



**PHOENIX HEALTH FUND**

**PHOENIX HEALTH FUND LIMITED**

(a company limited by guarantee)

**ABN 93 000 124 863**

**58th  
ANNUAL REPORT  
2011**

**Phoenix Health Fund Limited**  
**(a company limited by guarantee)**

**58th**  
**ANNUAL REPORT**  
**2011**

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The financial report covers Phoenix Health Fund Limited (the Company) as an individual entity.

Phoenix Health Fund Limited is a company limited by guarantee, incorporated and domiciled in Australia.

A description of the nature of the Company's operations and its principal activities is included in the directors' report on pages 4 to 8, which is not part of this financial report.

The financial report was authorised for issue by the directors on 19 September 2011. The Company has the power to amend and reissue the financial report.

**Phoenix Health Fund Limited**  
**(a company limited by guarantee)**

**COMPANY PARTICULARS**

**BOARD MEMBERS:**

Steve Cook (Chairman),  
David Byrnes (Vice Chairman)  
Graeme Bell, John Finch  
Hugh Macdonald, Brett Bancroft,  
Ian Waters

**PUBLIC OFFICER/COMPANY SECRETARY/CHIEF EXECUTIVE OFFICER:**

William Beaton

**FINANCE MANAGER:**

Ross Harland

**SYSTEMS MANAGER:**

Janice Gleeson

**STAFF:**

Carolyn Jones, Joshua King,  
Cathy Logue, Rosemary Yager,  
Pamela Smith, Milly Dugomanov

**AUDITORS:**

PricewaterhouseCoopers  
Chartered Accountants

**APPOINTED ACTUARY:**

KPMG Actuaries Pty Ltd

**MEDICAL REFEREE:**

Dr. R. Kisonas, M.B.,B.S.

**BANKERS:**

Maitland Mutual Building Society Limited

**REGISTERED OFFICE:**

Industrial Drive, Mayfield  
P.O. Box 156, Newcastle 2300  
Phone: (02) 4935 5738, (02) 4935 5741  
Toll Free: 1800 028 817  
Facsimile: (02) 4968 2229  
Website: [www.phoenixhealthfund.com.au](http://www.phoenixhealthfund.com.au)

**INCORPORATION:**

The Company is incorporated and  
domiciled in Australia

**Phoenix Health Fund Limited  
(a company limited by guarantee)**

**NOTICE OF ANNUAL GENERAL MEETING**

Notice is hereby given that the fifty-eighth Annual General Meeting of the above Company will be held on Wednesday 19 October, 2011 commencing at 5.00 p.m. at Ground Floor, PricewaterhouseCoopers Centre, 26 Honeysuckle Drive, Newcastle.

**Approval of previous minutes**

1. Approval of minutes of the fifty-seventh Annual General Meeting of members held on 20 October 2010.

**Financial report and directors' and audit report**

2. Adoption of the annual report for the board and the financial statements for the twelve months ended 30 June 2011.

**Appointment of directors**

3. Election of two (2) Board Members. Messrs Macdonald and Waters retire by rotation, and being eligible, offer themselves for re-election.

**Other business**

4. To transact any other business that may be brought forward in conformity with the Articles of Association of the Company and the Corporations Act 2001.

By order of the Board  
W.G. Beaton, Secretary

**NOMINATION FOR BOARD MEMBER**

Nominations for the position of board member must be lodged with the Secretary not less than three (3) and not more than seven (7) clear days prior to the Annual General Meeting. Nomination forms are available from the Secretary.

**PROXIES**

Members are entitled to appoint a proxy to attend and vote in their stead at the meeting and such proxy need not be a member of the Company.

The proxy form should reach the Company's registered office not less than forty-eight (48) hours before the time for holding the meeting.

**Phoenix Health Fund Limited**  
**(a company limited by guarantee)**

**DIRECTORS' REPORT**

We have much pleasure in presenting the fifty-eighth Annual Report of Phoenix Health Fund Limited (the "Company") covering the financial activities of the organisation for the year ended 30 June 2011.

The Company is incorporated and domiciled in Australia as a company limited by guarantee. In accordance with the Constitution of the Company, every member of the Company undertakes to contribute an amount limited to 10 cents per member in the event of the winding up of the Company during the time they are a member or within one year thereafter.

**Directors**

The following persons were directors of the Company during the whole of the financial year and up to the date of this report:

John Finch	Steve Cook	Graeme Bell
David Byrnes	Hugh Macdonald	Ian Waters
Brett Bancroft	William Beaton	

Ross Harland was a director from the beginning of the financial year until his resignation on 20 September 2010.

**Objectives**

We provide our members with very competitively priced, easy to use products and high quality personalised and flexible service. We build value for our loyal steel industry members while striving to improve their health outcomes. We care about our region's health services.

The strategy for achieving these objectives is to leverage our culture to help us grow and remain focussed on our members. Phoenix Health will continue as a restricted membership mutual fund offering a straight-forward product range.

**Principal activities**

The Company is a Registered Health Insurer providing private health insurance for the employees and ex-employees, including their immediate families, of Tubemakers of Australia Ltd and associated companies.

During the financial year to 30 June 2011, controlled membership growth improved, with an increase in new members of 6.5% offsetting membership lapses of (4.5%). The annual premium rise at 1 April 2011 was limited to 4.43% which was below the industry average. This was supported with excellent member benefits.

The Fund reports on a monthly and quarterly basis to the board on financial and membership performance against board determined targets, and quarterly on financial performance to the regulator, PHIAC.

**Review of operations**

	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
Operating result for the year	968,887	1,999,905

**Finance**

The major items of income and expenditure are summarised in the table below:

	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
Contributions income	21,909,890	20,682,921
Net fund benefits paid plus ambulance levies	19,591,306	18,034,659
Administration expenses	1,937,579	1,533,915
Investment income	864,002	632,180

## DIRECTORS' REPORT (continued)

### Investments

Details of investments as at 30 June 2011 are listed below:

Deposits with financial institutions:	\$
AMP Bank Ltd	1,000,000
Greater Building Society Ltd	1,000,000
Hunter United Employees' Credit Union Ltd	500,000
Bendigo and Adelaide Bank Ltd	950,000
St George Bank	1,000,000
Rural Bank Ltd	1,000,000
Bank of Western Australia Ltd	1,000,000
Suncorp Metway	1,000,000
Bank of Queensland Ltd	1,000,000
Savings & Loans Credit Union	1,000,000
Newcastle Permanent Building Society	1,000,000
ANZ Banking Group Ltd	1,000,000
Macquarie Bank Ltd	1,000,000
	<u>12,450,000</u>

### Membership

Membership statistics as at 30 June 2011:

	Single	Family	Coverage
Basic (Public) Hospital	124	162	651
Top Hospital	1,722	3,483	11,412
Ancillary	1,837	3,649	12,223
YoungSavers	441	31	557

### Significant changes in the state of affairs

The directors are not aware of any significant change in the state of affairs of the Company that occurred during the financial year.

### Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 2011 that has significantly affected, or may significantly affect:

- (a) the Company's operations in future financial years; or
- (b) the results of those operations in future financial years; or
- (c) the Company's state of affairs in future financial years.

### Likely developments and expected results of operations

Further information and likely developments in the operations of the Company and expected results of operations have not been included in this annual report because the directors believe it would be likely to result in unreasonable prejudice to the Company.

### Environmental regulation

The Company has assessed whether there are any particular or significant environmental regulations, which apply to it, and has determined that there are none.

## DIRECTORS' REPORT (continued)

### Information on directors

Director	Experience	Special Responsibilities
Steve Cook GAICD	Director for 5 years	Chairman, Member Audit and Compliance Committee
Graeme Bell B.Comm; MAICD	Director for 8 years	Member Marketing Committee
Hugh Macdonald B.A; GAICD	Director for 26 years	Member Audit and Compliance Committee
Ian Waters	Director for 7 years	Member Audit and Compliance Committee Member Marketing Committee
John Finch	Director for 14 years	
Brett Bancroft B.Comm; B.LI	Director for 4 years	Chairman Audit and Compliance Committee
David Byrnes B.Bus; GAICD	Director for 4 years	Chairman Marketing Committee
William Beaton GAICD	Director for 16 years	Executive Director

### Company Secretary

The Company Secretary is William Beaton GAICD. Mr Beaton was appointed to the position of Company Secretary in 1995, and is the Chief Executive Officer and Public Officer of Phoenix Health Fund Limited.

## DIRECTORS' REPORT (continued)

### Meetings of directors

The numbers of meetings of the Company's board of directors and of each board committee held during the year ended 30 June 2011, and the numbers of meetings attended by each director were:

	Full Meeting of Directors		Audit & Compliance Committee		Marketing Committee	
	A	B	A	B	A	B
John Finch	10	11	*	*	*	*
Ross Harland	3	3	2	2	*	*
Graeme Bell	8	11	*	*	2	4
Hugh Macdonald	8	11	5	6	0	1
Ian Waters	11	11	6	6	2	4
Steve Cook	11	11	4	6	*	*
Brett Bancroft	6	11	6	6	*	*
David Byrnes	11	11	*	*	4	4
William Beaton	10	11	*	*	*	*

A = Number of meetings attended

B = Number of meetings held during the time the director held office or was a member of the committee during the year

\* = Not a member of the relevant committee

Ross Harland resigned as a director and member of the Audit & Compliance Committee on 20 September 2010.

Hugh Macdonald resigned as a member of the Marketing Committee on 15 November 2010.

### Directors' benefits

Since 30 June 2011, no director of the Company has received or become entitled to receive a benefit by reason of a contract made by the Company or a related corporation with the director or with a firm of which he is a member or with a Company in which he has a substantial interest.

The current base fees were reviewed with effect from 1 January 2011 as a result of a change to the constitution at the October 2010 AGM.

Non-executive directors' fees are determined within an aggregate directors' fee pool limit, which is annually adjusted for inflation. The maximum directors' fee pool currently stands at \$100,000 per annum and was approved by members at the annual general meeting on 20 October 2010.

The board resolved to remove retirement allowances for non-executive directors from 1 January 2011. The entitlement as at 31 December 2010 was paid out to directors. Superannuation contributions required under the Australian superannuation guarantee legislation are made and are deducted from the directors' overall fee entitlements.

### Insurance of officers

During the financial year, the Company paid a premium to insure the directors, Company Secretary and manager of the Company.

The liabilities insured are costs and expenses that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the Company.

**DIRECTORS' REPORT (continued)**

**Proceedings on behalf of the Company**

No person has applied to the 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.

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.

**Auditor**

The Auditor, PricewaterhouseCoopers, Chartered Accountants, continue in office in accordance with provisions of Section 327 of the Corporations Act 2001.

**Auditor's independence declaration**

A copy of the Auditor's Independence Declaration as required under section 307C of the Corporations Act 2001 is set out on page 9.

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



Steve Cook  
Director

Mayfield  
19 September 2011

## Auditor's Independence Declaration

As lead auditor for the audit of Phoenix Health Fund Limited for the year ended 30 June 2011, I declare that, to the best of my knowledge and belief, there have been:

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

This declaration is in respect of Phoenix Health Fund Limited during the period.

  
John Campion  
Partner  
PricewaterhouseCoopers

Newcastle  
19 September 2011

**Independent auditor's report to the members of  
Phoenix Health Fund Limited**

**Report on the financial report**

We have audited the accompanying financial report of Phoenix Health Fund Limited (the company), which comprises the balance sheet as at 30 June 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

*Directors' responsibility for the financial report*

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001* and for such internal controls as the directors determine is necessary enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

*Auditor's responsibility*

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

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

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

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

*Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

**Independent auditor's report to the members of  
Phoenix Health Fund Limited (continued)**

*Auditor's opinion*

In our opinion:


- (a) the financial report of Phoenix 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 2011 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the company's financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

*Matters relating to the electronic presentation of the audited financial report*

This auditor's report relates to the financial report of Phoenix Health Fund Limited for the year ended 30 June 2011 included on the Phoenix Health Fund Limited's web site. The company's directors are responsible for the integrity of the Phoenix Health Fund Limited web site. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the financial. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.



PricewaterhouseCoopers

  
John Campion  
Partner

Newcastle  
19 September 2011

**Phoenix Health Fund Limited  
(a company limited by guarantee)**

**DIRECTORS' DECLARATION**

In the directors' opinion:

- (a) the financial statements and notes set out on pages 13 to 37 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  - (ii) giving a true and fair view of the Company's financial position as at 30 June 2011 and of its performance for the financial year ended on that date; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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



Steve Cook  
Director

Mayfield  
19 September 2011

**Phoenix Health Fund Limited**  
(a company limited by guarantee)

**Statement of comprehensive income**  
For the year ended 30 June 2011

	Notes	2011 \$	2010 \$
<b>Premium revenue</b>	5	<b>21,909,890</b>	20,682,921
Member benefits		<b>(21,554,416)</b>	(19,614,582)
Risk Equalisation Trust Fund levy		<b>2,177,402</b>	1,792,013
State levies		<b>(214,292)</b>	(212,090)
Claims handling expenses	6	<b>(860,077)</b>	(691,250)
<b>Net claims incurred</b>		<b>(20,451,383)</b>	(18,725,909)
<b>Net movement in unexpired risk liability</b>		<b>(285,000)</b>	242,000
Acquisition costs	6	<b>(152,060)</b>	(72,890)
Underwriting expenses	6	<b>(925,442)</b>	(769,775)
<b>Underwriting result</b>		<b>96,005</b>	1,356,347
Investment income	5	<b>864,002</b>	632,180
Other income	5	<b>8,880</b>	11,378
<b>Profit before income tax</b>		<b>968,887</b>	1,999,905
Income tax expense	1(g)	-	-
<b>Profit for the year</b>		<b>968,887</b>	1,999,905
Other comprehensive income for the year		-	-
<b>Total comprehensive income for the year attributable to members</b>	16	<b>968,887</b>	1,999,905

*The above statement of comprehensive income should be read in conjunction with the accompanying notes.*

**Phoenix Health Fund Limited**  
(a company limited by guarantee)

**Balance sheet**  
As at 30 June 2011

	Notes	2011 \$	2010 \$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	7	4,264,520	4,494,356
Receivables	8	2,174,905	1,793,635
Financial assets at fair value through profit or loss	9	12,450,000	11,100,000
		<u>18,889,425</u>	<u>17,387,991</u>
<b>Non-current assets</b>			
Plant and equipment	10	54,733	30,721
		<u>54,733</u>	<u>30,721</u>
<b>Total assets</b>		<u>18,944,158</u>	<u>17,418,712</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Payables	11	194,532	167,129
Outstanding claims liability	12	1,457,000	1,346,000
Unearned premium liability	13	2,644,602	2,530,297
Unexpired risk liability	14	513,000	228,000
Provisions for employee entitlements	15	237,200	204,753
		<u>5,046,334</u>	<u>4,476,179</u>
<b>Non-current liabilities</b>			
Provisions for employee entitlements	15	-	13,596
		<u>-</u>	<u>13,596</u>
<b>Total liabilities</b>		<u>5,046,334</u>	<u>4,489,775</u>
<b>Net assets</b>		<u>13,897,824</u>	<u>12,928,937</u>
<b>Equity</b>			
Retained profits	16	13,897,824	12,928,937
		<u>13,897,824</u>	<u>12,928,937</u>
<b>Total equity</b>		<u>13,897,824</u>	<u>12,928,937</u>

*The above balance sheet should be read in conjunction with the accompanying notes.*

**Phoenix Health Fund Limited**  
**(a company limited by guarantee)**

**Statement of changes in equity**  
For the year ended 30 June 2011

	Notes	Retained profits \$	Total equity \$
<b>Balance at 1 July 2009</b>		10,929,032	10,929,032
Total comprehensive income for the year	<b>16</b>	1,999,905	1,999,905
<b>Balance at 30 June 2010</b>	<b>16</b>	<u>12,928,937</u>	<u>12,928,937</u>
Total comprehensive income for the year	<b>16</b>	<b>968,887</b>	<b>968,887</b>
<b>Balance at 30 June 2011</b>	<b>16</b>	<u><b>13,897,824</b></u>	<u><b>13,897,824</b></u>

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

**Phoenix Health Fund Limited**  
(a company limited by guarantee)

**Statement of cash flows**  
For the year ended 30 June 2011

	Notes	2011 \$	2010 \$
<b>Cash flows from operating activities</b>			
Receipts from policyholders and customers (inclusive of goods and services tax)		21,406,058	21,076,410
Payments to members, suppliers and employees (inclusive of goods and services tax)		(22,957,969)	(21,492,144)
Risk Equalisation Trust Fund levy received		1,907,599	1,752,578
<b>Net cash inflow (outflow) from operating activities</b>	<b>19</b>	<b>355,688</b>	<b>1,336,844</b>
<b>Cash flows from investing activities</b>			
Payments for fixed interest securities		(12,450,000)	(11,100,000)
Proceeds from sale of fixed interest securities		11,100,000	9,100,000
Payments for plant and equipment		(60,273)	(15,414)
Interest received		824,749	560,071
<b>Net cash (outflow) inflow from investing activities</b>		<b>(585,524)</b>	<b>(1,455,343)</b>
<b>Net (decrease) increase in cash and cash equivalents</b>		<b>(229,836)</b>	<b>(118,500)</b>
Cash and cash equivalents at the beginning of the financial year	7	4,494,356	4,612,856
<b>Cash and cash equivalents at end of year</b>	<b>7</b>	<b>4,264,520</b>	<b>4,494,356</b>

*The above cash flow statement should be read in conjunction with the accompanying notes.*

**Phoenix Health Fund Limited**  
**Notes to the financial statements**

For the year ended 30 June 2011

**Note 1. Summary of significant accounting policies**

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

**(a) Basis of preparation**

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

*(i) Compliance with IFRS*

The financial statements of Phoenix Health Fund Limited (the Company) also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

*(ii) Historical cost convention*

These financial statements have been prepared under the historical cost convention with certain exceptions as described in the accounting policies below.

*(iii) Critical accounting estimates*

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

**(b) Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer of the Fund.

**(c) Functional and presentation currency**

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Australia dollars, which is Phoenix Health Fund Limited's functional and presentation currency.

**(d) Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of amounts collected on behalf of third parties.

The Company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Company's activities as described below. The Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised for the major business activities as follows:

*(i) Premium revenue*

Premium revenue comprises premiums from private health insurance contracts held by policyholders.

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.

**Note 1. Summary of significant accounting policies (continued)**

The proportion of the premium received or receivable not earned in profit or loss at the reporting date is recognised in the balance sheet as unearned premium liability.

Premiums on unclosed business are brought to account using estimates based on payment cycles nominated by the policyholder.

*(ii) Investment income*

Net fair value gains or losses on financial assets classified as at fair value through profit or loss is recognised in profit or loss of the period.

*(iii) Other revenue*

Revenue from the sale of goods is net of returns, discounts and other allowances and is recognised when control of the goods passes to the customer.

**(e) Unexpired risk liability**

At each reporting date the adequacy of the unearned premium liability is assessed by considering current estimates of all expected future cash flows relating to future claims against current 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 liability is deemed to be deficient. The Company applies a risk margin to achieve the same probability of sufficiency for future claims as is achieved by the estimate of the outstanding claims liability, refer note 1(f).

The entire deficiency is recognised immediately in profit or loss and recorded in the balance sheet as an unexpired risk liability.

**(f) Outstanding claims liability**

The liability for outstanding claims is measured as the central estimate of the present value of expected future payments against claims incurred at the reporting date under insurance contracts issued by the Company, with an additional risk margin to allow for the inherent uncertainty in the central estimate.

The expected future payments include those in relation to claims reported but not yet paid and claims incurred but not yet reported, together with allowances for Risk Equalisation Trust Fund consequences and claims handling expenses.

**(g) Income tax**

The Company is exempt from income tax under Section 50-30 of the Income Tax Assessment Act (1997) and as a result there is no income tax payable.

**(h) Risk equalisation and other recoveries receivable**

Risk Equalisation Trust Fund receivables on paid claims are recognised as revenue and disclosed in net claims incurred.

**(i) Impairment of assets**

Goodwill and intangible assets that have an indefinite useful life and are not subject to amortisation are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting date.

## **Note 1. Summary of significant accounting policies (continued)**

### **(j) Assets backing general insurance liabilities**

As part of its investment strategy the Company actively manages its investment portfolio to ensure that investments mature in accordance with the expected pattern of future cash flows arising from general insurance liabilities.

With the exception of plant and equipment, the Company has determined that all assets are held to back general insurance liabilities and their accounting treatment is described below:

#### *(i) Financial assets at fair value through profit or loss*

Financial assets are designated at fair value through profit or loss. Initial recognition is at fair value, being acquisition cost, in the balance sheet and subsequent measurement is at fair value with any resultant fair value gains or losses recognised in profit or loss.

Details of fair value for the different types of financial assets are listed below:

- Cash and cash equivalents are carried at face value of the amounts deposited. The carrying amounts of cash assets approximate to their fair value. For the purposes of the cash flow statement, cash includes cash on hand and deposits held at call with financial institutions;
- Fixed interest securities are recognised at fair value, being the initial acquisition cost.

#### *(ii) Receivables*

Amounts due from policyholders are initially recognised at fair value, being the amounts due. They are subsequently measured at fair value which is approximated to by taking the initially recognised amount and reducing it for impairment as appropriate.

A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows. The impairment charge is recognised in profit or loss.

### **(k) Cash and cash equivalents**

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

### **(l) Trade receivables other than those included in assets backing private health insurance liabilities**

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment.

Collectability of trade and other receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment) is used where there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables.

The amount of the impairment loss is recognised in profit or loss. When a receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are recognised in profit or loss.

### **(m) Depreciation**

Depreciation is calculated on a straight line basis to write off the net cost or revalued amount of each item of plant and equipment over its expected useful life to the Company. All plant and equipment assets having a cost of less than \$1,000 are depreciated in full in the year of purchase. All other items of plant and equipment are written off over a three year period.

**Note 1. Summary of significant accounting policies (continued)**

**(n) Plant and equipment**

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to profit or loss during the financial period in which they are incurred.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount of the asset and are included in profit or loss.

**(o) Trade and other payables**

These amounts represent liabilities for goods and services provided to the Company prior to the end of the financial year and which are unpaid. These amounts are usually paid within 30 days of recognition.

**(p) Employee benefits**

*(i) Short-term obligations*

Liabilities for wages and salaries, including non-monetary benefits, annual leave expected to be settled within 12 months of the reporting date and superannuation are recognised in payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rate paid or payable.

*(ii) Other long-term employee benefit obligations*

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

**(q) Goods and Services Tax (GST)**

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

Receivables and payables are stated inclusive of the amount of GST recoverable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

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

**Phoenix Health Fund Limited**  
**Notes to the financial statements**  
For the year ended 30 June 2011

**Note 1. Summary of significant accounting policies (continued)**

**(r) New accounting standards and interpretations**

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2011 reporting periods. The Company's assessment of the impact of these new standards and interpretations is set out below.

The following new standards and amendments are not expected to have a material impact on the company's financial statements:

<b>Title of standard</b>	<b>Issue date</b>	<b>Application date</b>
AASB 9 <i>Financial Instruments</i> and AASB 2009-11 <i>Amendments to Australian Accounting Standards arising from AASB 9</i> [AASBs 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12]	December 2009	1 January 2013
Revised AASB 124 <i>Related Party Disclosures</i> and AASB 2009-12 <i>Amendments to Australian Accounting Standards</i> [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052]	December 2009	1 January 2011
AASB 2009-14 <i>Amendments to Australian Interpretation - Prepayments of a Minimum Funding Requirement</i>	December 2009	1 January 2011
AASB 1053 <i>Application of Tiers of Australian Accounting Standards</i> and AASB 2010-2 <i>Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements</i>	July 2010	1 July 2013
AASB 2010-4 <i>Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project</i> [AASBs 1, 7, 101 & 134 and Interpretation 13]	July 2010	1 January 2011
AASB 2010-5 <i>Amendments to Australian Accounting Standards</i> [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042]	October 2010	1 January 2011
AASB 2010-6 <i>Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets</i> [AASB 1 & AASB 7]	November 2010	1 July 2011
Revised AASB 9 <i>Financial Instruments</i> (addressing accounting for financial liabilities and the derecognition of financial assets and financial liabilities) and AASB 2010-7 <i>Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)</i>	December 2010	1 January 2013
IFRS 13 <i>Fair value measurement</i>	May 2011	1 January 2013
Revised IAS 19 <i>Employee Benefits</i>	June 2011	1 January 2013
Revised IAS 1 <i>Presentation of Financial Statements</i>	June 2011	1 July 2012
AASB 2011-4 <i>Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements.</i>	July 2011	1 July 2013

## **Note 2. Critical accounting judgements and estimates**

No critical accounting judgements have been made in the year.

Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key areas in which critical estimates are applied are described below.

### **The ultimate liability arising from claims made under insurance contracts**

Provision is made at the year 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 insurance contracts issued by the Company. The expected future payments include those in relation to claims reported but not yet paid and claims incurred but not yet reported. This 'central estimate' of outstanding claims is an estimate which is intended to contain no intentional over or under estimation. For this reason the inherent uncertainty in the central estimate must also be considered and a risk margin is added. The estimated cost of claims includes allowances for Risk Equalisation Trust Fund (RETF) consequences and claims handling expenses.

The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

In calculating the estimated cost of unpaid claims the Company uses estimation techniques based upon statistical analysis of historical experience. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims, including changes in the Company processes which might accelerate or slow down the development and / or recording of paid or incurred claims, compared with the statistics from previous years.

The calculation did not take account of any actual post balance date claims.

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 central estimate is calculated gross of any risk equalisation recoveries. A separate estimate is made of the amounts that will be recoverable from or payable to the RETF based upon the gross provision.

Details of specific assumptions used in deriving the outstanding claims liability at year end are detailed in note 3.

**Note 3. Actuarial assumptions and methods**

**a) Outstanding claims provision**

**Actuarial methods**

The outstanding claims estimate is derived based on three valuation classes, namely Hospital services, Medical services, and General 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.

**Actuarial assumptions**

The following is the assumed outstanding claims by service month as a percentage of total incurred claims by service month, before allowance for expenses and risk equalisation pool receipts, but after allowance for manual adjustments:

<b>Service month</b>	<b>2011 Hospital</b>	<b>2011 Medical</b>	<b>2011 General</b>	<b>2010 Hospital</b>	<b>2010 Medical</b>	<b>2010 General</b>
Current month	61.1%	52.1%	25.4%	67.8%	67.7%	24.2%
Current month less 1	14.7%	17.6%	4.6%	12.5%	17.3%	8.3%
Current month less 2	5.3%	4.3%	4.8%	2.9%	7.7%	5.0%
Current month less 3	2.1%	3.7%	3.4%	1.4%	4.6%	3.5%
Current month less 4	1.5%	2.3%	2.6%	1.2%	2.9%	2.6%
Current month less 5	0.8%	1.4%	2.0%	0.8%	1.8%	2.0%
Current month less 6	0.4%	1.1%	1.6%	0.5%	1.4%	1.6%
Current month less 7	0.3%	0.7%	1.3%	0.3%	0.9%	1.2%
Current month less 8	0.3%	0.5%	1.1%	0.1%	0.7%	1.0%
Current month less 9	0.3%	0.4%	0.8%	0.1%	0.5%	0.8%
Current month less 10	0.2%	0.2%	0.7%	0.1%	0.4%	0.6%
Current month less 11	0.2%	0.2%	0.5%	0.1%	0.3%	0.5%

The following is the assumed manual adjustments which are incorporated in the Current month, Current month less 1 and Current month less 2 results in the above table.

<b>Manual adjustments</b>	<b>2011 Hospital</b>	<b>2011 Medical</b>	<b>2011 General</b>	<b>2010 Hospital</b>	<b>2010 Medical</b>	<b>2010 General</b>
	(\$220,000)	(\$45,000)	0	(\$248,000)	(\$62,000)	0

The risk margin of 9.0% (2010: 9.0%) of the underlying liability has been estimated to equate to a probability of adequacy of approximately 75% (2010: 75%).

Claims handling expenses were calculated by reference to past experience of total management expenses as a percentage of past payments with the assumption that 50% of total management expenses relate to claims handling expenses. The adopted rate was 4.2% (2010: 4.3%).

The business written by the Company is short tail in nature. Based on historic experience, approximately 75% of outstanding claims are paid within two months of balance date; for this reason, expected future payments are not discounted.

In determining the outstanding claims by service month as a percentage of total incurred claims by service month, the chain ladder method was applied to cumulative paid development separately by hospital, medical and general benefits.

Manual adjustments are then made for reasonableness, (where necessary), to the Current month, Current month less 1 and Current month less 2 results. These adjustments are made by calculating the average incurred benefit per Single Equivalent Unit, (SEU) and per SEU per working day for each month and graphing the results for the past four years. The seasonality exhibited by the table is reasonably consistent from year to year, with each year's table showing an increase in incurred benefits from the previous year. Based on these tables, manual adjustments were made to the chain ladder results to derive the total monthly incurred benefits and hence the outstanding claims provision.

**Note 3. Actuarial assumptions and methods (continued)**

**Sensitivity analysis – insurance contracts**

*i) Summary*

The Company conducts sensitivity analyses to quantify the exposure to risk of changes in the key underlying variables. The valuations included in the reported results are calculated using certain assumptions about these variables as disclosed above. The movement in any key variable will impact the performance and equity of the Company. The tables below describe how a change in each variable will affect the insurance liabilities.

<b>Variable</b>	<b>Impact of movement in variable</b>
Assumed outstanding claims by service month as a percentage of total incurred claims by service month	An increase, (decrease), in the assumed outstanding claims by service month as a percentage of total incurred claims by service month would result in an increase, (decrease), in claims expense.
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.

*ii) Impact of changes in key variables*

	<b>Profit</b>	<b>Equity</b>
	<b>\$</b>	<b>\$</b>
Recognised amounts per the financial statements	968,887	13,897,824

<b>Variable</b>	<b>Movement in variable</b>	<b>Adjusted amounts</b>	
Assumed outstanding claims by service month as a percentage of total incurred claims by service month	+1%	1,162,887	14,091,824
	-1%	774,887	13,703,824
Expense rate	+1%	982,887	13,911,824
	-1%	954,887	13,883,824

**b) Unexpired risk liabilities**

An assessment is made as to whether an unexpired risk liability is required to be brought to account on an annual basis. This involves assessing the profitability of future cash flows by considering trends in claiming, membership growth, mix of products and other factors. As for the year ended 30 June 2010, the adequacy for the year ended 30 June 2011 was tested for hospital and ancillary contracts as single portfolio.

Where the resultant future loss ratio, which represents the combined claims and expense ratios, is expected to exceed 100%, an unexpired risk liability is brought to account. The claims ratio for this purpose includes a risk margin of 3% (2010: 3%) added to the central estimate, in order to provide a 75% (2010: 75%) probability of adequacy. On this basis an unexpired risk of \$513,000 is required this year (2010: \$228,000). Refer note 14.

#### **Note 4. Private Health Insurance contracts - risk management policies and procedures**

The financial condition and operation of the Company is affected by a number of key financial risks including insurance risk, interest rate risk, credit risk, market risk and liquidity risk. Notes on the Company's policies and procedures in respect of managing these risks are set out below.

##### **(a) Objectives in managing risks arising from insurance contracts and policies for mitigating those risks**

The Company manages risk by:

- establishing an Audit and Compliance Committee to assist the Board in the execution of its responsibilities;
- maintaining a robust risk management framework;
- the application of standards for solvency and capital adequacy legislated under division 140 and 143 of the Private Health Insurance Act 2007; and
- the Company's internal policies and procedures designed to mitigate such risks.

The responsibilities of the Audit and Compliance Committee include:

- reviewing the annual reports and other financial information distributed externally;
- assisting the Board to review the effectiveness of the Company's system of internal control;
- monitoring the risk management system;
- monitoring the activities of the internal audit function; and
- reviewing the nomination and performance of the external auditor.

The Board, both directly and through the Audit and Compliance Committee, and senior management of the Company have developed, implemented and maintain a sound and prudent Risk Management Framework (RMF). The RMF identifies the Company's policies, procedures and controls that comprise its risk management and control systems. These systems address all material risks, financial and non financial, likely to be faced by the Company.

Annually, the Company, as a Registered Health Benefits Organisation certifies to the Private Health Insurance Administration Council (PHIAC) that;

- the organisation has referred to the Australian Standard for Risk Management (AS/NZ 4360) as an accepted measure of appropriate risk management processes;
- the Board has approved the risk management system in place and understands its contents;
- the risk management system in place has been formulated from a framework for establishing the context, identification, analysis, evaluation treatment, monitoring and communication of risk;
- the system in place includes comprehensive written policies and procedures and adequate control systems to measure, monitor and manage risk;
- the Board reviews the policies and procedures, at least annually, to assess their implementation, effectiveness, and to endorse them;
- the Board receives regular reports on the operation of the risk management system and is satisfied with the level of adherence to those policies and procedures; and
- the Board has ensured that there has been, at all times, appropriate Director's and Officer's insurance cover in place.

The solvency and capital adequacy standards are established under the Private Health Insurance Act 2007 (The Act), and are an integral component of the prudential reporting and management regime for registered health benefits organisations under the Act.

These standards impose a two tier capital requirement on private health insurers with each tier considering the capital requirements in a different set of circumstances.

The first tier – solvency – is intended to ensure the basic solvency of the fund (that is, the unlikely event of a wind-up); at any time on a run-off view, the fund's financial position is such that the insurer will be able to meet out of the fund's assets, all liabilities incurred for the purposes of the fund, as those liabilities fall due.

The second tier – capital adequacy – is intended to ensure the financial soundness of the health benefits fund on a going concern basis, in particular its ability to remain solvent for at least the upcoming three years. It is expected that in most circumstances this second tier will provide an additional buffer of capital above the minimum solvency requirement.

**Note 4. Private Health Insurance contracts – risk management policies and procedures  
(continued)**

**(b) Insurance risk**

The provision of private health insurance in Australia is governed by the Private Health Insurance Act 2007 (The Act) which is premised on the fundamental principles of community rating and risk equalisation.

Community rating is the principle which prevents private health insurers from discriminating between people on the basis of their health status, age, race, sexuality, the frequency that a person needs treatment or claims history. The 'principles of community rating' are referred to in The Act.

Risk equalisation supports the principle of community rating. Private health insurance averages out the cost of hospital treatment across the industry. The risk equalisation scheme transfers money from private health insurers with lower average claims payments, to those insurers with higher average claim payments.

The Act also limits the types of treatments that private health insurers are able to offer as part of their health insurance business, and limits the volatility of premiums by allowing changes to premiums only with the approval of the Minister.

**(c) Credit risk**

Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposures to policyholders, Medicare Australia (Health Insurance Contribution (HIC) rebate), the Risk Equalisation Trust Fund pool, (RETF) and GST receivable.

The maximum exposure to credit risk at balance date is the carrying amount, net of any provisions for impairment loss, as disclosed in the balance sheet and notes to the financial statements. The Company does not have any material credit risk to any single debtor or group of debtors under financial instruments entered into.

Credit risk arising from cash and cash equivalents and deposits with banks and financial institutions is managed in accordance with the Company's investment policy which is set and approved by the Board. Monies are only invested in recognised financial institutions, (Approved Deposit Institutions, "ADIs"). Only independently rated parties with a short term issuer credit rating of A-3 or higher, or long term issuer credit rating of BBB- or higher or non-rated entities where deposits are covered under the Australian Government Guarantee Scheme for Large Deposits and Wholesale Funding, introduced in November 2008 are accepted. The Company's investment policy imposes limits on the proportion of invested monies that may be invested with any one institution, thereby minimising concentration risk.

Credit risk for premium receivables is minimal due to the diversification of policyholders. The HIC rebate and GST receivable are due from government organisations under legislation. Credit risk for RETF recoveries ultimately relates to the risk of default from other private health insurance organisations that participate in the RETF pool. These organisations operate within the same regulatory environment as the Company.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

**Note 4. Private Health Insurance contracts – risk management policies and procedures  
(continued)**

**(c) Credit risk (continued)**

	2011 \$	2010 \$
<b>Other receivables</b>		
<i>Counterparties without external credit rating*</i>		
<b>Group 1</b>	-	-
<b>Group 2</b>	23,521	23,334
<b>Group 3</b>	-	-
<b>Total other receivables</b>	<b>23,521</b>	<b>23,334</b>
*Group 1 – new debtors (less than 6 months)		
Group 2 – existing debtors (more than 6 months) with no defaults in the past		
Group 3 – existing debtors (more than 6 months) with some defaults in the past		
<b>Cash and cash equivalents</b>		
<b>A</b>	1,536,723	860,416
<b>Unclassified</b>	2,726,697	3,633,140
<b>Total cash and cash equivalents</b>	<b>4,263,420</b>	<b>4,493,556</b>
<b>Financial assets at fair value through profit or loss</b>		
<b>AA</b>	3,000,000	2,000,000
<b>A</b>	3,000,000	2,600,000
<b>BBB</b>	4,950,000	3,950,000
<b>Unclassified</b>	1,500,000	2,550,000
<b>Total financial assets at fair value through profit or loss</b>	<b>12,450,000</b>	<b>11,100,000</b>

**Note 4. Private Health Insurance contracts – risk management policies and procedures  
(continued)**

**(d) Liquidity risk**

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close-out market positions. The Company manages liquidity risk by continuously monitoring forecast and actual cash flows and holds a high percentage of highly liquid investments.

The Company does not have any borrowings or other debt obligations. There are no overdraft facilities.

*Maturities of financial liabilities*

The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 3 months	3 – 12 months	1 – 5 years	Greater than 5 years	Total contractual cash flows	Carrying amount
	\$	\$	\$	\$	\$	\$
<b>30 June 2011</b>						
<b>Trade and other payables</b>	114,748	-	-	-	114,748	114,748
<b>30 June 2010</b>						
<b>Trade and other payables</b>	70,111	-	-	-	70,111	70,111

**(e) Market risk**

The Company's exposure to market risk arises from interest rate risk. The Company does not have borrowings. The Company's interest rate risks arise from cash and cash equivalents and financial assets at fair value through profit or loss. Receivables are non-interest bearing. The cash balance is subject to a floating interest rate. Interest rate risk arising from cash and cash equivalents is managed through the regular monitoring of cash balances and the investment of surplus funds in other permitted investments. Interest rate risk arising from financial assets at fair value through profit or loss is managed in accordance with the Company's investment policy which establishes exposure limits for each type of financial asset and which permits investment only in term deposits, reflecting the Board's risk averse approach to market risk.

*Summarised sensitivity analysis*

The table below summarises the sensitivity of the Company's financial assets and financial liabilities to interest rate risk.

*Methods and assumptions used in preparing sensitivity analysis:*

The post-tax effect on profit and equity of movements in interest rate has been calculated using 'reasonably possible' changes in the risk variables, based on recent interest rate and market movements.

*Interest rate and price change assumptions*

An interest rate change of 100 basis points will directly affect interest received on cash and cash equivalents. The financial assets at fair value through profit or loss comprise term deposits with fixed rates of interest applying for the duration of the deposit. Therefore the Company is exposed to interest rate risk to the extent that the term deposits will mature and be re-invested at rates prevailing at the maturity dates.

**Note 4. Private Health Insurance contracts – risk management policies and procedures  
(continued)**

**(e) Market risk (continued)**

	Carrying amount	Interest rate risk			
		-100bps		+100bps	
		Profit	Equity	Profit	Equity
	\$	\$	\$	\$	\$
<b>30 June 2011</b>					
Cash and cash equivalents	4,264,520	(42,645)	(42,645)	42,645	42,645
Financial assets at fair value through profit or loss	12,450,000	(124,500)	(124,500)	124,500	124,500
<b>Total</b>	<b>16,714,520</b>	<b>(167,145)</b>	<b>(167,145)</b>	<b>167,145</b>	<b>167,145</b>
<b>30 June 2010</b>					
Cash and cash equivalents	4,494,356	(44,944)	(44,944)	44,944	44,494
Financial assets at fair value through profit or loss	11,100,000	(111,000)	(111,000)	111,000	111,000
<b>Total</b>	<b>15,594,356</b>	<b>(155,944)</b>	<b>(155,944)</b>	<b>155,944</b>	<b>155,944</b>

**Phoenix Health Fund Limited**  
**Notes to the financial statements**

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**(f) Fair value estimation**

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

AASB7 Financial Instruments requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- (a) Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- (b) Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2); and
- (c) Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The following tables present the company's assets and liabilities measured and recognised at fair value.

<b>As at 30 June 2011</b>	<b>Level 1 (\$)</b>	<b>Level 2 (\$)</b>	<b>Level 3 (\$)</b>	<b>Total (\$)</b>
<b>Assets</b>				
Financial assets at fair value through profit or loss Fixed interest securities	12,450,000	-	-	12,450,000
<b>Total assets</b>	<b>12,450,000</b>	<b>-</b>	<b>-</b>	<b>12,450,000</b>
<b>As at 30 June 2010</b>	<b>Level 1 (\$)</b>	<b>Level 2 (\$)</b>	<b>Level 3 (\$)</b>	<b>Total (\$)</b>
<b>Assets</b>				
Financial assets at fair value through profit or loss Fixed interest securities	11,100,000	-	-	11,100,000
<b>Total assets</b>	<b>11,100,000</b>	<b>-</b>	<b>-</b>	<b>11,100,000</b>

**Phoenix Health Fund Limited**  
**Notes to the financial statements**  
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**Note 5. Revenue**

	2011	2010
	\$	\$
Premium revenue	21,909,890	20,682,921
Investment income		
- Interest income	864,002	632,180
Sundry income	8,880	11,378
	<u>22,782,772</u>	<u>21,326,479</u>

**Note 6. Underwriting and other operating expenses**

	2011	2010
	\$	\$
<b>Expenses by function</b>		
Claims handling expenses	860,077	691,250
Acquisition costs	152,060	72,890
Underwriting expenses	925,442	769,775
<b>Total expenses (excluding direct claims expense)</b>	<u>1,937,579</u>	<u>1,533,915</u>
<b>Expenses by nature</b>		
Depreciation	36,260	35,746
Employee costs	937,733	721,431
Other expenses	963,586	776,738
<b>Total expenses (excluding direct claims expense)</b>	<u>1,937,579</u>	<u>1,533,915</u>

**Note 7. Current assets – Cash and cash equivalents**

	2011	2010
	\$	\$
Cash at bank and on hand	2,570,062	3,033,782
Deposits at call	1,694,458	1,460,574
	<u>4,264,520</u>	<u>4,494,356</u>

**(a) Risk exposure**

The Company's exposure to interest rate risk is discussed in note 4. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of cash and cash equivalents mentioned above.

**Note 8. Current assets - Receivables**

	2011	2010
	\$	\$
Premiums receivable	252,039	244,392
30% rebate scheme	875,409	832,227
75% Medicare refund	63,598	46,745
Risk Equalisation Trust Fund levy receivable	678,422	408,619
Accrued interest on investments	277,571	238,318
Other receivables	27,866	23,334
	<u>2,174,905</u>	<u>1,793,635</u>

**Note 8. Current assets - Receivables (continued)**

**(a) Impaired receivables**

As at 30 June 2011 there were no current receivables which fall within the scope of AASB 7 and which were impaired.

**(b) Past due but not impaired receivables**

As at 30 June 2011 there were no current receivables which fall within the scope of AASB 7 and which were past due but not impaired.

**(c) Interest rate risk**

The Company's exposure to interest rate risk is discussed in note 4.

**(d) Fair value and credit risk**

Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair value. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above. Refer to note 4 for more information on the risk management policy of the Company and the credit quality of the Company's receivables.

**Note 9. Current assets - Financial assets at fair value through profit or loss**

	2011	2010
	\$	\$
Interest-bearing securities	<b>12,450,000</b>	11,100,000

**(a) Risk exposure**

The Company's exposure to interest rate risk is discussed in note 4. The maximum exposure to credit risk at the reporting date is the carrying amount of interest-bearing securities mentioned above.

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**Note 10. Non-current assets - Plant and equipment**

	Furniture, fittings & equipment \$	Total \$
<b>At 1 July 2009</b>		
Cost or fair value	189,783	189,783
Accumulated depreciation	(138,729)	(138,729)
Net book amount	<u>51,054</u>	<u>51,054</u>
<b>Year ended 30 June 2010</b>		
Opening net book amount	51,054	51,054
Additions	15,414	15,414
Disposals	(15,750)	(15,750)
Depreciation charge	(35,746)	(35,746)
Depreciation write back for disposals	15,749	15,749
Closing net book amount	<u>30,721</u>	<u>30,721</u>
<b>At 30 June 2010</b>		
Cost or fair value	189,447	189,447
Accumulated depreciation	(158,726)	(158,726)
Net book amount	<u>30,721</u>	<u>30,721</u>
<b>Year ended 30 June 2011</b>		
Opening net book amount	30,721	30,721
Additions	60,273	60,273
Disposals	(29,933)	(29,933)
Depreciation charge	(36,260)	(36,260)
Depreciation write back for disposals	29,932	29,932
Closing net book amount	<u>54,733</u>	<u>54,733</u>
<b>At 30 June 2011</b>		
Cost or fair value	219,787	219,787
Accumulated depreciation	(165,054)	(165,054)
Net book amount	<u>54,733</u>	<u>54,733</u>

**Note 11. Current liabilities – Payables**

	2011 \$	2010 \$
Trade and other payables	114,747	70,111
Annual leave payable	79,785	97,018
	<u>194,532</u>	<u>167,129</u>

**(a) Amounts not expected to be settled within the next 12 months**

Annual leave payable is accrued annual leave. The entire amount is presented as current since the Company does not have an unconditional right to defer settlement. However, based on past experience, the Company does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months. The following amounts reflect leave that is not expected to be taken within the next 12 months.

	2011 \$	2010 \$
Annual leave obligation expected to be settled after 12 months	<u>34,525</u>	45,975

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**Note 12. Current liabilities - Outstanding claims liability**

	2011	2010
	\$	\$
<b>(a) Outstanding claims liability</b>		
Outstanding claims liability	<u>1,457,000</u>	1,346,000
The outstanding claims liability comprises the following components:		
Outstanding claims – central estimate of the expected future payments for claims incurred	1,428,000	1,313,000
Claims handling costs	54,292	56,459
Risk margin	133,586	118,170
<b>Gross outstanding claims liability</b>	<u>1,615,878</u>	1,487,629
Outstanding claims – expected receivable from the RETF in relation to the central estimate	(145,760)	(129,935)
Risk margin	(13,118)	(11,694)
<b>Net outstanding claims liability</b>	<u>1,457,000</u>	1,346,000
Current	1,457,000	1,346,000
Non-current	-	-
<b>Total</b>	<u>1,457,000</u>	1,346,000

**(b) Risk margin**

The risk margin of 9.0% (2010: 9.0%) of the underlying liability has been estimated to equate to a probability of adequacy of 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 outstanding claims estimate is derived based on 3 product classes, namely Hospital services, Medical services, and Ancillary 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. The calculation did not take account of any actual post balance date claims.

The business written by the Company is short tail in nature. Based on historic experience, approximately 75% of outstanding claims are paid within 2 months of balance date. For this reason, expected future payments are not discounted.

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**Note 13. Current liabilities - Unearned premium liability**

	2011	2010
	\$	\$
Unearned premium liability as at 1 July	2,530,297	2,209,581
Deferral of premiums on contracts written in the period	2,644,602	2,530,297
Earning of premiums written in previous periods	<u>(2,530,297)</u>	<u>(2,209,581)</u>
<b>Unearned premium liability as at 30 June</b>	<b><u>2,644,602</u></b>	<b><u>2,530,297</u></b>

**Note 14. Current liabilities - Unexpired risk liability**

	2011	2010
	\$	\$
<b>(a) Unexpired risk liability</b>		
Unexpired risk liability as at 1 July	228,000	470,000
Recognition of (decrease) in unexpired risk liability in the period	285,000	(242,000)
<b>Unexpired risk liability as at 30 June</b>	<b><u>513,000</u></b>	<b><u>228,000</u></b>

**(b) Movement recognised in the statement of comprehensive income**

<b>Net movement in unexpired risk liability</b>	<b><u>(285,000)</u></b>	<b><u>242,000</u></b>
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A risk margin of 3.0% (2010: 3.0%) has been applied in the calculation of the unexpired risk liability as at 30 June 2011. The process for determining the overall risk margin is discussed in Note 3. As with outstanding claims, the overall risk margin is intended to achieve a 75% probability of adequacy.

**Note 15. Provisions for employee entitlements**

	2011	2010
	\$	\$
<b>Current</b>		
Long service leave	237,200	196,517
Directors' benefits	-	8,236
	<b><u>237,200</u></b>	<b><u>204,753</u></b>

**(a) Amounts not expected to be settled within the next 12 months**

The current provision for long service leave and directors benefits includes 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. At 30 June 2011 the entire amount is presented as current since the Company does not have an unconditional right to defer settlement. However, 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 following amounts reflect leave that is not expected to be taken within the next 12 months.

	2011	2010
	\$	\$
Long service leave / directors' benefits obligation expected to be settled after 12 months	<b><u>179,470</u></b>	<b><u>204,753</u></b>

**Non-current**

Long service leave	-	13,596
	<b><u>-</u></b>	<b><u>13,596</u></b>

**Phoenix Health Fund Limited**  
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**Note 16. Retained profits**

	2011	2010
	\$	\$
Balance 1 July	12,928,937	10,929,032
Net profit for the year	968,887	1,999,905
<b>Balance 30 June</b>	<b>13,897,824</b>	<b>12,928,937</b>

**Note 17. Contingent liabilities**

	2011	2010
	\$	\$
Details and estimates of maximum amounts of contingent liabilities are as follows:		
Guarantees		
Performance / bond guarantee to Cash Card Australia against direct credit payments of claims	-	100,000

**Note 18. Remuneration of auditors**

	2011	2010
	\$	\$
Audit services – PricewaterhouseCoopers		
Audit and review of the financial report and other audit work under the Corporations Act 2001 and audit of regulatory returns	48,200	43,500
Non-audit services		
Other audit related services	6,000	6,000
Taxation compliance services	750	-
	<b>54,950</b>	<b>49,500</b>

**Note 19. Reconciliation of net cash provided by operating activities to profit or loss**

	2011	2010
	\$	\$
<b>Profit for the year</b>	<b>968,887</b>	1,999,905
Depreciation	36,260	35,746
Interest received	(824,748)	(560,070)
Change in operating assets and liabilities		
(Increase) / decrease in premiums receivable	(7,647)	(27,180)
(Increase) / decrease in 30% rebate scheme	(43,182)	(96,595)
(Increase) / decrease in 75% Medicare refund	(16,853)	(15,442)
(Increase) / decrease in RETF receivable	(269,803)	(39,435)
(Increase) / decrease in accrued interest on investments	(39,253)	(72,109)
(Increase) / decrease in other receivables	(4,532)	(1,632)
Increase / (decrease) in unearned premium liability	114,305	320,716
Increase / (decrease) in payables	27,403	18,976
Increase / (decrease) in provision for employee benefits	18,851	20,964
Increase / (decrease) in provision for outstanding claims	111,000	(5,000)
Increase / (decrease) in provision for unexpired risk liability	285,000	(242,000)
<b>Net Cash flows from operating activities</b>	<b>355,688</b>	<b>1,336,844</b>

**Phoenix Health Fund Limited**  
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**Note 20. Events after the reporting date**

There has not been any matter or circumstance that has arisen since the end of the financial year that has 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.

**Note 21. Key management personnel disclosures**

**(a) Directors**

The names of the directors of Phoenix Health Fund Limited are disclosed in the directors' report.

**(b) Other key management personnel**

Key management personnel also include persons who had the authority and responsibility for planning, directing and controlling the activities of the Company, i.e. the Chief Executive Officer and the Finance Manager.

**(c) Key management personnel compensation**

	2011	2010
	\$	\$
Short-term employee benefits	365,603	203,373
Post-employment benefits	48,880	46,799
Other long-term benefits	-	-
	<b>414,483</b>	<b>250,172</b>

**Note 22. Director related entity transactions**

**a) Transactions with director related entities**

	2011	2010
	\$	\$
<b>Cash and cash equivalents</b>		
Cash at bank	-	3,032,982
Deposits on call	-	600,158
	-	3,633,141
<b>Investments</b>		
Term deposits	-	550,000
<b>Interest received</b>		
Cash and cash equivalents	73,840	80,703
Investments	17,406	58,194
	<b>91,246</b>	<b>138,897</b>

Phoenix Credit Union merged with Maitland Mutual Building Society on 1 March 2011. As no PHF directors remain on the Board of Maitland Mutual it is no longer classed as a related entity.

**Note 23. Solvency requirement**

Phoenix Health Funds Solvency Reserve, as per the Solvency Standard in the Private Health Insurance (Health Benefits Fund Administration) Rules 2007, is \$2,248,000. Total Health Benefits Fund Assets are \$18,944,000 representing an excess of \$11,650,000 over the Solvency Reserve and Health Benefits Fund Liabilities.