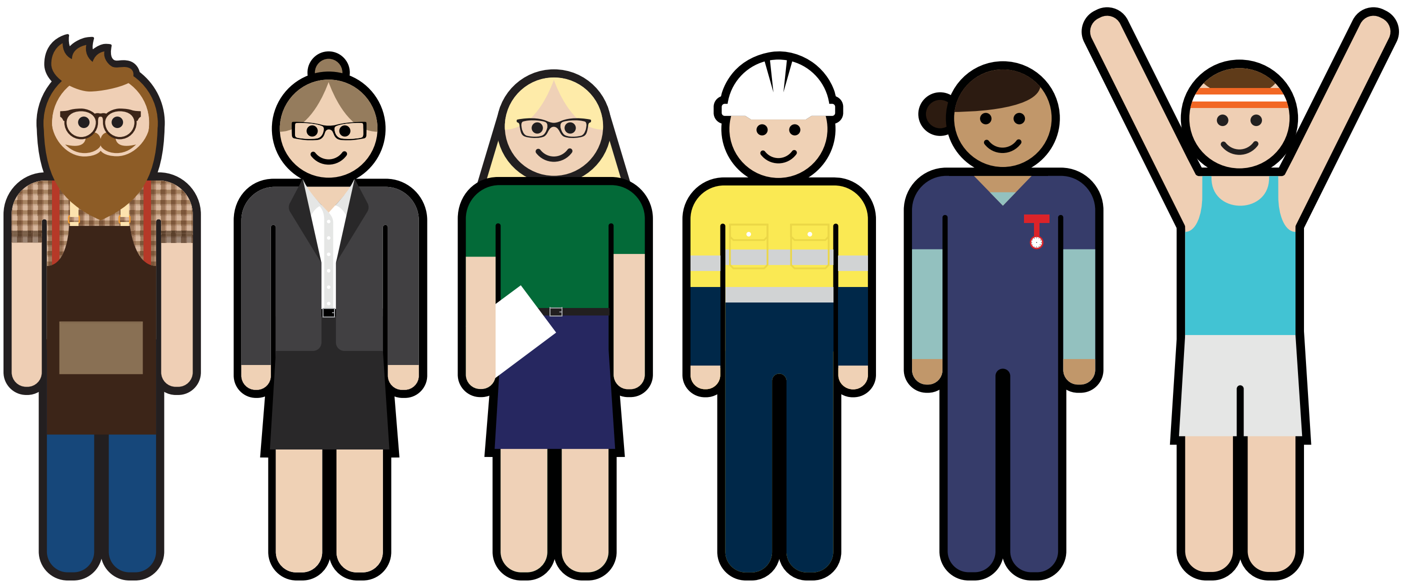
TUH Health Fund

MEMBERS OWN HEALTH FUND

Annual Report 2016



All together better.

Our Vision 

To be the lifetime health partner for union members and their families.

Our Purpose

- To provide our members with access to high quality health care by delivering competitive products and benefits
- To improve our members' health and wellbeing by promoting and delivering quality health services and outcomes
- To provide our members with exceptional and personal customer service
- To demonstrate our appreciation of our members, our employees and our community
- To strengthen and grow our membership base to ensure the long term viability of the health fund
- To act with integrity and in the best interests of members

Our Mission

Better Cover. Better Health. Better Life.

Contents

John Battams
Chair's Report

I am delighted to present the 2016 Chair's Report, my first since being appointed to the role by the Board in November 2015.

Formed over 40 years ago by unions for union members and their families, TUH has an enduring connection to the core union values of equity, dignity and compassion. As the world changes and our industry becomes more competitive, that foundation in union values is invaluable for TUH members. The Fund is growing strongly because it continues to provide great quality health insurance for members with a range of options to suit individual circumstances.

Following on from the stronger than expected growth in 2014-15, member growth hit a record high of 13.5% in 2015-16. Strong growth is vital for the Fund to remain responsive and viable in today's private health insurance industry. Growth allows the Fund to achieve its goal of being the *lifetime health partner for our members*. However, growth comes with risks which need to be navigated, including regulatory risks and pressure on capital. Like all funds, TUH has to balance the key concerns of its members (affordability, quality, member-focus) with the increasing complexity and rising health care costs facing the industry.

TUH is in a very sound financial position with assets in excess of $100 million, with the Fund holding $78.1 million in managed investments and $16.9 million in owner-occupied and investment property. Despite this positive picture, TUH reported a net deficit after investments of $2.2 million. Although these results are better than the prior year, the Board is working with management to return to a net surplus position over the long term to ensure the sustainability of TUH.

This requires the Board to respond to current and emerging challenges in a timely manner. Your Board has reviewed the Strategic Plan for the Fund to ensure it is addressing quality, affordability and equity. The Board developed a sustainability strategy to address financial and industry trends that have affected the Fund. The sustainability strategy required TUH to make some changes to products and rules, especially governing pre-payments, that will be monitored over 2016-17. The impact of strategies to improve the Fund's sustainability will not be immediately known, but the Board believes the change made are vital to ensure the Fund remains competitive and in a strong financial position.

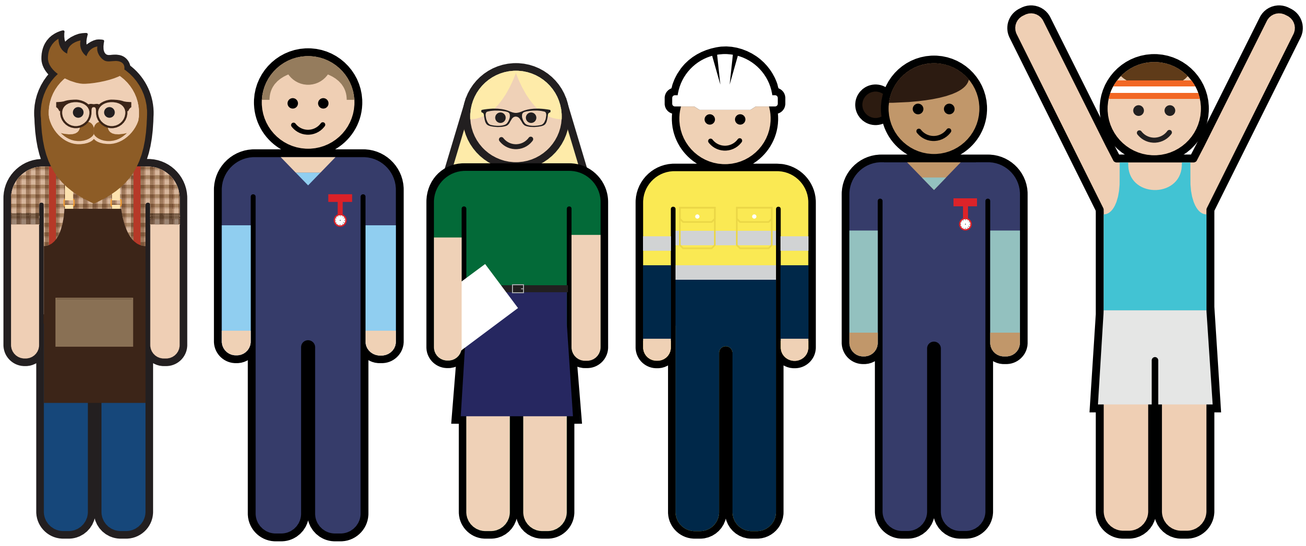
The year has been extremely rewarding for TUH. Two new Directors, Peta Irvine and Michael Cottier, joined the Board, following the retirement of long-standing independent Directors Darcy Edwards and Teresa Hamilton. Peta and Michael were appointed after a thorough independent recruitment process facilitated by the Board's Nominations and Remuneration Committee. They are both experienced company directors with abilities that complement and support the Board's collective skills. Both Directors have participated fully in the decisions made by the Board during their first 12 months and I look forward to their ongoing contributions.

On 1 July, all private health insurers moved to a new regulatory framework. The former regulator, Private Health Insurance Administration Council (PHIAC), was disbanded and all insurers moved to a framework administered by the Australian Prudential Regulation Authority (APRA). I am pleased to confirm that the transition to APRA has gone smoothly for TUH. This is supported by the productive relationship that has been developed with our new regulator, as well as the favourable outcome of APRA's recent risk management review of TUH.

The two principal education unions, the QTU and the QIEU continue to provide strong support to the Fund which is greatly appreciated and is even more important to us in an environment of increasing competition from other funds. Support is also building from other unions, particularly the Queensland Nurses Union, the source of a growing proportion of new members to TUH as a result of our expanded eligibility. Stronger relationships with key unions will continue to be a focus for the organisation.

I would like to acknowledge the contribution of the Directors, management and staff for their commitment to the ongoing success of the Fund.

John Battams
Chair



Rob Seljak
Chief Executive Officer's Report

Membership eligibility and growth

During the 2015-16 financial year, TUH continued with a growth journey in our second full year of expanded membership eligibility to all union members. The growth rate increased from our record 12.12% last year to an even more impressive 13.5%. By comparison the industry as a whole grew by only 1.5%. The majority of new members are coming from Queensland unions and their families. We also experienced strong growth in New South Wales and we are starting to expand into Victoria. Expanding outside of Queensland is a deliberate strategy to develop markets that TUH can access in the future to sustain its growth targets and ensure the Fund is sustainable. We continue to experience higher than industry average retention rates which means members who join TUH stay with us longer than members who join the bigger health funds.

Member satisfaction

We participated in a member satisfaction research survey conducted on behalf of 13 not-for-profit health funds. The research report compiled by Discovery Research, an independent research organisation, showed that member satisfaction was high for small, not-for-profit, member-based funds including TUH. More than 96% of TUH members reported that they were either satisfied or very satisfied with their TUH health insurance. We use the results of this survey, including direct feedback provided by hundreds of members, to improve our benefits and services. We also collect immediate feedback from members within 24 hours of experiencing a service from TUH. This feedback indicates that most members are very satisfied with the Fund and would promote TUH to their family and friends.

Choice recommended

CHOICE magazine reviews Private Health Insurance policies on a yearly basis. In the CHOICE Health Insurance Review 2015, TUH for the second year in a row has received a Choice Recommendation for our Total Care Hospital Nil Excess product. We are now using the double "CHOICE recommended" logo on our marketing material to highlight the value that TUH brings to its members.

Member benefits

During the year TUH paid out over $130 million in member benefits. This is an increase of $15 million or 13% on 2014-15, which is consistent with the rate of membership growth. The percentage increase in hospital and general treatment benefits were similar. Benefits for public hospital admissions increased by 17% compared to an increase of 11% in benefits for private hospital admissions. TUH continues to be concerned about reports from members that they are being strongly persuaded to be admitted as a private patient when they present for emergency treatment at a public hospital. Under national/state funding agreements, admissions to public hospital are covered by Medicare with no requirement for the health fund or the member to pay additional fees. Members are free to choose when and where they use their private health insurance and should not be coerced into declaring their private health insurance membership when there is no need and no added benefit to the member. We will continue to educate our members as to their rights in this regard.

TUH stakeholder engagement

TUH continually engages with our key stakeholders to improve our access to current and potential members and our reputation in the community. A separate section of the Annual Report is dedicated to highlighting our key achievements in engaging with our stakeholders.

Health Care Centre

During the year the Health Care Centre was renamed the TUH Health Hub to reflect its role in providing multiple health services and support from the one location. During the year the Eyecare team provided 8,642 eye tests (which is a record for TUH), and undertook 2,557 optical scans with the recently acquired OCT scanner. The Health Hub dental department was also kept busy throughout the year attending to almost 24,000 patients and providing 74,980 dental services, while our Allied Health service professionals provided almost 15,000 services throughout the year.

Health Hub, in 2016 we upgraded our vision testing equipment by installing state-of-the-art automated phoropters (machines used to match the perfect lens to a person's sight) and LCD vision charts in each of the optometrists' rooms. To support our commitment to member health education, television screens were also installed in our dental surgeries which now enables our dentists to share intra-oral scans with patients while they are in the surgery.

These initiatives were supported by a focus on training and continuing professional development of our Health Hub professionals. For example, recognising some of the specific health needs of members, our contracted audiologist has undertaken training in tinnitus, several of our physiotherapists have developed specialist skill sets in areas such as sports physiotherapy and women's health, while TUH's optometrists have undertaken additional training in ocular disease, digital imaging and paediatric optometry. Similarly, to expand the scope of services available to members, our TUH dental team have undertaken continuing professional development in clinical areas such as the growing (and often undiagnosed) field of sleep apnoea and the diagnosis and treatment planning for endodontics.

Preferred dental provider network

Over the past year, TUH added 29 new dental practices to its preferred dental provider network bringing to 125 the number of preferred dental practices TUH has in Australia, 121 of which are in Queensland. 17 of the new practices are in regional Queensland (with six in regional areas where TUH has not previously had a preferred provider) and four are in New South Wales. These additional preferred dental practices enable TUH to provide greater support to members for their dental care than ever before.

Ex-gratia

Periodically medical specialists undertake a procedure, administer a medication (usually a high cost, specialty drug) or use prostheses in the treatment of a TUH member which may not appear on approved Government schedules that health funds use to make payments. These are considered ex-gratia requests and TUH considers them on a case by case basis. In deciding whether to pay a benefit and what benefit to pay TUH considers such factors as the level of cover the member holds, their length of membership with TUH, any compassionate circumstances and the benefits for the member and TUH.

Members appreciate the additional support these payments can provide them in achieving a full recovery or improved health outcome. In 2015-16 TUH paid over $130,000 in ex-gratia benefits.

Claims leakage - $1million landmark

In late 2014 TUH established a small claims audit team to scrutinise hospital, medical and ancillary claims to ensure that providers (hospitals, doctors, dentists, physiotherapists, etc.) charged TUH and its members in accordance with their contracts and our Fund rules. During the year, this team reached an important landmark: it has saved TUH members over $1million since it was established. The work this team performs assists us to validate payments made to hospitals and medical providers on behalf of TUH members which amounted to $95 million in 2015-16. During the past year the team also enhanced its processes for identifying fraudulent member claims. While the incidence of this at TUH is low by industry standards TUH remains vigilant to prevent inappropriate claiming and to recover any benefits incorrectly paid. The savings made by this team help to improve the affordability of health insurance for all TUH members.

The future

The Government has initiated a number of reviews into the private health sector. The aims of these reviews are to make the health care system more efficient, more consumer-friendly and more affordable. The vast majority of premiums collected from members are paid to doctors, hospitals, and specialists. If the Government wants to ensure that premiums are affordable it must look at the practices and charges of these entities as they directly influence premiums that TUH passes on to our members. The private health insurance industry is lobbying Government to ensure that the main drivers of cost are addressed as part of their multiple reviews into the sector.

Rob Seljak
Chief Executive Officer

Strong  Relationships

Stakeholder / Community Initiatives

Sponsorships and marketing agreements

TUH continues to support our key stakeholders through sponsorship and marketing agreements. These agreements help build strong relationships with these stakeholders and promote TUH to our core sectors. We have agreements with the Queensland Teachers' Union (QTU), Queensland Independent Education Union (QIEU), United Voice, Queensland Council of Unions (QCU), Queensland Nurses' Union (QNU), Department of Education and Training (DET) and Brisbane Catholic Education (BCE).

Community support

TUH continues to support our community, focusing on local and education-related initiatives. We sponsor an education program at our local Youth Outreach Service run by the Salvation Army and continue to "adopt" Australian students through "A Start in Life" which contributes to the cost of their education. We again supported the Cancer Council by hosting an Australia's Biggest Morning Tea event.

Stakeholder breakfast

On 4 August 2015, TUH held its fifth stakeholder breakfast with guest speaker, The Honourable Dame Quentin Bryce AD CVO. And the sixth event was held on 9 June 2016 with guest speaker Jessica Watson. Both successful events were attended by principals, education sector and union representatives, and a number of TUH directors. These events provide excellent opportunities to promote TUH to our traditional stakeholders and engage new unions.

Queensland College of Teachers (QCT) Beginning to Teach Awards

The QCT Teaching Awards were held on 30 October 2015. As sponsor of the Beginning Teacher Awards, TUH directors and employees joined nearly 100 stakeholders from the education sector at the award ceremony at QUT. These awards provide exposure for TUH and an opportunity to demonstrate our commitment to the education community.

Brisbane Catholic Education (BCE) Excellence in Teaching Awards

TUH sponsored the Brisbane Catholic Education Excellence in Teaching Awards held in June 2016 and had the opportunity to present three awards. Involvement in these awards affords an excellent way to demonstrate the strong relationship between TUH and BCE. The event was attended by over 250 BCE staff and family members.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Stakeholder breakfasts

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Queensland College of Teachers awards


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Brisbane Catholic Education awards

1—2
Mother's Day Classic

3—5
Labour Day celebrations

Strong  Relationships

Stakeholder / Community Initiatives (continued)

Life Education partnership

TUH continues its partnership with Life Education Queensland, a not for profit organisation that provides drug and health education to schools throughout Australia. TUH sponsors their program for Queensland schools which covers 120,000 students and 5,000 teachers. This program aligns with our values of promoting positive health and wellbeing and educating our community on good health.

Mother's Day Classic

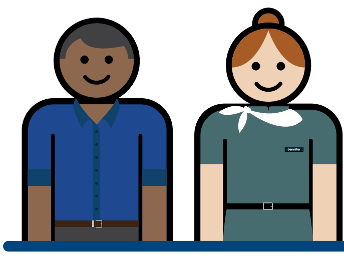
The Mother's Day Classic Fun Run was established by the industry superannuation fund movement and 'Women in Super' to raise awareness and funds for research into breast cancer. TUH sponsored the Brisbane run, held on 8 May 2016. TUH also entered a team consisting of both members and staff.

Labour Day celebrations

TUH is a participating sponsor of the Queensland Labour Day Celebrations. Employees from TUH attended the Labour Day dinner which was held on 29 April 2016 at the RNA Convention Centre and we had our customary cheer squad for the Sunday parade.

The Department of Education and Training (DET)

This sponsorship gives TUH the opportunity to be recognised as Principal Partner in the 2016 Premier's Reading Challenge – an annual statewide initiative for Queensland students up to Year 9 and children attending an approved kindergarten program or long day care centre. It's the second year TUH has been involved with the challenge.



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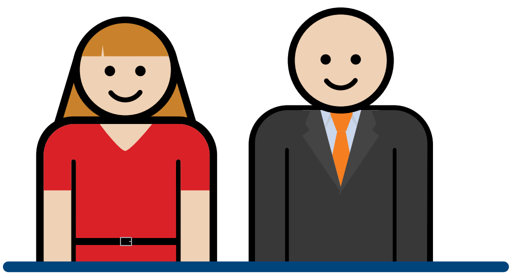
Corporate Governance Report

The Board has a strong focus on building a financially sound, member focused company based on the corporate governance values of professionalism, accountability, leadership and integrity.

In addition to adhering to its statutory obligations, the Board follows the intent of the ASX Corporate Governance Principles and uses guidelines developed by regulators and industry associations including the Australian Prudential Regulation Authority, Australian Institute of Company Directors and Private Healthcare Australia.

In carrying out their roles and responsibilities, the Board and employees recognise their overriding responsibility to act honestly, fairly, diligently and in accordance with the law, in serving the interests of the health fund members of the Company, as well as other clients and the Company's stakeholders and the community. The Board and management promote an environment that uses these principles and the Company's values as basic guidelines for all of its employees and representatives.



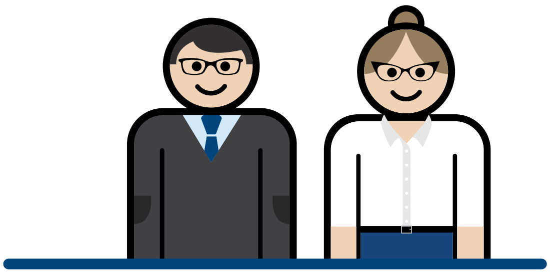
Role of Board

The Board is responsible for the overall governance of the Company. Its role, powers and duties are outlined in the Board Governance Charter.

In summary, the Board's key functions are to set the Company's strategic direction and risk management framework, appoint, guide and monitor the CEO, and oversee strategic and operational activities.

More specific responsibilities include:

- Setting ethical standards through behavior and establishing and monitoring corporate values and codes of conduct;
- Establishing and monitoring specific strategic and financial objectives and key performance indicators and ensuring management receives the appropriate resources to deliver the required outcomes;
- Approving and monitoring the Capital Management Plan;
- Maintaining Board and executive succession plans;
- Approving significant changes to the structure or nature of operations;
- Monitoring compliance with all its contractual, statutory and legal obligations;
- Approving major policies and Board Committee charters;
- Authorising expenditure outside the CEO's delegated level;
- Approving financial reports and statements;
- Authorising reporting to Company members, relevant regulatory bodies and other relevant stakeholders on the performance and state of the Company; and
- Appointing the Chair of the Board and the members and Chairs of each Board Committee.



Corporate Governance Report (continued)

Board Composition

Directors are elected (or appointed) in accordance with the Company Constitution, internal policies and legislative requirements. The Constitution requires a Board of 10 Directors with:

- One Director who must be the General Secretary of the Queensland Teachers' Union (QTU) or his or her nominee;
- Three Directors, who are financial members of QTU, Company Members and health fund policy holders, who must be elected by Company Members;
- Two Directors, who are financial members of the Queensland Independent Education Union of Employees (QIEU), Company Members, and health fund policy holders, who must be elected by Company Members; and
- Four Directors, who are not members of QTU or QIEU or are not employees of QTU, QIEU, or TUH, who must be elected by Company Members.

One third of the Directors, other than the General Secretary of QTU or his or her nominee, must retire each year at the conclusion of the Annual General Meeting. In general, Directors hold office for a period of three years and they are eligible to seek re-election. Persons appointed to fill a casual vacancy hold office until the next Annual General Meeting when they may stand for election for the balance of the term of the Director whom he or she replaced.

Director profiles are included in the Directors' Report on page 22.

Chair of the Board

As required by legislation and the TUH Constitution and Board Governance Charter, TUH has an independent Chair.

John Battams was appointed as Chair on 24 November 2015. John has a long connection with TUH and was elected by Company Members to the Board in 2013. He has previously been General Secretary of the Queensland Teachers' Union and President of the Queensland Council of Unions. John also has business and director experience with a number of Queensland and national bodies. He satisfies the conditions for independence.

In addition to chairing Board meetings, the Chair:

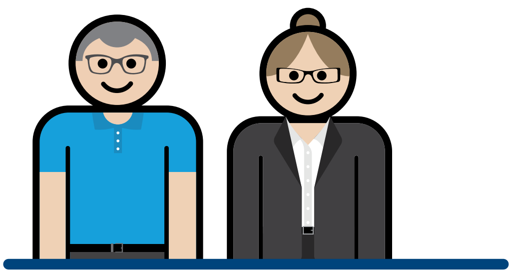
- provides leadership and vision to the Board;
- promotes an open and productive relationship between the Board and management, including providing support and mentoring for the CEO;
- co-ordinates informal and formal evaluation processes for the Board, both collectively and as individuals; and
- is the spokesperson, in conjunction with the CEO, to external stakeholders, including the media, where appropriate.

Committee Reports

To assist the Board to fulfill its role, the Board has two Committees that meet regularly: the Audit and Risk Management Committee and the Business, Finance and Marketing Committee and one Committee, the Nominations and Remuneration Committee, that meets as needed. The Board has adopted Charters for each of its Committees.

The Committees have no authority to implement their recommendations on matters that fall within the terms of their Charters, but submit such recommendations to the Board for consideration. The Chair of the TUH Board of Directors is invited to attend all Committee meetings, but is not an official member, other than of the Nominations Committee.

Reports have been prepared by the Chair of the following Committees and have been received and endorsed by the Board of Directors. Details of Director membership to Board Committees are included in the Directors' Report - Information on Directors within this Annual Report.



Audit and Risk Management Committee

The purpose of the Committee is to provide an objective, non-executive review of the effectiveness of financial reporting, internal and external audit functions and risk management framework.

The Committee includes members who have appropriate financial, governance and risk management expertise and understanding of the industry to enable the Committee to discharge its duties under its Charter. The Chair is an Independent Director as required by legislation. The Committee has five members and met on five occasions during the 2015-16 year.

The Committee's main activities were the review and reporting of the integrity of TUH's financial responsibilities, oversight of the risk management framework and compliance systems, and monitoring internal and external audit reviews.

Independence of the internal and external audit functions was assessed and confirmed by the Committee. The Committee has unfettered access to both the external auditor and internal auditor, and met with them during the year, with and without management present. The Committee also met with the Fund's Appointed Actuary to discuss the annual Financial Condition Report.

The Committee supported the Board with the transition of prudential regulator from the Private Health Insurance Administration Council to the Australian Prudential Regulation Authority. This change occurred on 1 July 2016. It will require private health insurers to adapt governance, risk management and operational practices to comply with similar standards and requirements that apply to the financial services sector.

Charmaine Twomey
Chair
Audit and Risk Management Committee

Committee Reports (continued)

Business, Finance and Marketing Committee

The Committee's purpose is to provide an objective, non-executive review of matters that may have a significant impact on TUH's financial, member services and wider business objectives. The Committee has four members who have the collective skills, experience and competencies needed for the Committee to perform its function effectively. The Committee met on four occasions during the last financial year.

A key focus during the 2015-16 year was the oversight of strategies and activities used to support the sustainable growth objective. This theme underpinned the annual premium and benefit review. The Committee monitored progress against the annual financial budget, assessed membership composition and marketing outcomes and evaluated sponsorship proposals.

The Committee monitored the investment portfolio and evaluated a rebalancing of the Fund's pool of assets that is intended to better meet TUH's needs in what is expected to be a challenging investment climate. The Committee also continued to support the Board by reviewing key business unit plans and progress against associated corporate goals.

Samantha Pidgeon
Chair
Business, Finance and Marketing Committee

Delegations

Day to day management of the Company is delegated to the Chief Executive Officer who is directly accountable to the Board. Some governance activities are also delegated directly to the Company Secretary.

The CEO, Rob Seljak, is supported by the executive management team which comprises:

- Executive Manager Corporate Services – Sarah Morris
- Executive Manager Health Care Services – Brock Cambourne
- Executive Manager Health Insurance – Greg Rheinberger
- Executive Manager Member Services – Cathy McGuane

Profiles are provided on page 17.

Delegations to the CEO and from the CEO to managers, team leaders and specialist roles are detailed in delegation of authority documents and monitored through the Company's compliance framework.

Board Performance and Training

In keeping with regulatory requirements, the Board regularly assesses its skills, knowledge and experience, collectively and at individual Director level, to help ensure that the Board operates in a highly effective manner.

All new Directors undertake a thorough induction program. Directors complete ongoing training and professional development to further develop their skills and to keep fully informed of industry and broader economic and demographic developments and their potential implications for TUH. All Directors are members of the Australian Institute of Company Directors.

Committee Reports (continued)

Conflicts of Interest

The Board has policies and procedures in place for the disclosure and management of any potential conflicts of interest. These include codes of conduct, maintaining a register of interests, a Conflicts of Interest Policy. All Board meetings include a disclosure process and management employment agreements include conflict provisions.

Board Remuneration

Director remuneration is set so as to maintain a balance between the not-for-profit, member-focused nature of the organisation, the need to attract capable people and recognition of the time and commitment needed to competently undertake these roles.

Remuneration levels are regularly benchmarked against industry levels. Directors are paid fees out of the maximum aggregate amount (currently 0.5% of Company revenue) approved by members.

The Board has set the schedule of Directors' fees for 2016-17 as follows:

Director	Rate per annum
Chair	$78,600
Deputy Chair	$45,850
Director	$39,250
Committee Chair (additional to Director fee)	$6,250

Sarah Morris
Company Secretary

Executive Team

Name	**Rob Seljak**	
Position	Chief Executive Officer	
Appointed	May 2005	
Qualifications / memberships	M.Bus, LLB, BA and Fellow of the Australian Institute of Company Directors (AICD) and Fellow of the Australian Institute of Management	
Experience	Rob has held various senior executive positions including General Manager, Insurance for WorkCover Authority NSW and General Manager, Workplace Health and Safety Queensland.	
Name	**Sarah Morris**	
Position	Executive Manager – Corporate Services	
Appointed	September 2006	
Qualifications / memberships	BEc, post graduate certificates in Management, Finance, Investment, Corporate Governance and Company Secretarial Practice and Graduate Member of the AICD and Fellow of the Governance Institute of Australia.	
Experience	Sarah is a chartered accountant and chartered secretary who has held senior and executive positions with several organisations.	
Name	**Cathy McGuane**	
Position	Executive Manager – Member Services	
Appointed	October 2007	
Qualifications / memberships	DipFP and Graduate Member of the AICD	
Experience	Cathy was Client Relationship Manager for Queensland for HESTA Superannuation Fund, where she established the Queensland branch and oversaw the marketing, business development and relationship management for the state.	
Name	**Greg Rheinberger**	
Position	Executive Manager – Health Insurance	
Appointed	March 2008	
Qualifications / memberships	BA (Hons) in Psychology and Graduate Member of the AICD	
Experience	Greg has worked in private health insurance since 1996 and, before joining TUH, held various senior positions at Australian Health Management, including Deputy CEO, General Manager Health Insurance, Manager Operations and Manager Human Resources.	
Name	**Brock Cambourne**	
Position	Executive Manager - Health Care Services	
Appointed	August 2014	
Qualifications / memberships	BASc and a Graduate Diploma in Natural Resource Management	
Experience	Brock has an extensive background in the health sector, having held senior positions within Health Services Australia and later within Medibank Health Solutions, encompassing, travel medicine, occupational health and dental and eye care.	

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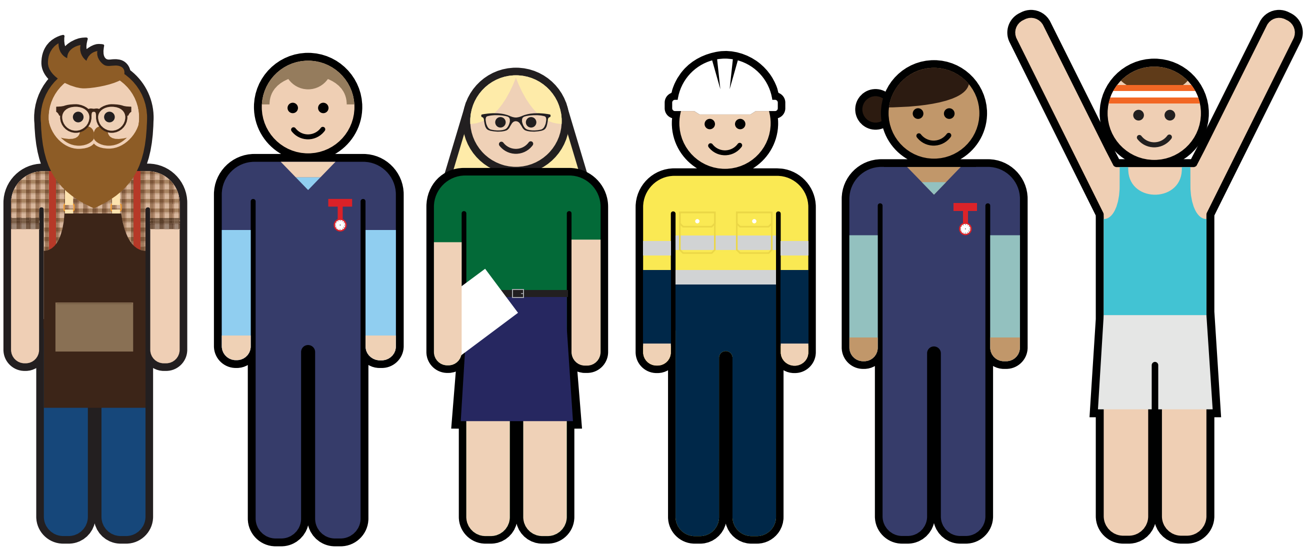
FINANCIAL STATEMENTS INCLUDING DIRECTORS' REPORT & DIRECTORS' DECLARATION

30 June 2016



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Directors' Report

Your Directors present their report on the Queensland Teachers' Union Health Fund Limited (the 'Company') for the financial year ended 30 June 2016.

Information on Directors

The names and particulars of Directors in office at any time during or since the end of the year or since the start of the financial year to the date of this report unless otherwise stated are:

Name: **John Battams**

Qualifications:
Bachelor of Economics
Diploma of Education
Member – Australian Institute of Company Directors

Experience and special responsibilities:
John Battams was appointed to the Board as the nominee director of the Queensland Teachers' Union (QTU) in 2011 and elected by members in 2013. He was appointed as Chair of the Board in November 2015, and is also a member of the Nominations and Remuneration Committee.

John is a former President of the Queensland Council of Unions (QCU) where he worked with Queensland unions representing workers on industrial, political and social justice issues. He is currently the President of the Australian Labor Party – Queensland Branch. John is also a director of QIC Limited and several companies in the Labor Holdings group. John held the position of General Secretary of the Queensland Teachers' Union from 1990 to 2011.

Name: **Terence Burke**

Qualifications:
Bachelor of Education
Master of Educational Administration
Graduate Diploma in Education
Certificate in Finance
Graduate – Australian Institute of Company Directors
Certificate in Governance for Not for Profits

Experience and special responsibilities:
Terence Burke has been an elected director since 1999. Terence is the Deputy Chair of the Board and a member of the Business, Finance and Marketing Committee.

Terence is the General Secretary of the Queensland Independent Education Union. He is Chair of the Queensland Independent Education and Care Superannuation Trust (QIEC Super) as well as a director of The Private Capital Group, TIF International 1 Pty Ltd and Vice President of the Queensland Council of Unions. Terence has an extensive background in organisational development and administration, risk assessment and management, strategic and policy development. In his teaching career he worked in Catholic schools in Toowoomba and Redcliffe and held various administrative positions.

Name:	**Christine Cooper**
Qualifications:	Bachelor of Applied Science Graduate Diploma in Teaching Bachelor of Education Graduate – Australian Institute of Company Directors Certificate in Governance for Not for Profits
Experience and special responsibilities:	Christine Cooper has been an elected director since 1999. Christine is a member of the Audit and Risk Management Committee, and a member of the Nominations and Remuneration Committee. Christine is the Assistant Federal Secretary of the Independent Education Union of Australia.
Name:	**Darcy Edwards**
Qualifications:	Bachelor of Commerce Diploma of Advanced Accounting Fellow – Certified Practicing Accountant Fellow – Australian Institute of Company Directors
Experience and special responsibilities:	Darcy was an elected director since 2004 and was appointed Chair of the Board in July 2009. He retired from the Board in November 2015.
Name:	**Teresa Hamilton**
Qualifications:	Bachelor of Laws Diploma of Financial Planning Diploma of Insurance Fellow – Australian Institute of Company Directors
Experience and special responsibilities:	Teresa Hamilton was an elected director from 2004 and was appointed the Chair of the Audit and Risk Management Committee in 2009. She retired from the Board in November 2015.
Name:	**Stewart Jones**
Qualifications:	Bachelor of Business Diploma of Teaching Science Postgraduate Diploma in Industrial Studies Member – Australian Institute of Company Directors

Experience and special responsibilities:	Stewart Jones has been an elected director since 2006. Stewart was a member of the Audit and Risk Management Committee until he was appointed to the Business, Finance and Marketing Committee in January 2016. Stewart has worked in schools for over 25 years and much of this time has been as a classroom teacher. Stewart has supported the profession of teaching through his work with the Company and his active role within the Queensland Teachers' Union (QTU) that includes over 12 years of service on the Queensland Teachers' Union Executive.
Name:	**John Merrell**
Qualifications:	Bachelor of Business Bachelor of Laws (Hons) Master of Laws Member – Bar Association of Queensland Member – Australian Institute of Company Directors
Experience and special responsibilities:	John Merrell has been an elected director since 2004. John was a member of the Business, Finance and Marketing Committee until January 2016 when he was appointed to the Audit and Risk Management Committee. John is also Chair of the Nominations and Remuneration Committee. John is a member of the Bar in Queensland and has been in private practice since 2000. John's practice is primarily in the areas of employment and industrial law. Prior to 2000, John was a principal industrial officer with the Queensland Public Sector Union where he had been employed for over eleven years. He is a Director of Queenslanders Credit Union.
Name:	**Graham Moloney**
Qualifications:	Bachelor of Arts Graduate Diploma of Teaching (Secondary) Harvard University Trade Union Program Member - Australian Institute of Company Directors Member - Industrial Relations Society of Queensland Committee member - AEU International Trust Fund
Experience and special responsibilities:	Graham Moloney was a director of the Company between 1997 and 2003. Under the Company's constitution the General Secretary of the Queensland Teachers' Union (QTU) is an ex officio member of the Board. Graham resumed his role on the Board in that capacity in 2013. Graham is a member of the Audit and Risk Management Committee, and the Nominations and Remuneration Committee. Graham is the General Secretary (Chief Executive) of the Queensland Teachers' Union. Graham is also a Trustee of the Australian Education Union (AEU) International Trust Fund which provides overseas funding and assistance to teachers in foreign countries and Vice President of the Queensland Council of Unions.

Name:	**Samantha Pidgeon**
Qualifications:	Bachelor of Education (Hons) Graduate Certificate – Learning Leadership Graduate – Australian Institute of Company Directors
Experience and special responsibilities:	Samantha Pidgeon has been an elected director since 2001. Samantha is the Chair of the Business, Finance and Marketing Committee. Samantha is Vice-President of the Queensland Teachers' Union (QTU) and a member of the Federal Executive of the Australian Education Union. She is also a Director of Seqwater.
Name:	**Charmaine Twomey**
Qualifications:	Bachelor of Commerce Certificate of Superannuation Management Graduate Diploma in Applied Finance and Investment Graduate Diploma of Financial Planning Graduate – Australian Institute of Company Directors Fellow – Financial Services Institute of Australasia
Experience and special responsibilities:	Charmaine Twomey has been an elected director since 2009. Charmaine is the Chair of the Audit and Risk Management Committee. Charmaine has had over fourteen years of senior management experience in providing services to superannuation funds and managed investment schemes in Australia.
Name:	**Peta Irvine**
Qualifications:	Bachelor of Arts (Hons) Fellow, Australian Institute of Management Diploma of Financial Planning Diploma of Neuroscience of Leadership Graduate – Australian Institute of Company Directors
Experience and special responsibilities:	Peta Irvine was appointed director in November 2015. Peta is a member of the Business Finance and Marketing Committee. Peta's experience covers a wide range of industries and organisations, with a strong focus on member-based organisations. She is a non-executive director at International House College.

Directors' Report (continued)
Information on Directors (continued)

Name:	**Michael Cottier**
Qualifications:	Bachelor of Business – Accountancy Master of Taxation Chartered Accountant Fellow – Australian Institute of Company Directors
Experience and special responsibilities:	Michael Cottier was appointed director in November 2015. Michael is a member of the Audit and Risk Management Committee, and a member of the Nominations and Remuneration Committee. Michael is a senior manager and company director whose experience includes finance, investment and risk-related positions at several large Queensland companies. He presently sits on the boards of Stadiums Queensland, Mortgage and Finance Association of Australia and Metro Arts. He is also a Director, Responsible Superannuation Entity Boards at BT Financial Group.

Company Secretary

The following person held the position of Company Secretary at the end of the financial year.

Sarah Morris	Appointed 11 September 2006 Bachelor of Economics Member – Chartered Accountants Australia and New Zealand Fellow – Governance Institute of Australia Graduate Member – Australian Institute of Company Directors

Directors' Benefits

During or since the financial year, no Director of the Company has received or become entitled to receive a benefit, other than benefits included in the aggregate amount of emoluments received or due and receivable by the Directors shown in Note 26 to the Financial Statements, or disclosed as a related party transaction shown in Note 27 to the Financial Statements, by reason of a contract entered into by the Company controlled or a body corporate that was related to the Company when the contract was made or when the Director received, or became entitled to receive, the benefit with:

- a Director; or
- a firm of which a Director is a member; or
- an entity in which a Director has a substantial financial interest.

Indemnifying Directors and Officers or Auditor

During the year ended 30 June 2016, the Company paid premiums of $22,481 (2015: $29,975) in respect of Directors' and Officers' liability insurance for the period 1 July 2015 to 30 June 2016, insuring against certain liabilities (subject to exclusions) for all Officers of the Company including all Directors named in this report. No insurance cover has been provided for the benefit of the auditors of the Company.

Proceedings on Behalf of the Company

No person has applied for leave of Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

Directors' Report (continued)
Proceedings on Behalf of the Company (continued)

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the *Corporations Act 2001*.

Directors' Meeting Attendance

The number of meetings of the Company's Board of Directors ('the Board') and of each Board Committee held during the year ended 30 June 2016, and the number of meetings attended by each Director was:

	Board Meetings		Audit & Risk Management Committee		Business, Finance & Marketing Committee		Nominations and Remuneration Committee	
	Attended	Held	Attended	Held	Attended	Held	Attended	Held
John Battams (Chair after Nov)*	9	9	2	2	4	4	-	-
Terence Burke	8	9	-	-	3	4	-	-
Christine Cooper	8	9	3	5	-	-	2	2
Darcy Edwards (Chair until Nov)*	4	5	1	2	2	2	-	-
Teresa Hamilton	3	5	1	2	-	-	-	-
Stewart Jones	9	9	3	3	1	1	-	-
John Merrell	8	9	1	2	3	3	-	-
Samantha Pidgeon	8	9	-	-	4	4	-	-
Charmaine Twomey	8	9	5	5	-	-	2	2
Graham Moloney	9	9	5	5	-	-	2	2
Peta Irvine	4	4	-	-	1	1	-	-
Michael Cottier	4	4	2	2	-	-	-	-

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

*The Chair is invited to attend all Committee meetings in an ex-officio capacity, but is only a formal member of the Nominations and Remuneration Committee.

In addition to the above meetings, the Board also held Strategy Review Days in October 2015 and June 2016.

The Company is incorporated under the *Corporations Act 2001* and is a company limited by guarantee. If the Company is wound up, each member is required to contribute a maximum of $1.00 each towards meeting outstanding obligations of the Company. As at 30 June 2016, the number of Company members who would be liable if the Company was to be wound up is 5,091 (2015: 5,807).

Principal Activities

The principal activities of the Company during the financial year were:

Operating a registered private health insurance fund in accordance with the *Private Health Insurance Act 2007*; and *Private Health Insurance (Prudential Supervision) Act 2015*;
Operating a dental centre;
Operating an eye care centre;
Operating an allied health care centre; and
Providing health risk assessment products.

There were no significant changes in the nature of the Company's principal activities during the financial year.

Company Objectives

Short term

- To provide our members with access to high quality health care by delivering competitive products and benefits.
- To improve our members' health and wellbeing by promoting and delivering quality health services and outcomes.
- To provide our members with exceptional and personal customer service.
- To demonstrate our appreciation of our members, our employees and our community.
- To strengthen and grow our membership base to ensure the long term viability of the Company.
- To act with integrity and in the best interests of members.

Long term

- Corporate governance: effective direction setting; risk management; and accountable monitoring and reporting.
- Membership growth: to grow a strong and loyal membership base that will secure the viability of the Company in the long term.
- Products and services: sustainable health insurance products supported by excellent customer service to meet members' needs.
- Health care services: viable health care services that meet members' needs.
- Organisational capability: a performance and results focussed organisation with capable, well trained and motivated staff and business practices that support strategic goals.

Company Strategy

Short term

The short term strategy of the Company is to position the Company to be the health fund of choice for the education community, union members and their families in Queensland.

Long term

The long term strategy of the Company is to ensure the long term sustainability of the Company in the face of increasing health care costs and an ageing population.

Performance Measures

Management and the Board monitor the Company's overall performance from its implementation of the vision statement and strategic plan through to the performance of the Company against operating plans and financial budgets. The Board, together with management, has identified key performance indicators (KPIs) that are used to monitor performance. These performance indicators include measures of financial performance, management expenses and the quality of service provided to members.

Management monitors KPIs on a regular basis. Directors receive the KPIs and other reports for review prior to each Board and Committee meeting, allowing all Directors sufficient time to actively monitor the Company's performance.

Operating Result

The deficit for the year ended 30 June 2016 was $2,229,390 (2015: deficit of $3,678,238).

Directors' Report (continued)

Review of Operations

Operations of the Company during the financial year focussed on membership growth and retention as well as continuing the provision of health care services. A membership growth of 13.75% (2015: 12.12%) for the period ended 30 June 2016 was achieved. The Company also experienced an increase in claims, which was consistent with growth and the industry's experience.

During the year, benefits paid to members grew by $13,967,406 or 12.01% (2015: $17,397,085 or 17.6%). Premium revenue increased from $128,020,327 (2014-15) to $149,045,892 (2015-16) or 16.4% (2015: 11.5%).

Significant Changes in the State of Affairs

No significant changes in the state of affairs of the Company occurred during the financial year.

Matters Subsequent to the End of the Financial Year

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

Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration for the year ended 30 June 2016 as required by section 307C of the *Corporations Act 2001*, has been received and can be found on page 30 of the financial report.

Signed in accordance with a resolution of the Board of Directors.

John Battams
Chair

Charmaine Twomey
Director

Date: Brisbane, 27 September 2016

Queensland Teachers' Union Health Fund Limited ABN: 38 085 150 376

Auditor's Independence Declaration

BDO

Tel: +61 7 3237 5999
Fax: +61 7 3221 9227
www.bdo.com.au

Level 10, 12 Creek St
Brisbane QLD 4000
GPO Box 457 Brisbane QLD 4001
Australia

DECLARATION OF INDEPENDENCE BY P A GALLAGHER TO THE DIRECTORS OF QUEENSLAND TEACHERS' UNION HEALTH LIMITED

As lead auditor of Queensland Teachers' Union Health Limited for the year ended 30 June 2016, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

P A Gallagher
Director

BDO Audit Pty Ltd

Brisbane, 27 September 2016

Statement of Profit or Loss and Other Comprehensive Income
For the year ended 30 June 2016

	Note	2016	2015
Revenue			
Premium revenue		149,045,892	128,020,327
Claims expense			
Claims incurred		(126,420,820)	(112,164,421)
Provision for outstanding claims		(4,168,305)	(162,470)
Risk equalisation trust fund levies		(1,211,058)	(269,148)
Unexpired risk reserve		1,577,850	(3,664,315)
Other underwriting expenses		(60,831)	(55,405)
Net claims incurred		**(130,283,164)**	**(116,315,759)**
Net underwriting result		**18,762,728**	**11,704,568**
Management activities			
Other income	4	157,418	156,171
Management expenses	5	(17,115,540)	(14,644,239)
Result from management activities		**(16,958,122)**	**(14,488,068)**
Result after management activities		**1,804,606**	**(2,783,500)**
Investing activities			
Investment income	6	364,755	3,233,975
Investment expense	6	(311,045)	(317,100)
Result from investing activities		**53,710**	**2,916,875**
Member health services			
Revenue	7	2,888,070	2,680,184
Expenses	7	(6,975,776)	(6,491,797)
Result from member health services		**(4,087,706)**	**(3,811,613)**
Surplus (Deficit) before income tax for the period attributable to members		**(2,229,390)**	**(3,678,238)**
Income tax expense	2(t)	-	-
Surplus (Deficit) after income tax for the period attributable to members		**(2,229,390)**	**(3,678,238)**
Other comprehensive income			
Items that will not be reclassifed to profit or loss			
Net changes in fair value of land and buildings	16	-	-
Total items that will not be reclassified to profit or loss		**-**	**-**
Other comprehensive income for the period attributable to members		**-**	**-**
Total surplus or loss and other comprehensive income for the period attributable to members		**(2,229,390)**	**(3,678,238)**

The above Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

Statement of Financial Position
As at 30 June 2016

	Note	2016	2015
Current assets			
Cash and cash equivalents	9	17,989,679	11,565,003
Trade and other receivables	10	4,504,832	4,111,797
Financial assets at fair value through profit or loss	11	77,112,372	76,144,082
Held-to-maturity investments	12	1,019,189	4,039,216
Inventories	13	248,195	245,176
Total current assets		**100,874,267**	**96,105,274**
Non-current assets			
Deferred commission costs	14	4,310,899	2,478,843
Investment properties	15	1,980,000	1,980,000
Property, plant & equipment	16	17,767,598	17,830,570
Intangible assets	17	204,999	199,143
Total non-current assets		**24,263,496**	**22,488,556**
Total assets		**125,137,763**	**118,593,830**
Current liabilities			
Trade and other payables	18	2,860,622	1,659,719
Other current liabilities	19	19,835,135	15,141,678
Provisions	20	19,075,114	16,198,923
Total current liabilities		**41,770,871**	**33,000,320**
Non-current liabilities			
Provisions	20	155,320	152,548
Total non-current liabilities		**155,320**	**152,548**
Total liabilities		**41,926,191**	**33,152,868**
Net assets		**83,211,572**	**85,440,962**
Equity			
Reserves	21	5,663,900	5,663,900
Retained earnings		77,547,672	79,777,062
Total Equity		**83,211,572**	**85,440,962**

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

Statement of Changes in Equity
For the year ended 30 June 2016

	Note	Retained earnings	Non-current asset revaluation reserve	Total Equity
Opening balance as at 1 July 2015		79,777,062	5,663,900	85,440,962
Total comprehensive income				
Surplus/(loss) for the period		(2,229,390)	-	(2,229,390)
Other comprehensive income				
Changes in fair value of land and buildings	21	-	-	-
Total other comprehensive income		-	-	-
Total surplus or loss and other comprehensive income for the period attributable to members		(2,229,390)	-	(2,229,390)
Closing balance as at 30 June 2016		77,547,672	5,663,900	83,211,572

	Note	Retained earnings	Non-current asset revaluation reserve	Total Equity
Opening balance as at 1 July 2014		83,455,300	5,663,900	89,119,200
Total comprehensive income				
Surplus for the period		(3,678,238)	-	(3,678,238)
Other comprehensive income				
Changes in fair value of land and buildings	21	-	-	-
Total other comprehensive income		-	-	-
Total surplus or loss and other comprehensive income for the period attributable to members		(3,678,238)	-	(3,678,238)
Closing balance as at 30 June 2015		79,777,062	5,663,900	85,440,962

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

Statement of Cash Flows
For the year ended 30 June 2016

	Note	2016	2015
Cash flows from operating activities			
Cash receipts from members and customers		152,270,563	131,307,443
Cash paid to suppliers and employees		(147,927,752)	(131,648,781)
Net cash from operating activities	9	4,342,811	(341,338)
Cash flows from investing activities			
Purchase of property, plant and equipment		(276,970)	(773,630)
Purchase of intangible assets		(110,547)	(123,184)
Proceeds on sale of property, plant and equipment		4,991	30,911
Net movement in investments		270,817	(4,637,219)
Dividend received		1,833,762	2,732,304
Interest received		359,812	532,346
Net cash used in investing activities		2,081,865	(2,238,472)
Net increase/(decrease) in cash and cash equivalents		6,424,676	(2,579,810)
Cash and cash equivalents as at 1 July		11,565,003	14,144,813
Cash and cash equivalents as at 30 June	9	17,989,679	11,565,003

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

1. Corporate information

The Queensland Teachers' Union Health Fund Limited (the 'Company') is a public company limited by guarantee, incorporated and domiciled in Australia. The address of the Company's registered office is 438 St Pauls Terrace, Fortitude Valley, Queensland, 4006. The Company is a not-for-profit entity for the purpose of preparing these Financial Statements.

The Financial Statements of the Company for the year ended 30 June 2016 were authorised for issue in accordance with a resolution of the Directors on 27 September 2016 as required by the *Corporations Act 2001.*

The Financial Statements are presented in Australian dollars.

2. Summary of significant accounting policies

a. Basis of preparation

The Financial Statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*. A statement of compliance with International Financial Reporting Standards cannot be made due to the Company applying the not-for-profit sector specific requirements contained in the Australian equivalents to International Financial Reporting Standards (AIFRS).

The Financial Statements have also been prepared on a historical cost basis, except for investment properties, land and buildings and non-derivative financial instruments at fair value through profit or loss that have been measured at fair value.

b. Investments and other financial assets

All investments and other financial assets are initially stated at cost, being the fair value of consideration given plus acquisition costs. Purchases and sales of investments are recognised on trade date which is the date on which the Company commits to purchase or sell the asset. Accounting policies for each category of investments and other financial assets subsequent to initial recognition are set out below.

i. Financial assets at fair value through profit or loss

A financial asset is classified as fair value through profit or loss if it is classified as held-for-trading or designated as such upon initial recognition. Attributable transaction costs are recognised in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein are recognised in profit or loss. Assets in this category are classified as current assets in the Statement of Financial Position if they are expected to be settled within 12 months, otherwise they are classified as non-current assets.

Financial assets designated as fair value through profit or loss comprises equity securities that otherwise would have been classified as available-for-sale.

ii. Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company has the positive intention and ability to hold-to-maturity and are measured at amortised cost subsequent to initial recognition using the effective interest method. If the Company were to sell other than an insignificant amount of held-to-maturity investments, the whole category is then reclassified as available-for-sale.

iii. Available for sale financial assets

Available-for-sale financial assets comprise investments in listed and unlisted entities and any non-derivatives that are not classified as any other category of financial assets, and are classified as non-current assets (unless management intends to dispose of the investment within 12 months of the end of the reporting period). After initial recognition, these investments are measured at fair value with gains or losses recognised in other comprehensive income (available-for-sale investments reserve). Where there is a significant or prolonged decline in the fair value of an available-for-sale financial asset (which constitutes objective evidence of impairment) the full amount including any amount previously charged to other comprehensive income is recognised in profit or loss. Purchases and sales of available-for-sale financial assets are recognised on settlement date with any change in fair value between trade date and settlement date being recognised in other comprehensive income. On sale, the amount held in available-for-sale reserves associated with that asset is recognised in profit or loss as a reclassification adjustment.

iv. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost using the effective interest rate method. The Company does not have any loans as at 30 June 2016 (2015: nil).

c. Cash and cash equivalents

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

d. Fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is based on the presumption that the transaction takes place either in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market. The principal or most advantageous market must be accessible to, or by, the Company.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest.

The fair value measurement of a non-financial asset takes into account the market participant's ability to generate economic benefits by using the asset at its highest and best use by selling it to another market participant that would use the asset at its highest and best use.

In measuring fair value, the Company uses valuation techniques that maximise the use of observable inputs and minimise the use of unobservable inputs. Refer to Note 24 for further detail on fair value measurement.

e. Property, plant and equipment

Land and buildings are measured at fair value less accumulated depreciation. Any accumulated depreciation at revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated as the revalued amount of the asset. A revaluation surplus is credited to other comprehensive income (asset revaluation surplus) unless it reverses a revaluation decrease on the same class of asset previously recognised in profit or loss. A revaluation deficit is recognised in profit or loss unless it directly offsets a previous revaluation surplus on the same class of asset in the asset revaluation surplus. An annual transfer is made from the asset revaluation surplus to retained earnings for the depreciation charge recognised in profit or loss relating to the revaluation surplus. On disposal, any revaluation surplus relating to sold assets is transferred to retained earnings.

Independent valuations are performed regularly to ensure that the carrying amounts of land and buildings does not differ materially from the fair value at the end of the reporting period.

All other plant and equipment is stated at historical cost, including costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, less depreciation and any impairment.

Land is not depreciated. Depreciation on other assets is calculated on a straight-line basis over the estimated useful life, or in the case of leasehold improvements and certain leased plant and equipment, the short lease term, as follows:

Buildings	40 years
Motor Vehicles	3 – 5 years
Computer Hardware	3 – 5 years
Furniture and Fittings	3 – 20 years
Dental Equipment	3 – 20 years

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at the end of each reporting period.

Gains and losses on disposals are calculated as the difference between the net disposal proceeds and the asset's carrying amount and are included in profit or loss in the year the item is derecognised.

f. Investment properties

Investment properties held for rental are initially measured at cost including transaction costs. Subsequent to initial recognition, investment properties are carried at fair value, which is measured using an income approach based on the estimated rental value of the property.

Gains and losses arising from changes in fair values of investment properties are included in profit or loss as part of other income in the year in which they arise.

g. Leases

Leases of property, plant and equipment where the Company has substantially all the risks and rewards of ownership are classified as finance leases and capitalised at inception of the lease at the fair value of the leased property, or if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and rewards of ownership of the net asset are classified as operating leases. Payments made under operating leases (net of incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

When assets are leased out under finance leases, the present value of the lease payments is recognised as a lease receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the lease term using the net investment method which reflects a constant periodic rate of return.

Lease income from operating leases is recognised in profit or loss on a straight-line basis over the lease term. Initial direct costs incurred in negotiating operating leases are added to the carrying value of the leased asset and recognised as an expense over the lease term on the same basis as the lease income.

h. Intangible assets

i. Trademarks and licences

Trademarks and licences have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated on a straight line basis over the estimated lives of the trademarks and licences, which vary from 3 -20 years.

ii. Computer software

Costs incurred in acquiring software licences and the development of a new website that will contribute to future period financial benefits through reserve generation and/or cost reduction are capitalised to computer software. Software licences and capitalised website costs have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated on a straight line basis over the estimated life of computer software, which varies from 3 -5 years. Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

i. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises all direct materials, direct labour and an appropriate portion of variable and fixed overheads. Fixed overheads are allocated on the basis of normal operating capacity. Costs are assigned to inventories using the first-in-first-out basis. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated selling cost of completion and selling expenses.

j. Impairment of assets

At the end of each reporting period, the Company assesses whether there is any indication individual assets are impaired. Where impairment indicators exist, recoverable amount is determined and impairment losses are recognised in profit or loss where the asset's carrying value exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments that reflect the time value of money and the risks specific to the asset.

k. Employee benefit provisions

i. Short-term employee benefit obligations

Liabilities for wages and salaries, including non-monetary benefits, annual leave expected to be settled wholly within 12 months after the end of the reporting period are recognised as current employee benefit provisions in respect of employees' services rendered up to the end of the reporting period and are measured at amounts expected to be paid when the liabilities are settled.

As sick leave is non-vesting, an expense is recognised for this leave as it is taken.

ii. Other long-term employee benefit obligations

Liabilities for long service leave, annual leave and other long-term employee benefit obligations are not expected to be settled wholly within 12 months after the end of the reporting period. They are recognised as part of the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees to the end of the reporting period using the projected unit credit method. Consideration is given to expected future salaries and wages levels, experience of employee departures and periods of service. Expected future payments are discounted using national government bond rates at the end of the reporting period with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Regardless of when settlement is expected to occur, liabilities for long service leave and annual leave are presented as current liabilities in the Statement of Financial Position if the Company does not have an unconditional right to defer settlement for at least 12 months after the end of the reporting period.

l. Provisions

i. Outstanding claims provision

Provision is made at the period end for the liability for outstanding claims which is measured as the central estimate of the expected payments against claims incurred but not settled at the reporting date under private health insurance contracts issued by the Company.

This central estimate of outstanding claims is an estimate which is intended to contain no intentional over or under estimation. For this reason the inherent uncertainty in the central estimate must also be considered and a risk margin added. Actual results could differ from the estimate.

The expected future payments include those in relation to claims reported but not yet paid and claims incurred but not yet reported, together with allowance for risk equalisation trust fund consequences and claims handling expenses.

The provision for outstanding claims liability is determined after taking into account claims paid in July of the following financial year, that relate to services provided in the current financial year.

Accounting estimates and judgements

Risk margins are determined on a basis that reflects the Company's business. Regard is made to the robustness of the valuation models, the reliability and volume of available data, past experience of the Company and the industry and the characteristics of the classes of business written.

The risk margin was determined from the assumption that there is a normal distribution of differences between the calculated provisions required for past periods and the finally determined requirements of those periods. A probability of sufficiency of 75% is intended to be achieved through the adoption of the risk margin of 5.5% (2015: 7%) at the end of the reporting period.

The actuarial valuation model used to calculate the outstanding claims is a chain ladder model. This model, and variants of it, is used by other health insurers and general insurers to calculate outstanding claims liabilities by using the relationships between the claims paid at each time interval in the past, for each period incurred, to predict the extent of incurred claims for each recent period for which claim payments have not yet been completed.

As the run-off of health insurance claims is relatively rapid, the claims to be paid in the future were not discounted.

ii. Other provisions

Provisions are recognised when:

- The Company has a present legal or constructive obligation as a result of past events;
- It is more likely than not that an outflow of economic benefits will be required to settle the obligations; and
- That the outflow can be reliably measured.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the obligation at the end of the reporting period.

m. Unexpired risk liability

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

If the present value of the expected future cash flows relating to future claims plus 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. Any deficiency is recognised immediately in the profit or loss.

The Company applied a risk margin of 3.5% (2015:3.5%) to achieve a probability of sufficiency of 75%.

The liability adequacy test has been performed collectively for hospital and general treatment contracts up to 1 April 2016, the next premium adjustment opportunity allowed by the Department of Health and Ageing. An unexpired risk liability was required at 30 June 2016 amounting to $4,191,084 (2015: $5,768,934).

n. Health insurance risk equalisation trust fund (RETF)

Under the provision of the *Private Health Insurance Risk Equalisation Policy Rules 2007*, eligible claims are pooled, based upon variable percentage allocation to age-cohorts or in respect of high costs claims, with each health fund charged a levy so as to bear a portion of this pool. The amounts payable to and receivable from the risk equalisation scheme were determined by the Australian Prudential Regulation Authority (APRA) after the end of each quarter. Estimated provisions for amounts payable and income receivable are recognised on an accrual basis.

o. Assets backing private health insurance liabilities

As part of the investment strategy, the Company actively manages its investment portfolio to ensure that a portion of its investments mature in accordance with the expected pattern of future cash flows arising from private health insurance liabilities. The Board has adopted a conservative approach to maintain its investment portfolio in cash, held-to-maturity financial assets and financial assets at fair value through profit or loss. The Company has determined that these assets are held to back private health insurance liabilities.

p. Receivables

i. Unclosed business premium

Unclosed business premium represents amounts owing by members at the end of the reporting period, up to and including the date of the next normal payment cycle for their individual policy. The unclosed business premium consists of two components:

- Earned – representing contribution amounts owed by members up to and including 30 June; and
- Unearned – representing contribution amounts owed by members from 30 June up to and including their next normal payment date.

A small provision for doubtful debts is sufficient as the policies are cancelled once the lapsed period of arrears reaches 60 days.

ii. Interest and dividends receivable

Interest and dividends receivable represents an accrual calculation of interest and dividends from investments outstanding at the end of the reporting period.

iii. Australian government rebate on private health insurance receivable

This is the amount claimed by the Company as a cash amount, against Department of Human Services for the Australian government rebate on private health insurance.

iv. Other debtors

Other debtors are recognised at original invoice amounts less an allowance for uncollectable amounts and have repayment terms between 7 and 30 days. Collectability of other debtors is assessed on an ongoing basis. Debts which are known to be uncollectable are written off. An allowance is made for doubtful debts when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms. Objective evidence of impairment includes financial difficulties of the debtor, default payments or debts more than 90 days overdue. On confirmation that the debtor will not be collectable the gross carrying value of the asset is written off against the associated provision.

q. Insurance contracts

Insurance contracts are defined as those containing significant insurance risk at the inception of the contract, or those where, at the inception of the contract, there is a scenario with commercial substance in which the level of insurance risk may be significant over time.

The significance of insurance risk is dependent on both the probability of an insurance event and the magnitude of its potential effect.

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.

r. Premium revenue

Premium revenue is recognised in profit or loss when it has been earned. Premium revenue is recognised in profit or loss from the attachment date over the period of the contract. The attachment date is from when the insurer accepts the risk from the insured under the insurance contract. Revenue is recognised in accordance with the pattern of the incidence of risk expected over the term of the contract. Where time does not approximate the pattern of risk, previous claims experience is used to derive the incidence of risk.

s. Other revenue

Revenue is recognised at the fair value of consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid. The following specific criteria must also be met before revenue is recognised:

i. Sale of goods

Revenue from the sale of dental, optical, physiotherapy and stay covered goods is recognised when the significant risks and rewards of ownership have passed to the buyer and can be reliably measured. Risks and rewards are considered passed to the buyer when goods have been delivered to the customer.

ii. Rendering of services

Revenue from dental, optical and allied health services is recognised when the service is provided.

iii. Rental income

Rental income on investment properties is accounted for on a straight-line basis over the lease term. Contingent rentals are recognised as income in the periods when they are earned.

t. Income tax

The Company is a not-for-profit registered private health insurer and as such is exempt from paying income tax to the Australian Taxation Office (the 'ATO') as per Section 50(30) of the *Income Tax Assessment Act 1997.*

u. Goods and service tax (GST)

Revenues and expenses are recognised net of GST except where GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a net basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, are classified as operating cash flows.

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

v. Claims

Claims are recorded as an expense in the period in which the service has been provided to the contributor. The cost of claims therefore represents the claims paid during the period adjusted for the opening and closing provision for unpresented and outstanding claims.

w. Investment income and investment expense

Investment income comprises interest income on funds invested, dividend income and fair value gains on financial assets at fair value through profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest rate method.

Dividend income is recognised in profit or loss on the date that the Company's right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date.

Investment expense comprises fair value losses on financial assets at fair value through profit or loss, impairment losses recognised on financial assets (other than trade receivables), fund management expenses and bank or other financial institution charges.

x. Deferred commission costs

Commission costs incurred in obtaining health insurance contracts are deferred and recognised as assets when they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in the profit or loss in subsequent reporting periods. This includes commission paid to intermediaries.

Deferred commission costs are amortised in accordance with the expected pattern of the incidence of risk under the health insurance contracts to which they relate. This pattern of amortisation corresponds to the earning pattern of the corresponding premium revenue. For private health insurance members, the costs are capitalised and amortised in the profit or loss over three years on a straight-line basis.

y. New and amended standards and interpretations adopted during the year

The Company, for the first time, adopted certain standards and amendments which are effective for annual periods beginning on or after 1 July 2015.

y. New and amended standards and interpretations adopted during the year (continued)

There are no new and amended standards and interpretations which became effective for annual periods beginning on or after 1 July 2015 that has material impact to the Company.

z. New and amended standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2016 reporting periods and have not been early adopted by the Company. The Company's assessment of the impact of these new standards and interpretations is set out below.

i. AASB 9 Financial Instruments (effective from 1 January 2018)

AASB 9 was issued as a complete standard in Australia in December 2014, and replaces AASB 139 Financial Instruments: Recognition and Measurement in its entirety. The main requirements of AASB 9 are summarised below.

Classification and measurement

Financial assets will either be measured at amortised cost, fair value through other comprehensive income (FVTOCI), or fair value through profit or loss (FVTPL). They can only be measured at amortised cost or at FVTOCI if certain restrictive conditions are met. Otherwise they must be measured at FVTPL. Equity instruments will always be measured at fair value and, if not held for trading, there is an irrevocable election to present gains/losses on OCI. Dividends will be recognised in profit or loss.

These changes won't have material impact on the Company as the financial assets are already measured at amortised cost or fair value through profit or loss.

Impairment

AASB 9 contains new impairment requirements based on an 'expected loss' model rather than the current 'incurred loss' model.

A simplified impairment model applies to trade receivables and lease receivables.

The Company has not yet fully assessed the impact of these changes in impairment requirements as this standard does not apply mandatorily before 1 January 2018.

Hedging

The new hedging principles are less complex. The removal of the 80-125% threshold for effectiveness testing, and the ability to hedge the benchmark pricing component of commodity contracts (e.g. crude oil benchmark component of jet fuel, benchmark component of diesel/iron ore contracts, etc.) make it easier to qualify for hedge accounting, and therefore less profit or loss volatility.

These changes won't have any impact on the Company as it doesn't apply hedge accounting.

ii. AASB 16 *Leases*

Except for short-term leases (less than 12 months from commencement date, including extension options), and 'low value' items, all leases will be capitalised on the balance sheet by recognising a 'right-of-use' asset and a lease liability for the present value of the obligation. This means that we will no longer see straight-line 'rental' expense in profit or loss (except for short-term leases and low value items). All leases will incur a front-end loaded expense, comprising depreciation on the right-of-use asset, and interest on the lease liability. When initially measuring the right-of-use asset and lease liability, non-cancellable lease payments (including inflation-linked payments), as well as payments for option periods which the entity is reasonably certain to exercise, must be included in the present value calculation.

There will be no change to the accounting treatment for short-term leases less than 12 months and leases of low value items, which will continue to be expensed on a straight-line basis.

No changes to accounting for entities as a lessor, as it retains the accounting for operating and finance leases for lessors.

The Company has not fully assessed the impact of this revised Standard. However, management believes that it would have immaterial effect given the nature of the operating leases the Company currently has.

3. Actuarial assumptions and methods

a. Actuarial methods

The outstanding claims estimate is derived based on three valuation classes, namely hospital, medical and general treatment services. In calculating the estimated cost of unpaid claims, a chain ladder method is used. This assumes that the development pattern of the current claims will be consistent with historical experience. Where deemed necessary, manual adjustments were made to the outstanding claims by service month to produce an appropriate estimate of incurred claims for the service month.

b. Actuarial assumptions

The following assumptions have been made in determining the outstanding claims liability based on inputs from management and advice from the Appointed Actuary.

Variables	2016			2015		
	Hospital	Medical	General Treatment	Hospital	Medical	General Treatment
	%	%	%	%	%	%
Assumed proportion paid to date	67.0%	82.0%	94.0%	92.6%	89.4%	93.5%
Expense rate	1.5%	3.8%	3.8%	1.5%	3.8%	3.8%
Discount rate	0%	0%	0%	0%	0%	0%
Risk Equalisation Allowance	1.43%	1.43%	0%	0.33%	0.33%	0%
Risk Margin	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%

The risk margin of 5.5% (2015: 5.5%) of the underlying liability has been estimated to equate to a probability of adequacy greater than 75% (2015: 75%).

c. Process used to determine assumptions

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

Assumed Proportion paid to date

The proportion paid to date summarises the application of the chain ladder method (over the 12 months to 30 June) described above to determine the total expected incurred in each service month. The proportion paid to date has been determined with one month's paid claims hindsight.

Discount rate

As claims for health funds are generally settled within one year, no discounting of claims is usually applied as the difference between the undiscounted value of claims payments and the present value of claims payments is not likely to be material. An increase in the proportion assumed paid to date, would lead to more claims being paid earlier and therefore a decrease in the liability.

Expense rate

Claims handling expenses were calculated by reference to past experience of total claims handling costs as a percentage of total past payments. An increase or decrease in this expense would have a corresponding effect on the claims expense.

Risk equalisation allowance

In simplified terms, each private health insurer is required to contribute to the risk equalisation pool or is paid from the pool to equalise their hospital claims exposure to members aged over 55 years of age and in respect of high cost claims. This is an allowance made in respect of the claims incurred but not yet paid. An increase or decrease in this expense would have a corresponding effect on the claims expense.

Risk margin

The risk margin has been based on an analysis of the past experience of the Company. This analysis examined the volatility of past payments that has not been explained by the model adopted to determine the central estimate. This past volatility has been assumed to be indicative of the future volatility and has been set at a level estimated to equate to a probability of adequacy greater than 5.5% (2015: 5.5%). An increase or decrease in this expense would have a corresponding effect on the claims expense.

The probability of adequacy implied by the risk margin (2016 and 2015: 75%) has been determined with one month's paid claims hindsight. The 2016 provision was prepared using one month's paid claim hindsight.

d. Sensitivity analysis – insurance contracts

Summary

The Appointed Actuary conducts sensitivity analyses to quantify the exposure risk of changes in the key underlying variables and assumptions. The movement in any key variable will impact the performance and equity of the Company. The tables below describe how a change in each assumption will affect the health insurance liabilities and hence the profit or loss and the equity of the Company.

Variable	Impact of movement in variable
Chain Ladder Development Factors	An increase or decrease in the chain ladder factors would lead to higher or lower projections of the ultimate liability and a corresponding increase or decrease on claims expense respectively.
Expense rate	An estimate for the internal costs of handling claims is included in the outstanding claims liability. An increase or decrease in the expense rate assumption would have a corresponding impact on claims expense.
Risk equalisation	An estimate for the risk equalisation cost is included in the outstanding claims liability. An increase or decrease in the risk equalisation allowance would have a corresponding impact on RETF levy.
Risk margin	As estimate of the amount of uncertainty in the determination of the central estimate. An increase or decrease in the risk margin would have a corresponding impact on claims expense.

Impact of key variables

			Surplus/(Loss)		Equity
			2016		2016
Recognised amounts in the Financial Statements			(2,229,390)		83,211,572
Variable	Movement in variable %	Adjustments	Adjusted amounts	Adjustments	Adjusted amounts
Chain Ladder Development Factors	+5.0	(571,400)	(2,800,790)	(571,400)	82,640,172
	-5.0	571,400	(1,657,990)	571,400	83,782,972
Expense rate	+5.0	(11,300)	(2,240,690)	(11,300)	83,200,272
	-5.0	11,300	(2,218,090)	11,300	83,222,872
Risk equalisation allowance	+5.0	(7,300)	(2,236,690)	(7,300)	83,204,272
	-5.0	7,300	(2,222,090)	7,300	83,218,872
Risk Margin	+5.0	(32,450)	(2,261,840)	(32,450)	83,179,122
	-5.0	32,450	(2,196,940)	32,450	83,244,022
			Surplus/(Loss)		Equity
			2015		2015
Recognised amounts in the Financial Statements			(3,678,238)		85,440,962
Variable	Movement in variable %	Adjustments	Adjusted amounts	Adjustments	Adjusted amounts
Chain Ladder Development Factors	+5.0	(380,050)	(4,058,288)	(380,050)	85,060,912
	-5.0	380,050	(3,298,188)	380,050	85,821,012
Expense rate	+5.0	(8,100)	(3,686,338)	(8,100)	85,432,862
	-5.0	8,100	(3,670,138)	8,100	85,449,062
Risk equalisation allowance	+5.0	(1,100)	(3,679,338)	(1,100)	85,439,862
	-5.0	1,100	(3,677,138)	1,100	85,442,062
Risk Margin	+5.0	(21,409)	(3,699,647)	(21,409)	85,419,553
	-5.0	21,409	(3,656,829)	21,409	85,462,371

4. Other income

	Note	2016	2015
Rental income from investment properties	15	108,153	107,627
Other member income		8,259	7,972
Sundry income		1,112	1,403
Travel insurance commission income		39,894	39,169
Total		**157,418**	**156,171**

5. Management expenses

	Note	2016	2015
Member related expenses		453,481	385,794
Occupancy and administration expense		2,534,947	2,238,324
Research, advertising, and publicity expenses		1,313,548	1,196,715
Computer and communication expenses		1,440,135	1,207,833
Depreciation expense	16	339,942	338,072
Amortisation expense	17	104,691	94,084
Salaries and wages expense		8,592,191	7,770,500
Rental property expenses		-	1,939
Professional, legal and insurance expense		644,096	617,454
(Gain)/loss on sale of property, plant and equipment		(4,991)	(15,636)
Deferred commission cost amortisation expense	14	1,696,782	796,671
Other expenses		718	12,489
Total		**17,115,540**	**14,644,239**

6. Investment income and investment expense

	Note	2016	2015
Interest income on bank deposits, held-to-maturity investments, financial assets at fair value through profit or loss		311,915	488,346
Dividend income on financial assets at fair value through profit or loss		1,833,762	2,070,785
Fair value gain or loss on financial assets at fair value through profit or loss		(1,780,922)	674,844
Investment income		**364,755**	**3,233,975**
Fund management fees		(155,124)	(164,678)
Interest expense and other charges		(155,921)	(152,422)
Investment expense		**(311,045)**	**(317,100)**
Net result of investment activities recognised in surplus or loss		**53,710**	**2,916,875**

7. Member health services

	Note	2016	2015
Dental services revenue		1,206,444	1,179,600
Optical services revenue		1,506,801	1,327,617
Allied health revenue		174,825	172,967
Member health services revenue		**2,888,070**	**2,680,184**
Dental operating costs		(4,670,366)	(4,309,051)
Optical operating costs		(2,200,807)	(2,075,124)
Supportline operating costs		(83,999)	(83,999)
Allied health operating costs		(20,604)	(23,623)
Member health services expense		**(6,975,776)**	**(6,491,797)**
Net result from member health services		**(4,087,706)**	**(3,811,613)**

Employee benefits expense included in member health services expense are as follows:

	Note	2016	2015
Dental operating costs		3,690,644	3,392,231
Optical operating costs		648,254	595,131
Total		**4,338,899**	**3,987,362**

8. Auditor's remuneration

	Note	2016	2015
Remuneration of the auditor for:			
Auditing the financial statements		56,400	54,500
Audit of PHIAC Returns and Australian Government Rebate on Private Health Insurance		9,840	9,500
Total		**66,240**	**64,000**

BDO have in place safeguards that eliminate or reduce to an acceptable level, threats to their independence from the provision of services, other than the audit.

9. Cash and cash equivalents

	Note	2016	2015
Reconciliation of cash and cash equivalents			
Cash at bank and in hand		17,989,679	11,565,003
Total		**17,989,679**	**11,565,003**

Reconciliation of operating surplus after tax to the net cash flows from operations:

In AUD	Note	2016	2015
Cash flows from operating activities			
Operating surplus / (deficit)		(2,229,390)	(3,678,238)
Adjustments for:			
Depreciation and amortisation of non-current assets	5	444,633	432,156
Investment income	6	(364,755)	(3,233,975)
Loss/(profit) on the sale of property, plant & equipment	5	(4,991)	(15,636)
Working capital changes:			
(Increase)/decrease in trade and other receivables		179,183	450,761
(Increase)/decrease in inventories		(3,019)	(20,151)
(Increase)/decrease in deferred commission costs		(1,832,056)	(1,485,940)
Increase/(decrease) in trade and other payables		580,785	466,176
Increase/(decrease) in other current liabilities		4,693,458	2,831,954
Increase/(decrease) in provisions		2,878,963	3,911,555
Cash generated from operations		**4,342,811**	**(341,338)**

10. Trade and other receivables

	Note	2016	2015
Trade receivables		90,711	79,173
		90,711	79,173
Contributions in arrears		68,876	69,482
Unclosed business premium in arrears		89,168	76,724
		158,044	146,206
GST receivable		61,879	70,648
Accrued interest		24,709	72,605
Australian Government Rebate		3,212,346	2,991,063
Prepayments		435,800	458,813
Other receivables		521,343	293,289
		4,256,074	3,886,418
Total		**4,504,832**	**4,111,797**

No receivables balances are past due or impaired at year end (2015: $nil). All receivables that are neither past due nor impaired are with government organisations or longstanding members who have a good credit history with the Company.

The Company's exposure to credit risk related to trade and other receivables are disclosed in Note 23.

11. Financial assets at fair value through profit or loss

	Note	2016	2015
Current financial assets at fair value through profit or loss			
Unlisted managed investment funds		77,112,372	76,144,082
Total		**77,112,372**	**76,144,082**

Financial assets at fair value through profit or loss comprise of investments in the unit capital of various entities. There are no fixed returns or fixed maturity dates attached to these investments. The Company's exposure to credit, interest rate risks related to financial assets are disclosed in Note 23.

12. Held-to-maturity investments

	Note	2016	2015
Current held-to-maturity investments			
Short-term bank deposits		1,019,189	4,039,216
Total		**1,019,189**	**4,039,216**

Held-to-maturity financial assets comprise of a short-term deposit that matures on the 04 August 2016 (2015: 35 to 196 days). The interest rate for the short-term deposit is 2.70% (2015: between 2.75% and 3.56%). The Company's exposure to credit, interest rate risks related to financial assets are disclosed in Note 23.

13. Inventories

	Note	2016	2015
Current - at cost			
Dental stock		121,826	121,177
Optical stock		119,818	120,020
Stay-covered stock		6,551	3,979
Total		**248,195**	**245,176**

14. Deferred commission costs

	Note	2016	2015
Cost		6,201,257	3,263,750
Accumulated amortisation		(1,890,358)	(784,907)
Net carrying value		**4,310,899**	**2,478,843**

Reconciliation of deferred commission costs

	Note	2016	2015
Balance at beginning of year		2,478,843	992,903
Commission costs deferred during the year		3,692,545	2,442,254
Commission costs written off during the year		(163,707)	(159,643)
Amortisation expense		(1,696,782)	(796,671)
Balance at end of year		**4,310,899**	**2,478,843**

15. Investment properties

	Note	2016	2015
At fair value			
Land - at independent valuation		1,410,000	1,410,000
Buildings - at independent valuation		570,000	570,000
Total		**1,980,000**	**1,980,000**

	Note	2016	2015
At fair value			
Balance at beginning of year		1,980,000	1,980,000
Acquisitions		-	-
Transfer from / (to) property, plant and equipment	16	-	-
Gain on investment properties valuation		-	-
Balance at end of year		**1,980,000**	**1,980,000**

Rental income from investment properties recognised in other income is $108,153 (2015: $107,627).

Direct operating expenses primarily for repairs and maintenance on property that did not generate rental income for the period was $145 (2015: $75). Direct operating expenses primarily for repairs and maintenance on property that did generate rental income for the period was $13,720 (2015: $19,803).

There are no restrictions on the realisability of investment properties or remittance of income and proceeds of disposal.

Further details of the Company's operating lease receivable are contained in Note 22(c).

Qualitative details of the valuation of investment properties are contained in Note 24.

16. Property, plant and equipment

	Note	Land & Buildings	Furniture & Fittings	Computer Hardware	Motor Vehicles	Dental Equipment	Work in Progress	Total
Cost								
Balance at 1 July 2014		16,670,000	1,364,356	365,975	111,442	1,050,705	92,013	19,654,491
Additions		285,274	68,502	51,555	26,326	145,833	196,141	773,631
Disposals		-	-	-	(56,147)	(29,494)	-	(85,641)
Revaluation increment/(decrement)	21	-	-	-	-	-	-	-
Transfer from investment properties		-	-	-	-	-	-	-
Other adjustments		-	-	-	-	-	-	-
Balance at 30 June 2015		**16,955,274**	**1,432,858**	**417,530**	**81,621**	**1,167,044**	**288,154**	**20,342,481**
Balance at 1 July 2015		16,955,274	1,432,858	417,530	81,621	1,167,044	288,154	20,342,481
Additions		219,231	115,915	2,720	-	78,793	-	416,659
Disposals		-	-	-	-	(29,494)	-	(29,494)
Revaluation increment/(decrement)	21	-	-	-	-	-	-	-
Transfer from investment properties		-	-	-	-	-	-	-
Other adjustments		-	-	-	-	-	(139,689)	(139,689)
Balance at 30 June 2016		**17,174,505**	**1,548,773**	**420,250**	**81,621**	**1,216,343**	**148,465**	**20,589,957**

Qualitative details of the valuation of land and buildings are contained in Note 24.

16. Property, plant and equipment (continued)

	Note	Land & Buildings	Furniture & Fittings	Computer Hardware	Motor Vehicles	Dental Equipment	Work in Progress	Total
Depreciation								
Balance at 1 July 2014		-	(1,158,856)	(304,721)	(72,386)	(708,242)	-	(2,244,205)
Depreciation for the year		(146,621)	(67,039)	(42,733)	(16,617)	(65,062)	-	(338,072)
Disposals		-	-	-	40,872	29,494	-	70,366
Revaluation increment/(decrement)	21	-	-	-	-	-	-	-
Balance at 30 June 2015		**(146,621)**	**(1,225,895)**	**(347,454)**	**(48,131)**	**(743,810)**	**-**	**(2,511,911)**
Balance at 1 July 2015		(146,621)	(1,225,895)	(347,454)	(48,131)	(743,810)	-	(2,511,911)
Depreciation for the year		(156,010)	(72,520)	(26,517)	(15,029)	(69,866)	-	(339,942)
Disposals		-	-	-	-	29,494	-	29,494
Revaluation increment/(decrement)	21	-	-	-	-	-	-	-
Balance at 30 June 2016		**(302,631)**	**(1,298,415)**	**(373,971)**	**(63,160)**	**(784,182)**	**-**	**(2,822,359)**
Carrying amounts								
At 1 July 2014		16,670,000	205,500	61,254	39,056	342,463	92,013	17,410,285
At 30 June 2015		16,808,653	206,963	70,076	33,490	423,234	288,154	17,830,570
At 1 July 2015		16,808,653	206,963	70,076	33,490	423,234	288,154	17,830,570
At 30 June 2016		**16,871,874**	**250,358**	**46,279**	**18,461**	**432,161**	**148,465**	**17,767,598**

Qualitative details of the valuation of land and buildings are contained in Note 24.

17. Intangible assets

	Note	Computer Software
Computer Software		
Cost or deemed cost		
Balance at 1 July 2014		1,229,670
Additions		123,184
Disposals		-
Balance at 30 June 2015		**1,352,854**
Balance at 1 July 2015		1,352,854
Additions		110,547
Disposals		-
Balance at 30 June 2016		**1,463,401**
Amortisation		
Balance at 1 July 2014		(1,059,627)
Amortisation for the year		(94,084)
Disposals		-
Balance at 30 June 2015		**(1,153,711)**
Balance at 1 July 2015		(1,153,711)
Amortisation for the year		(104,691)
Disposals		-
Balance at 30 June 2016		**(1,258,402)**
Carrying amounts		
At 1 July 2014		170,043
At 30 June 2015		199,143
At 1 July 2015		199,143
At 30 June 2016		**204,999**

18. Trade and other payables

	Note	2016	2015
Trade payables		409,353	603,770
Risk equalisation payable		634,567	14,449
Sundry payables and accrued expenses		1,816,702	1,041,500
Total		**2,860,622**	**1,659,719**

These amounts are unsecured, except for risk equalisation payable, and have 7-30 day payment terms. Refer to Note 3(c) for details on risk equalisation.

19. Other current liabilities

	Note	2016	2015
Contributions in advance (earned unclosed business)		19,745,967	15,064,954
Unearned unclosed business		89,168	76,724
Total		**19,835,135**	**15,141,678**

20. Provisions

	Note	2016	2015
Current			
Employee benefits	20(a)	2,435,030	2,216,814
Outstanding claims	20(b)	12,449,000	8,213,175
Unexpired risk liability	20(c)	4,191,084	5,768,934
Total		**19,075,114**	**16,198,923**
Non-current			
Employee benefits	20(a)	155,320	152,548
Total		**155,320**	**152,548**

Movements in the provision for outstanding claims and unexpired risk liability are as follows:

	Note	Outstanding claims	Unexpired risk liability
2016			
Balance at 1 July 2015		8,213,175	5,768,934
Amounts used during the year		(8,756,415)	(5,768,934)
Amounts raised during the year		12,992,240	4,191,084
Balance at 30 June 2016		**12,449,000**	**4,191,084**
2015			
Balance at 1 July 2014		8,044,375	2,104,619
Amounts used during the year		(7,614,335)	(2,104,619)
Amounts raised during the year		7,783,135	5,768,934
Balance at 30 June 2015		**8,213,175**	**5,768,934**

a. Provision for employee benefits

A provision has been recognised for employee entitlements relating to annual and long service leave. Long service leave covers all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount of the long service leave provision for employees who have reached 5 years service with the Company is presented as current, since the Company does not have an unconditional right to defer settlement for any of these obligations. Based on past experience, the Company does not expect all employees to take the full amount of accrued long service leave or require payment within the next 12 months. The measurement and recognition criteria for employee benefits have been included in Note 2.

20. Provisions (continued)

a. Provision for employee benefits (continued)

Total employee benefits expense is $12,931,010 (2015: $11,757,860). Included in this amount is superannuation expense of $1,565,508 (2015: $1,324,818).

The following amounts reflect long service leave that is not expected to be taken or paid within the next 12 months.

	Note	2016	2015
Long service leave expected to be settled after 12 months		1,528,325	1,383,917

b. Provision for outstanding claims

A provision has been recognised for unpresented and outstanding claims. The provision provides for claims incurred but not received. The provision is based on actuarial assessment taking into account historical patterns of claim incidence and processing. The provision also provides for the expected payment to or receipt from the Health Benefits Risk Equalisation Trust Fund in relation to an amount provided for unpresented and outstanding claims. Under AASB 1023, a risk margin has been applied in the calculation as capital for prudential purposes.

The provision for outstanding claims is composed of the following:

	Note	2016	2015
Outstanding claims - central estimate of the expected future payments for claims incurred		11,428,000	7,601,000
Claims handling expense		226,000	162,000
Gross outstanding claims liability		**11,654,000**	**7,763,000**
Outstanding claims - expected payments to the Risk Equalisation Trust Fund in relation to the central estimate		146,000	22,000
Risk margin		649,000	428,175
Net outstanding claims liability		**12,449,000**	**8,213,175**

Risk margin

The risk margin of 5.5% (2015: 5.5%) of the underlying liability has been estimated to equate to a probability of adequacy of approximately 75% (2015: 75%).

The central estimate of outstanding claims (including those that have been reported but not yet settled and which have been incurred but not yet reported) is an estimate which is intended to contain no intentional over or under estimation. For this reason, the inherent uncertainty in the central estimate must also be considered.

The risk margin has been based on an analysis of the past experience of the Company. This analysis examined the volatility of past payments that has not been explained by the model adopted to determine the central estimate. This past volatility has been assumed to be indicative of the future volatility.

The outstanding claims estimate is derived based on three valuation classes, namely hospital, medical and general treatment services. Diversification benefits within a valuation class are implicitly allowed for through the model adopted. The determination of the risk margin has also been implicitly allowed for diversification between valuation classes based on an analysis of past correlations in deviations from the model adopted.

20. Provisions (continued)

b. Provision for outstanding claims (continued)

Risk margin (continued)

The outstanding claims provision has been estimated using a chain ladder method, based on historical experience and future expectations as to claims. The calculation was determined taking into account actual claims as at reporting date.

As claims for health funds are generally settled within one year, no discounting of claims is usually applied as the difference between the undiscounted value of claims payments and the present value of claims payments is not likely to be material. Accordingly, reasonable changes in assumptions would not have a material impact on the outstanding claims balance. Change in the gross outstanding claims can be analysed as follows:

	Note	2016	2015
Gross outstanding claims at beginning of period		7,763,000	7,604,000
Administration component		(162,000)	(156,000)
Central estimate at beginning of period		**7,601,000**	**7,448,000**
Claims paid in respect of the prior year		(8,106,973)	(7,050,287)
Claims incurred during the year (expected)		11,933,973	7,203,287
Central estimate at end of period		**11,428,000**	**7,601,000**
Administration component		226,000	162,000
Gross outstanding claims at end of period		**11,654,000**	**7,763,000**

c. Provision for unexpired risk liability

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

The risk margin of 3.5% (2015: 3.5%) that is applied to the benefits, risk equalisation, State levies and claims related expenses cashflows has been estimated to equate to a probability of adequacy of approximately 75% (2015: 75%). Based on the assumptions and the adopted risk margin of 3.5% for a 75% probability of adequacy it is determined that an unexpired risk reserve of $4,191,084 (2015: $5,768,934) at 30 June 2016 is required. The prior year liability adequacy test identified a deficit and as such a provision for unexpired risk liability was recognised.

21. Reserves

The non-current asset revaluation reserve records increments and decrements on the revaluation of individual parcels of land and buildings. On disposal, the balance in the non-current asset revaluation reserve relating to the asset is transferred to retained earnings. Refer to Note 16.

22. Capital and leasing commitments

a. Operating lease commitments

Non-cancellable operating leases contracted for but not capitalised in the Financial Statements include:

	Note	2016	2015
Payable – minimum lease payments			
- not later than 12 months		25,164	25,162
- between 12 months and five years		68,529	49,105
		93,693	74,267

22. Capital and leasing commitments (continued)

a. Operating lease commitments (continued)

The photocopier lease is a non-cancellable lease with a 5 year term, with rent payable monthly in advance. The DI380 mail folding equipment is a non-cancellable lease with a 6 year term, with rent payable monthly in advance.

b. Capital expenditure commitments

Capital expenditure commitments contracted for:

	Note	2016	2015
Property, plant and equipment purchases:			
Refurbishment - dental surgeries		-	53,200
Refurbishment - Alandale house		40,000	-
		40,000	**53,200**
Payable			
- not later than 12 months		40,000	53,200
		40,000	**53,200**

c. Operating Lease Receivable

	Note	2016	2015
Receivable			
- not later than 12 months		9,914	9,914
- between 12 months and five years		-	-
		9,914	**9,914**

The future commitment receivable for 2016 relates to the tenancy of 30 Misterton Street to Enhance Management Pty Ltd. The commencement date of the lease of 30 Misterton Street was 29 August 2011 for a term of 2 years. The lease converted to a month by month tenancy effective 30 August 2013 for no fixed period and no notice period.

23. Financial instruments

a. Financial risk management

Overview

The Company has exposure to the following risks from investing in various financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Other risk

This note presents information about the Company's exposure to each of the above risks, the objectives, policies and processes for measuring and managing risk.

Further quantitative disclosures are included throughout the Financial Statements and Notes. The totals for each category of financial instruments are as follows:

23. Financial instruments (continued)

a. Financial risk management (continued)

Overview (continued)

	Note	2016	2015
Financial assets			
Cash and cash equivalents	9	17,989,679	11,565,003
Trade and other receivables	10	4,504,832	4,111,797
Financial assets at fair value through profit or loss	11	77,112,372	76,144,082
Held-to-maturity investments	12	1,019,189	4,039,216
Total financial assets		100,626,072	95,860,098
Financial liabilities			
Trade and other payables	18	2,860,622	1,659,719
Total financial liabilities		2,860,622	1,659,719

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The Board of Directors has established the Audit and Risk Management Committee, which is responsible for developing and monitoring risk management policies. The Audit and Risk Management Committee consists entirely of non-executive Directors and reports regularly to the full Board of Directors on its activities. The Board of Directors has also established the Business, Finance and Marketing Committee, which is responsible for a non-executive review of matters that considerably impact the Company's financial and business objectives and member service strategy. In particular, the Business, Finance and Marketing Committee is responsible for providing recommendations to the Board in relation to investment policy and monitoring performance of investments against approved benchmarks.

Risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through 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 Audit and Risk Management Committee is responsible for monitoring compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to risks faced by the Company. The Audit and Risk Management Committee are assisted in its oversight role by internal audit. Internal audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported through the Audit and Risk Management Committee to the Board of Directors.

b. Credit risk

Credit risk is the risk that the other party to a financial instrument will fail to discharge their obligation, resulting in the Company incurring a financial loss. Credit risk arises from cash and cash equivalents (deposits and investments held with banks and financial institutions), receivables from members (insurance contracts) and customers.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the end of the reporting period as follows:

23. Financial instruments (continued)

b. Credit risk (continued)

Exposure to credit risk (continued)

	Note	2016	2015
Cash and cash equivalents	9	17,989,679	11,565,003
Trade and other receivables	10	4,504,832	4,111,797
Held-to-maturity investments	12	1,019,189	4,039,216
Total		**23,513,700**	**19,716,016**

The main purpose of non-derivative financial instruments is to back health insurance liabilities. The Company does not have any derivative instruments at 30 June 2016 (2015: nil).

Trade and other receivables

The Company's exposure to credit risk is influenced by the individual characteristics of each debtor. The Company does not have any material credit risk exposure to any single receivable or group of receivables. Members that do not meet the Company's credit policies will have their membership terminated. Credit risk in relation to member insurance contracts is further discussed in Note 25.

The risk of financial loss to the Company from customers other than Fund members arises principally from receivables from the Department of Human Services in relation to the federal government's rebate on private health insurance – premium reductions scheme. The probability of financial loss to the Company from this arrangement is assessed as low as the premium reductions scheme is legislated under the *Private Health Insurance Act 2007* and is an integral part of the private health insurance industry affecting all private health insurers.

Amounts are considered as 'past due' when the debt has not been settled within the terms and conditions agreed between the Company and the customer or counter party to the transaction. Receivables that are past due are assessed for impairment by ascertaining solvency of the debtors and are provided for where there are specific circumstances indicating that the debt may not be fully repaid to the Company.

The Company had no collateral and other credit enhancements as at reporting date (2015: nil).

Investments

Credit risk related to balances with banks and other financial institutions is managed by the Committee in accordance with approved Board policy.

The Company limits its exposure to credit risk by only investing in liquid securities and only with counterparties that have a high credit rating or in financial institutions that are regulated by Australian Prudential Regulation Authority ('APRA'). Given these policies, management does not expect any counterparty to fail to meet its obligations. The banks and financial institutions which the Company has investments are National Australia Bank Limited and Rural Bank Limited.

The Board has established policies for managing credit risk including engaging specialist fund managers who provide advice to the Committee and the Board on asset allocation, selection, retention and disposal of investments. The Board and the Committee believe these factors are important in ensuring that the Company's credit risk is minimised to an acceptable level.

c. Solvency and Liquidity risk

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

c. Solvency and Liquidity risk (continued)

Typically the Company ensures that it has sufficient cash on demand to meet expected operational expenses (liquidity). This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. The Company manages its solvency risk through the following mechanisms:

- The daily liquidity position is monitored along with future cash flow requirements to meet claims commitments;
- Managing a reputable credit profile;
- Compliance with solvency and capital adequacy requirements set down by the Australian Prudential Regulation Authority;
- Managing credit risk relating to financial assets; and
- Investing surplus cash with major financial institutions.

Trade and other payables are the Company's only financial liabilities. All trade and other payables are non-interest bearing. The Company expects that all future obligations will be met within payment terms. Contractual cashflows from trade and other payables approximate their carrying amounts. Trade and other payables are contractually due within six months of the end of the reporting period.

d. Market Risk

Market risk is the risk that changes in market prices, interest rates and equity prices will affect the Company's future cash flows or the fair value of its holdings of financial instruments. These changes are largely due to demand and supply factors in each relative market that a particular financial instrument trades in. The objective of market risk management is to manage and control market risk exposure within acceptable parameters, while optimising the return.

Market risk is the risk that changes in market prices, interest rates and equity prices will affect the Company's future cash flows or the fair value of its holdings of financial instruments. These changes are largely due to demand and supply factors in each relative market that a particular financial instrument trades in. The objective of market risk management is to manage and control market risk exposure within acceptable parameters, while optimising the return.

The Company is exposed to market risk on its managed fund investments which are designated as fair value through profit or loss. Such risk is managed through diversification of investments across industries and geographic location.

The primary objective of the Company's investment strategy is to maximise returns in order to finance its operations including payment of claims and contributions towards administration expenses. In accordance to the Company's investment strategy, it holds two types of investments where their performance is actively monitored:

- Unlisted managed fund investments which are designated as fair value through profit or loss financial assets; and
- Term deposits which are designated held-to-maturity investments.

The Board has also established a policy which precludes active trading of financial instruments.

The Company's investments were held in the following sectors at reporting date:

	Note	2016	2015
Cash			
Domestic		33,253,426	25,271,340
Fixed interest			
Domestic		28,675,732	28,118,598
International		9,216,861	11,877,713
Equities			
Domestic		12,545,417	13,055,582
International		12,429,805	13,425,070
Diversifying investments			
Domestic		-	-
		96,121,241	91,748,303

Currency risk

The Company does not have any material exposure to currency risk.

Exposure to interest rate risk arises on financial assets and financial liabilities recognised at the reporting date whereby a change in the interest rates will affect future cash flows or the fair value of the fixed rate financial instruments.

The Company is subject to interest rate risk through volatility in cash flows generated by interest bearing financial instruments. To minimise this volatility, the Company diversifies its holdings of financial instruments between various financial institutions and through investing in a range of differing financial products. The Company has adopted an investment strategy that delivers a diversified portfolio with a heavier weighting to defensive assets versus growth assets.

The Company had the following financial instruments which are exposed to interest rate risk:

	Note	2016	2015
Cash and cash equivalents	9	17,989,679	11,565,003
Financial assets at fair value through profit or loss		52,137,151	49,663,431
Total		70,126,830	61,228,434

The following table illustrates sensitivities to the Company's exposures to changes in interest rates and equity prices. The table indicates the impact on how surplus and equity values reported at balance date would have been affected by changes in the relevant risk variable that management considers to be reasonably possible. These sensitivities assume that the movement in a particular variable is independent of other variables.

	Note	2016	2015
Change in surplus			
Increase in interest rate by 2%		1,402,537	1,224,569
Decrease in interest rate by 2%		(1,402,537)	(1,224,569)
Change in equity			
Increase in interest rate by 2%		1,402,537	1,224,569
Decrease in interest rate by 2%		(1,402,537)	(1,224,569)

Equity price risk

Exposure to equity price risk arises on financial assets recognised at the end of the reporting date whereby a change in the financial market prices will affect future cash flows and the fair value of the financial assets. This risk is managed in the following investment strategy requirements:

- Selection criteria are applied against investment managers for Australian and International equity managed funds including a set of minimum criteria which must be met before investment is considered. This includes a well articulated investment strategy, performance and assessment of key personnel, no outstanding legal or past judgements which impact negatively on the fund manager; and monthly reporting benchmarks;
- The portfolio will only consist of counterparties that have a high credit rating;
- The Australian and International equity portfolio will consist of shares from a diversified range of industry sectors; and
- All acquisitions must be under the advice of a Board approved investment advisor.

The investment policy is subject to review by the Business, Finance and Marketing Committee and approval by the Board of Directors.

The Company had the following financial assets which are exposed to equity price risk:

	Note	2016	2015
Financial assets at fair value through profit or loss		24,975,222	26,480,652
Total		**24,975,222**	**26,480,652**

The following table illustrates sensitivities to the Company's exposures to changes in market prices. The table indicates the impact on how surplus and equity values reported at the end of reporting date would have been affected by changes in the relevant risk variable that management considers to be reasonably possible. These sensitivities assume that the movement in a particular variable is independent of other variables.

	Note	2016	2015
Change in surplus			
Increase in market prices by 10%		2,497,522	2,648,065
Decrease in market prices by 10%		(2,497,522)	(2,648,065)
Change in equity			
Increase in market prices by 10%		2,497,522	2,648,065
Decrease in market prices by 10%		(2,497,522)	(2,648,065)

e. Other risk

Capital management

The Company operates in the private health insurance industry and is subject to prudential capital regulations determined in accordance with the Solvency and Capital Adequacy Standards set out in the *Private Health Insurance (Health Benefit Fund Administration) Rules* ('the rules'), which are administered by the Australian Prudential Regulation Authority (APRA). The rules set minimum standards in relation to a private health insurer's solvency and capital adequacy requirements. The Board's policy is to maintain a strong capital base and to hold capital well in excess of the minimum requirements stipulated in the rules. Capital management policies are contained in the Capital Management Plan which identifies the target level of capital the Company will hold given its risk profile.

23. Financial instruments (continued)

e. Other risk (continued)

Capital management (continued)

At the end of the reporting period, the Company had capital in excess of the minimum statutory requirements. The Company's coverage ratio fell outside the August 2015 target range (total assets/prudential requirement) set down by the Board in the Capital Management Plan. The Capital Management Plan is reviewed and updated annually by management in conjunction with the Appointed Actuary and approved by the Board of Directors.

Solvency and Liquidity

The Company is required to comply with the prudential requirements of the *Private Health Insurance Act 2007*, in respect of solvency and capital adequacy. The Liquidity Management Plan forms part of a suite of policies that comprise the overall risk management framework of the Company. The Liquidity Management Plan documents the method and assumptions for determining the minimum liquidity requirements and associated management action triggers to enable the Company to comply with the Solvency Standard at all times. At 30 June 2016 and 30 June 2015, the Company satisfied the requirements within the Liquidity Management Plan and Solvency Standard.

24. Fair value measurement

The following assets and liabilities are recognised and measured at fair value on a recurring basis:

- Financial assets at fair value through profit or loss (FVTPL);
- Land and buildings; and
- Investment properties.

Fair value hierarchy

All assets and liabilities for which fair value is measured or disclosed are categorised to the fair value hierarchy as follows:

Level 1: Fair value measurements are those derived from quoted prices (unadjusted) in an active market for identical assets or liabilities;

Level 2: Fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using:

(i) Quoted market prices in active markets for similar instruments;
(ii) Quoted prices for identical or similar instruments in markets that are considered less than active; or
(iii) Other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Recognised fair value measurements

The following table sets out the Company's assets and liabilities that are measured and recognised at fair value in the Financial Statements.

30 June 2016

	Note	Level 1	Level 2	Level 3	Total
Recurring fair value measurements					
Financial assets:					
Financial assets at FVTPL:					
Unlisted managed funds	11	-	77,112,372	-	**77,112,372**
Total recurring financial assets		**-**	**77,112,372**	**-**	**77,112,372**
Non-financial assets:					
Investment properties	15	-	-	1,980,000	**1,980,000**
Land and buildings	16	-		16,871,874	**16,871,874**
Total recurring non-financial assets		**-**	**-**	**18,851,874**	**18,851,874**

30 June 2015

	Note	Level 1	Level 2	Level 3	Total
Recurring fair value measurements					
Financial assets:					
Financial assets at FVTPL:					
Unlisted managed funds	11	-	76,144,082	-	**76,144,082**
Total recurring financial assets		**-**	**76,144,082**	**-**	**76,144,082**
Non-financial assets:					
Investment properties	15	-	-	1,980,000	**1,980,000**
Land and buildings	16	-		16,808,653	**16,808,653**
Total recurring non-financial assets		**-**	**-**	**18,788,653**	**18,788,653**

There have been no transfers between level 1 and level 2 recurring fair value measurements during the year.

The Company's policy is to recognise transfers into and out of the different fair value hierarchy levels at the date the event or change in circumstances that caused the transfer occurred.

Due to their short-term nature, the carrying amounts of cash and cash equivalents, trade and other receivables, and held-to-maturity investments are assumed to approximate their fair values. The carrying amount of current trade and other payables disclosed in Note 18 are assumed to approximate their fair values because the impact of discounting is not significant.

Valuation techniques used to derive Level 3 fair values recognised in the Financial Statements

The following table sets out the valuation techniques used in the determination of fair values within level 3 including the key unobservable inputs used and the relationship between unobservable inputs to fair value.

Notes to the Financial Statements for the year ended 30 June 2016 (continued)

24. Fair value measurement (continued)

Valuation techniques used to derive Level 3 fair values recognised in the Financial Statements (continued)

Item and valuation approach	Key unobservable inputs	Relationship between unobservable inputs to fair value
Investment properties Fair value is determined by applying the Direct Comparison Approach (primary method) which uses prices and other relevant information generated by market transactions involving identical or comparable (i.e. similar) properties. As a secondary check the Capitalisation (income) Approach is also used and based on the estimated sustainable net annual income for the property, based on its market income. The sustainable net annual income is capitalised at a market derived rate (yield) that adequately reflects the security of income, its growth potential and hypothetical lease terms and conditions. Discount rates, yields, expected vacancy rates and rental growth rates are estimated by an external valuer based on comparable transactions and industry data.	*426 St Pauls Terrace, Fortitude Valley Q 4006* Selling price based on market value per flat after capital improvements $25,000 per flat; selling price range $75,000/Flat to $100,000/Flat; weighted average $87,500. *30 Misterton Street, Fortitude Valley Q 4006* Selling price based on market value per m2 of building area; range $3,000-$3,500, weighted average $3,250.	The higher the discount rate, yield and expected vacancy rate the lower the fair value. The higher the rental growth rate, the higher the fair value.
Land and Buildings Fair value is determined by applying the Direct Comparison Approach (primary method) which uses prices and other relevant information generated by market transactions involving identical or comparable (i.e. similar) properties. As a secondary check the Capitalisation (income) Approach is also used and based on the estimated sustainable net annual income for the property, based on its market income. The sustainable net annual income is capitalised at a market derived rate (yield) that adequately reflects the security of income, its growth potential and hypothetical lease terms and conditions which are estimated by an external valuer based on comparable transactions and industry data. Discount rates, yields, expected vacancy rates and rental growth rates are estimated by an external valuer based on comparable transactions and industry data.	*438-442 St Pauls Terrace, Fortitude Valley Q 4006* Gross rent of $433 per m2 of building area; assuming 4% annual increases; annual outgoings within the range $50/m2 to $100/m2 of building area (weighted average $75/m2); a 7 + 7 year term and a capitalisation rate of 8.25%. *17, 21 & 25 Baxter Street, Fortitude Valley Q 4006* *22-26 Misterton Street, Fortitude Valley Q 4006* *428-430 St Pauls Terrace, Fortitude Valley Q 4006* *434 St Pauls Terrace, Fortitude Valley Q 4006* Selling price based on market value per m2 of building area; range $500 to $4,000, weighted average $2,352.	The higher the discount rate, yield and expected vacancy rate the lower the fair value. The higher the rental growth rate, the higher the fair value.

24. Fair value measurement (continued)

The following table sets out the valuation technique used in the determination of fair values within level 2 including key inputs used.

Item	Valuation approach and inputs used
Financial assets at FVTPL	Fair value is determined by reference to published price quotations in an active market for similar instruments.

Valuation processes applied by the Company for Level 3 fair values:

The Company engages external, independent and qualified valuers to determine the fair value of the Company's investment property and land and buildings that are classified as property, plant and equipment every three years. The last valuation of investment properties and land and buildings was conducted as at 30 June 2014 by Mr Scott Campbell B.App.Sci (Prop.Econ.) of McGees National Property Consultants.

The following table sets out the reconciliation of the opening and closing balances for level 3 fair value measurement.

	Note	Land and Buildings	Investment properties	Total
Opening balance 1 July 2014		16,670,000	1,980,000	18,650,000
Transfer from level 1		-	-	-
Transfer to level 1		-	-	-
Transfer from level 2		-	-	-
Transfer to level 2		-	-	-
Acquisitions		285,274	-	285,274
Change in classification		-	-	-
Disposals		-	-	-
Depreciation and impairment		(146,621)	-	(146,621)
Gains/(losses) recognised in other comprehensive income		-	-	-
Gains/(losses) recognised in other income		-	-	-
Closing balance 30 June 2015		**16,808,653**	**1,980,000**	**18,788,653**
Opening balance 1 July 2015		16,808,653	1,980,000	18,788,653
Transfer from level 1		-	-	-
Transfer to level 1		-	-	-
Transfer from level 2		-	-	-
Transfer to level 2		-	-	-
Acquisitions		219,231	-	219,231
Change in classification		-	-	-
Disposals		-	-	-
Depreciation and impairment		(156,010)	-	(156,010)
Gains/(losses) recognised in other comprehensive income		-	-	-
Gains/(losses) recognised in other income		-	-	-
Closing balance 30 June 2016		**16,871,874**	**1,980,000**	**18,851,874**

25. Nature and extent of risks arising from insurance contracts

The purpose of insurance is risk distribution, that is, to spread risks across a large pool of individuals. Insurance provides a mechanism by which individuals can be indemnified against future events that may cause loss.

An insurance contract is a product under which an insurer accepts significant risk from a policyholder by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder.

A health insurance contract is a type of insurance whereby the Company (the insurer) agrees to reimburse the policyholders for health care costs in exchange for a premium. The contract (policy) stipulates the type of health care benefits covered as well as costs to be reimbursed.

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

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

Sensitivity to insurance risk

Health insurance claims tend to be short-tailed in nature, in that the period of time between a claim event occurring and the date of payment of that claim are typically less than one year, and in most cases less than six months. Historical claim lag patterns demonstrate that greater than 90% of claims are settled within three months of the claim event occurring.

The health insurance claims are therefore generally not sensitive to factors such as inflation, changes in interest rates, or other time-value of money issues, and as such a sensitivity analysis has not been provided in the Financial Statements.

Selection, pricing and concentration risk

Community rating is the basis of Australia's private health insurance system. Under the *Private Health Insurance Act 2007*, private health insurance contracts are required to be community rated, that is, in setting premiums, or paying benefits, funds cannot discriminate on the basis of health status, age, race, sex, and sexuality, use of hospital or medical services or general claiming history. Although this risk is shared collectively across the entire pool of policy holders, actuaries and underwriters still collect health information to determine the overall premium that insurers must charge to sustain the pool.

Community rating mandates that one price must apply to all contributor groups within each product, meaning that the pricing applied to the contributor groups within a product applies to all current and future potential members.

The Company manages concentration risk by pricing each product with regard to the risk profile of each policyholder group.

Another regulatory factor is risk equalisation, which supports the principle of community rating. The risk equalisation scheme transfers money from private health insurers with younger healthier members with lower average claims payments to those insurers with an older and less healthy membership and which have higher average claims payments.

The *Private Health Insurance Act 2007* also limits the types of treatment that private health insurers are able to offer as part of their health insurance business. Finally, premiums for health insurance can only be charged with the approval of the Minister for Health.

Credit risk

Credit risk is the risk that one party to an insurance contract will cause a financial loss for the other party by failing to discharge an obligation. The maximum exposure to credit risk to insurance contract related assets, at the end of the reporting period, is the carrying amount net of any provision for impairment of those assets, as disclosed in the Statement of Financial Position and Notes to the Financial Statements.

The risk is minimised through a process of arrears management whereby benefit payments are withheld from non-financial members. Where payment of contributions is not received for a continual period of two months, membership is terminated.

The Company does not have any material credit risk exposure to any single receivable or group of receivables under insurance contracts entered into by the Company.

Liquidity risk in relation to insurance contracts

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with insurance contracts.

The Company manages liquidity risk in relation to insurance contracts by continuously monitoring

25. Nature and extent of risks arising from insurance contracts (continued)

Liquidity risk in relation to insurance contracts (continued)

forecast and actual cash flows and claims provisioning risk as well as holding a high percentage of highly liquid investments to meet the obligations of the Company.

The approach adopted by the Company in determining the outstanding claims provision is detailed in Note 2(l). The provision is subject to some uncertainty, but the Company seeks to ensure the outstanding claims provision is adequate by:

- Ongoing and regular review of claim lags to ensure they are consistent with historical analysis;
- Quarterly external review conducted by the Appointed Actuary and the annual Financial Condition Report prepared for the Board of Directors and provided to the industry regulator;
- Ongoing and regular reviews of forecasts to ensure that factors included in calculating the outstanding claims provision remain relevant and reliable; and
- The inclusion of a risk margin in the calculations to ensure a probability of sufficiency of 75%.

Market risk in relation to insurance contracts

Market risk is the risk that the fair value or future cash flows associated with insurance contracts will fluctuate because of changes in market prices. Factors affecting market prices faced by the Company include inflation risk.

The Company is exposed to inflationary risk in relation to hospital and medical services that may materially impact on the future value of claims payments. Controls in place to mitigate this risk include contracts with hospital and medical service providers, and limits applied to some benefits and ancillary products. The Company also monitors growth in the utilisation and charges for medical services on an ongoing basis to ensure they are within forecast ranges.

Regulatory and capital adequacy risk

The Company is subject to prudential regulation prescribed in the *Private Health Insurance Act 2007,* and administered by the Australian Prudential Regulation Authority (APRA). The prudential regulation includes solvency and capital adequacy requirements that are designed to protect the long-term viability of the Company and the best interest of contributors.

The Company has capital objectives significantly exceeding the solvency and capital adequacy requirements, and utilises the Appointed Actuary for advice in determining an appropriate target capital level for the Company.

26. Key Management personnel compensation

a. Compensation

Details of aggregate compensation for key management personnel are set out below:

		Short-term benefits		Post employment benefit		
	Note	Salary & Fees	PHI Benefit	Super - annuation	Long Service Leave	Total
2016						
Total		1,740,681	4,522	178,467	26,083	1,949,753
2015						
Total		1,657,478	5,649	166,295	14,699	1,844,121

27. Related party transactions

Transactions between related parties are on normal commercial terms and conditions, no more favourable than those available to other parties unless otherwise stated.

Transactions with related parties:

a. Union affiliated organisations where Directors are also members:

	2016	2015
Queensland Independent Education Union (QIEU)		
- Marketing Agreement	27,273	27,273
- Advertising	-	4,455
Queensland Teachers' Union (QTU)		
- Marketing Agreement	53,200	51,009
- Advertising	838	7,250
Queensland Independent Education Union (QIEU)		
- Rental expense for Townsville office	-	1,939
The Union Shopper Inc.		
- Advertising	25,000	13,750
- Commission and sponsorship	1,818	8,950

Sales

Directors who are policy holders have received health fund benefits and made purchases from the Company during the year. These benefits and purchases are on terms and conditions no more favourable than those available to all members.

28. Subsequent events after reporting date

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

29. Members guarantee

The Company is incorporated under the *Corporations Act 2001* and is a company limited by guarantee. If the Company is wound up, each member is required to contribute a maximum of $1.00 each towards meeting outstanding obligations of the Company. As at 30 June 2016, the number of company members who would be liable if the Company was to be wound up is 5,091 (2015: 5,807).

Directors' Declaration
For the year ended 30 June 2016

In the opinion of the Directors of Queensland Teachers' Union Health Fund Limited:

a. the Financial Statements comprising of the Statement of Profit or Loss and Other Comprehensive Income, Statement of Financial Position, Statement of Cash Flows, Statement of Changes in Equity and Accompanying Notes of Queensland Teachers' Union Health Fund Limited are in accordance with the *Corporations Act 2001*, including

   i. giving a true and fair view of its financial position as at 30 June 2016 and of its performance for the financial year ended on that date; and
   ii. complying with Australian Accounting Standards and the Corporations Regulations 2001; and

b. there are reasonable grounds to believe that Queensland Teachers' Union Health Fund Limited will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors.

John Baltams
Chair

Charmaine Twomey
Director

Date: Brisbane, 27 September 2016

BDO

Tel: +61 7 3237 5999
Fax: +61 7 3221 9227
www.bdo.com.au

Level 10, 12 Creek St
Brisbane QLD 4000
GPO Box 457 Brisbane QLD
Australia

INDEPENDENT AUDITOR'S REPORT

To the members of Queensland Teachers' Union Health Fund Limited

Report on the Financial Report

We have audited the accompanying financial report of Queensland Teachers' Union Health Fund Limited, which comprises the statement of financial position as at 30 June 2016, the statement o profit or loss and other comprehensive income, statement of changes in equity and statement of c flows for the year then ended, notes comprising a summary of significant accounting policies and explanatory information, and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that give true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2* and for such internal control as the directors determine is necessary to enable the preparation of financial report that gives a true and fair view and is free from material misstatement, whether d fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducte audit in accordance with Australian Auditing Standards. Those standards require that we comply v relevant ethical requirements relating to audit engagements and plan and perform the audit to ob reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosu the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the financial report that gives a true and fair view in order to design audit procedu that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriate of accounting policies used and the reasonableness of accounting estimates made by the directors well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Queensland Teachers' Union Health Fund Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

(a) the financial report of Queensland Teachers' Union Health Fund Limited is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the company's financial position as at 30 June 2016 and of its performance for the year ended on that date; and

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

BDO Audit Pty Ltd

P A Gallagher
Director

Brisbane, 27 September 2016

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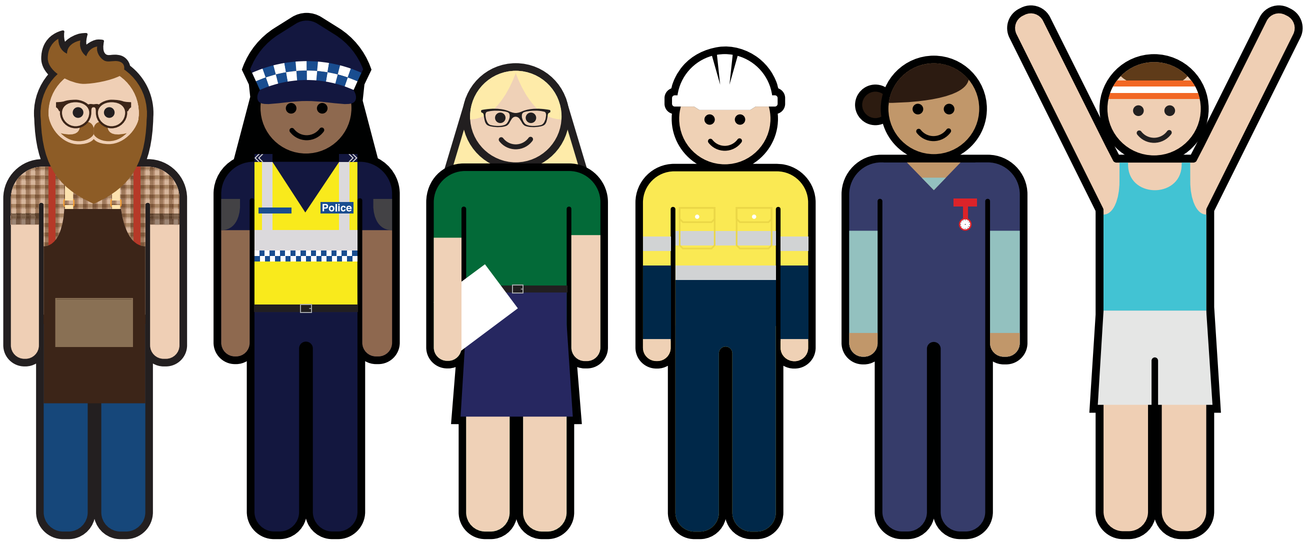

TUH Health Fund
MEMBERS OWN HEALTH FUND

Queensland Teachers' Union Health Fund Ltd

ABN 38 085 150 376

438 St Pauls Terrace
Fortitude Valley
Queensland 4006

PO Box 265
Fortitude Valley
Queensland 4006

Phone: 1300 360 701

Email: enquiries@tuh.com.au

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