Phoenix Health Fund

Annual Report 2017

MEMBERS OWN HEALTH FUND

Phoenix Health Fund Limited

Financial Statements

For the Financial Year Ended 30 June 2017

Phoenix Health Fund Limited

Financial Statements

For the Financial Year Ended 30 June 2017

Phoenix Health Fund Limited

Directors' Report
30 June 2017

We have much pleasure in presenting the sixty-fourth Annual Report of Phoenix Health Fund Limited (the "Company") covering the financial activities of the organisation for the year ended 30 June 2017. The Company is incorporated and domiciled in Australia as a company limited by guarantee.

Directors

The following persons were directors of the Company and have been in office since the start of the financial year to the date of this report unless otherwise stated.

Bruce Arnott B.Com, CPA, MAICD

Bruce was appointed as Chairman of Phoenix Health Fund in 2015. His career included CFO and Company Secretary at Bradken, and senior positions at Onesteel, BHP and Tubemakers. Bruce is a member of the following Committees: Risk; Audit; Remuneration and Nominations.

John Finch MAICD resigned as Director in December 2016.

John has been a member of the Board for 19 years. He has served as Chairman and Deputy Chairman. He was Chairman of the Nominations Committee and Chairman of Remuneration Committee.

Brett Bancroft B.Com, B.LLB

Brett is National Manager, Energy & Carbon, Arrium Mining and Materials. Brett joined the Board in 2007. He is Chair of the Risk Committee and a member of the Audit Committee.

David Byrnes B.Bus, GAICD

David is the Product Marketing Manager at Arrium Mining and Materials, holds a Bachelor of Business degree and is a Graduate of the Australian Institute of Company Directors. He is the Chair of the Remuneration and Nominations Committee and a member of the Audit Committee. He has served as Deputy Chairman and has been a member of the Board since 2007.

Adrian Howard B.Com, CA, MAICD

Adrian is currently General Manager - Product Support at WesTrac. Adrian was appointed to the Board in 2014. He is the Deputy Chair, Chair of the Audit Committee and a member of the Risk Committee.

Ian Waters MAICD resigned as Director in December 2016

Ian was appointed to the Board in 2004. He was a member of the Audit Committee and Risk Committee.

Danielle Hodgson B.Bus

Danielle is Partner and Investment Advisor with Crestone Wealth Management. Danielle joined the Board in 2016. She holds a Bachelor of Business International Trade and Retail Management and is an accredited Stockbroker. Danielle is a member of the Risk Committee and the Remuneration and Nominations Committee.

Stephen James B.E. (Hons), GAICD appointed as Director in May 2017

Stephen holds a Bachelor of Engineering degree and is a Graduate of the Australian Institute of Company Directors. He has been a Director of APRA regulated organisations for over 18 years. He has a strong interest and skills in Governance and Risk Management.

Company secretary

The Company Secretary is Ross Harland. Mr Harland was appointed to the position of Company Secretary in 2013, and is the Finance Manager and Public Officer of the Company.

Objectives

Phoenix Health is for members, not for Profits. Its goal is to provide members with access to a range of affordable, high quality health insurance cover.

Objectives and Key Performance Indicators are as follows:

- **Members satisfaction:** 97% member satisfaction for over 7 years consecutively (Discovery Research 2017).
- **Industry high benefits:** “We pay higher benefits per average member than any of the Big 4 for-profit health funds.” (State of the Health Funds Report 2016).
- **Options for all Members:** Flexible policy options to suit all budgets and stages of life.
- **Friendly and easy to reach staff.**
- **Easy claim options:** Mobile claiming application and Hicaps over-the-provider-counter claiming.

Strategy for achieving the objectives

The strategy for achieving these objectives is to leverage our culture to help us grow and remain focused on our members. While the Company has recently transitioned from a restricted access health fund to a health fund open for all to join, our objectives of maintaining our not for profit and mutual values, along with our straight-forward product range, remain the same.

Principal activities

The Company is a Registered Health Insurer. The Company provides health insurance to anyone wishing to join the Fund.

During the financial year to 30 June 2017, controlled membership growth improved, with an increase in new members of 17.1% offsetting membership lapses of (7.3%). The annual premium rise at 1 April 2017 was limited to 5.93% which was marginally above the industry average. This was supported with excellent member benefits.

The Company reports on a monthly and quarterly basis to the board regarding financial and membership performance against board determined targets, and quarterly for financial performance to the regulator, APRA.

No significant changes in the nature of the Company's activities occurred during the financial year.

Member liability

In accordance with the Company’s Constitution, in the event of the winding up of the Company, every member undertakes to contribute an amount limited to 10 cents per member. This liability is applicable for 12 months after membership ceases.

At 30 June 2017 the collective liability of members was 837 (2016: 763), based on 8,373 members.

Review of operations

Revenue increased by $3.3 million (10%) in 2016/17, mainly due to:

- membership growth;
- the government approved premium increase; and
- improved returns from diversification of the investment portfolio.

Expenses increased by $2.2 million (6.8%) in 2016/17, predominantly due to additional member benefits paid.

Resultantly, overall profit attributable to members was $1,494,722 in 2016/17, compared to $374,349 in 2015/16.

Significant changes in 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.

Events after the reporting date

No matters or circumstances have arisen since the end of the financial year which 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.

Meetings of directors

During the financial year, 22 meetings of directors (including committees of directors) were held. Attendances by each director during the year were as follows:

	Directors' Meetings		Audit Committee		Risk Committee		Nominations Committee		Remuneration Committee		Remuneration and Nominations Committee	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
Bruce Arnott	10	6	5	3	3	3	1	1	1	1	2	2
Brett Bancroft	10	7	5	4	3	3	-	-	-	-	-	-
David Byrnes	10	10	3	3	-	-	1	1	1	1	2	2
John Finch	6	5	-	-	-	-	1	1	1	1	-	-
Adrian Howard	10	9	5	5	3	3	-	-	-	-	-	-
Ian Waters	6	5	3	2	3	2	-	-	-	-	-	-
Danielle Hodgson	10	10	-	-	3	3	-	-	1	-	2	2
Stephen James	2	2	-	-	-	-	-	-	-	-	-	-

Directors' Benefits

Since 30 June 2016, no director of the Company has 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 they are a member, or with a Company in which they have a substantial interest.

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 $131,095 per annum. Superannuation contributions required under the Australian superannuation guarantee legislation are made and are deducted from the directors' overall fee entitlements.

Indemnification and insurance of officers and auditors

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

Proceedings on behalf of company

No person has applied for leave of court under Section 237 of the *Corporations Act 2001* to bring proceedings on behalf of the Company or 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 any 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's independence declaration

The Auditor's Independence Declaration in accordance with section 307C of the *Corporations Act 2001*, for the year ended 30 June 2017 has been received and can be found on page 5 of the financial report.

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

Chairman: ....
Bruce Arnott

Dated 18/9/17

Phoenix Health Fund Limited

ACN: 000 124 863

Auditor's Independence Declaration under section 307C of the Corporations Act 2001

In accordance with the requirements of section 307C of the *Corporations Act 2001*, as lead auditor for the audit of Phoenix Health Fund Limited for the year ended 30 June 2017, I declare that, to the best of my knowledge and belief, there have been:

(i) No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(ii) No contraventions of any applicable code of professional conduct in relation to the audit.

PKF

PKF

M Matthews

MARTIN MATTHEWS
PARTNER

18 SEPTEMBER 2017
NEWCASTLE, NSW

PKF(NS) Audit & Assurance Limited Partnership
ABN 91 850 861 839

Liability limited by a scheme approved under Professional Standards Legislation

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Phoenix Health Fund Limited

Directors' Declaration

The directors of the entity declare that:

1. The financial statements and notes, as set out on pages 10 to 37, are in accordance with the *Corporations Act 2001* and:

   (a) comply with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

   (b) give a true and fair view of the financial position as at 30 June 2017 and of the performance for the year ended on that date of the entity.

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

Note 1 confirms that the financial statements 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 Board of Directors.

Chairman ....

Bruce Arnott

Dated 18/9/17

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF

PHOENIX HEALTH FUND LIMITED

Report on the Financial Report

Opinion

We have audited the accompanying financial report of Phoenix Health Fund Limited, which comprises the statement of financial position as at 30 June 2017, and statement of profit or loss and other comprehensive income, statement of changes in equity and the statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration by those charged with governance.

In our opinion, the accompanying financial report of the Company is prepared, in all material respects, in accordance with the Australian Accounting Standards and the *Corporations Act 2001.*

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Company in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information Other than the Financial Report and Auditor's Report Thereon

Those charged with governance are responsible for the other information. The other information comprises the information included in the Company's annual report for the year ended 30 June 2017, but does not include the financial report and our auditor's report thereon.

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

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

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

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Responsibilities of Management and Those Charged with Governance for the Financial Report

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

In preparing the financial report, management is responsible for assessing the Company's ability to continue as a going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

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 Responsibilities for the Audit of the Financial Report

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

As part of an audit in accordance with Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit.

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 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 Company's preparation of the financial report that gives a true and fair view 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 Company's internal control.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

We conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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Auditor's Responsibilities for the Audit of the Financial Report (cont'd)

We evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements. We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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MARTIN MATTHEWS
PARTNER

18 SEPTEMBER 2017
NEWCASTLE, NSW

Phoenix Health Fund Limited

Statement of Profit or Loss and Other Comprehensive Income

For the Financial Year Ended 30 June 2017

	Note	2017 $	2016 $
Premium revenue	5	**35,116,752**	31,543,422
Member benefits		**(35,961,526)**	(32,970,177)
Risk Equalisation Trust Fund levy		**4,866,020**	4,071,738
State levies		**(318,226)**	(289,477)
Claims handling expenses	6	**(1,039,601)**	(1,045,818)
Net claims incurred	6	**(32,453,333)**	(30,233,734)
Net movement in unexpired risk liability		**230,095**	(85,581)
Acquisition costs	6	**(486,229)**	(546,801)
Underwriting expenses	6	**(1,644,649)**	(1,290,498)
Investment income	5	**725,610**	555,200
Other income	5	**6,476**	432,341
Profit before income tax		**1,494,722**	374,349
Income tax expense	1(g)	**-**	-
Profit for the year		**1,494,722**	374,349
Other comprehensive income for the year	5	**-**	-
Total comprehensive income for the year	18	**1,494,722**	374,349

The accompanying notes form part of these financial statements.

Phoenix Health Fund Limited

Statement of Financial Position

As at 30 June 2017

	Note	2017 $	2016 $
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	7	**1,666,475**	3,768,718
Trade and other receivables	8	**2,584,899**	3,507,568
Prepayments		**124,262**	132,597
Financial assets at fair value through profit or loss	9	**21,036,342**	16,000,000
Deferred acquisition costs	10	**86,687**	68,631
TOTAL CURRENT ASSETS		**25,498,665**	23,477,514
NON-CURRENT ASSETS			
Property, plant and equipment	11	**1,431,124**	1,520,109
Intangible assets	12	**296,051**	313,076
TOTAL NON-CURRENT ASSETS		**1,727,175**	1,833,185
TOTAL ASSETS		**27,225,840**	25,310,699
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	13	**1,979,844**	1,802,333
Outstanding claims liability	14	**2,597,000**	2,554,000
Unearned premium liability	15	**4,460,928**	3,974,833
Unexpired risk liability	16	**72,486**	302,581
Provision for employee entitlements	17	**88,289**	134,954
TOTAL CURRENT LIABILITIES		**9,198,547**	8,768,701
NON-CURRENT LIABILITIES			
Provision for employee entitlements	17	**23,058**	29,789
Unearned premium liability	15	**4,440**	7,136
TOTAL NON-CURRENT LIABILITIES		**27,498**	36,925
TOTAL LIABILITIES		**9,226,045**	8,805,626
NET ASSETS		**17,999,795**	16,505,073
EQUITY			
Retained earnings	18	**17,999,795**	16,505,073
TOTAL EQUITY		**17,999,795**	16,505,073

The accompanying notes form part of these financial statements.

Phoenix Health Fund Limited

Statement of Changes in Equity

For the Financial Year Ended 30 June 2017

	Note	Retained Earnings $	Total $
Balance at 1 July 2016		**16,505,073**	**16,505,073**
Profit for the year	18	**1,494,722**	**1,494,722**
Balance at 30 June 2017		**17,999,795**	**17,999,795**

	Note	Retained Earnings $	Total $
Balance at 1 July 2015		16,130,724	16,130,724
Profit for the year	18	374,349	374,349
Balance at 30 June 2016		16,505,073	16,505,073

The accompanying notes form part of these financial statements.

Phoenix Health Fund Limited

Statement of Cash Flows

For the Financial Year Ended 30 June 2017

	Note	2017 $	2016 $
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from policyholders and customers (inclusive of goods and services tax)		**36,322,623**	31,052,659
Receipts from OSR		**-**	422,466
Payments to members (inclusive of goods and services tax)		**(35,961,526)**	(32,611,652)
Payments to suppliers and employees (inclusive of goods and services tax)		**(3,100,799)**	(3,404,044)
Risk Equalisation Trust Fund levy received		**4,970,449**	3,647,549
Net cash provided by/(used in) operating activities	20	**2,230,747**	(893,022)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payments for financial assets		**(36,436,342)**	(29,500,000)
Proceeds from sale of fixed interest securities		**31,400,000**	33,019,250
Payments for plant and equipment		**(13,977)**	(1,466,695)
Payments for intangibles		**(103,500)**	(103,500)
Interest received		**820,829**	613,360
Net cash (used in)/provided by investing activities		**(4,332,990)**	2,562,415
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net cash provided by financing activities		**-**	-
Net (decrease)/increase in cash and cash equivalents held		**(2,102,243)**	1,669,393
Cash and cash equivalents at beginning of year	7	**3,768,718**	2,099,325
Cash and cash equivalents at end of financial year	7	**1,666,475**	3,768,718

The accompanying notes form part of these financial statements.

Notes to the Financial Statements
For the Financial Year Ended 30 June 2017

The financial report covers Phoenix Health Fund Limited as an individual entity. Phoenix Health Fund Limited is a not-for-profit Company limited by guarantee, incorporated and domiciled in Australia.

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.

1 Summary of Significant Accounting Policies

(a) Basis of Preparation

The financial statements are general purpose financial statements that have been prepared in accordance with the Australian Accounting Standards and interpretations of the Australian Accounting Standards Board, 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 Company.

(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 Australian dollars, which is the Company'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.

1 Summary of Significant Accounting Policies (cont'd)

(d) Revenue recognition (cont'd)

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.

The proportion of the premium or receivable not earned in profit or loss at the reporting date is recognised in the statement of financial position 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

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

(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 3(a).

The entire deficiency is recognised immediately in profit or loss and recorded in the statement of financial position 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 Division 50 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.

1 Summary of Significant Accounting Policies (cont'd)

(i) Impairment of assets

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.

(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 buildings 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 statement of financial position 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 statement of cash flows, cash includes cash on hand and deposits held at call with financial institutions, and deposits with a maturity of 3 months or less;
- Fixed interest securities are recognised at fair value, being the initial acquisition cost.
- Investments and other financial assets of the Company are designated as at fair value through the profit or loss as they are managed and their performance is evaluated on a fair value basis, in accordance with a documented investment policy. Equities and bonds are initially recognised at fair value, being the acquisition cost, and the subsequent fair value is taken as the quoted bid price of the instrument at the end of the reporting period. If quoted market values are not available then fair values are estimated based on mid-market price valuation models.

(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 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.

1 Summary of Significant Accounting Policies (cont'd)

(k) Cash and cash equivalents

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

(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) Deferred acquisition costs

In accordance with AASB 1023 General Insurance Contracts, acquisition costs which lead to future benefits are recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in the statement of comprehensive income in subsequent reporting periods.

The Company incurs up front commission costs that will give rise to future premium revenue and are able to be directly associated with a particular insurance contract. These costs are deferred and amortised over the estimated life of the insurance contract.

The Company considers the duration of an insurance contract to be an open ended agreement as the Company stands ready to continue to insure its customers under continuing policies. The Company has identified the amortisation period to be 3 years based on expected policy holder life.

The recoverability of the deferred acquisition costs is also considered as part of the liability adequacy test performed. As described in Note 15, the Company has a deficiency in the unearned premium liability which has resulted in a write down of related deferred acquisition costs during the period.

(n) Property, 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 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.

1 Summary of Significant Accounting Policies (cont'd)

(n) Property, plant and equipment (cont'd)

Buildings

Buildings is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. All repairs and maintenance costs are charged to profit or loss during the financial period in which they are incurred.

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

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 to five year period.

(o) Intangibles

This amount represents a license the Company has acquired to utilise the Members Own Health Fund brand (MOHF) for a twenty year period.

The licence has a finite life of 20 years and is shown at historic cost less accumulated amortisation and impairment losses. Amortisation is calculated on a straight line basis.

(p) 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.

(q) 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.

(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 corporate bond rates with terms to maturity and currency that match, as closely as possible, the estimated cash outflows.

1 Summary of Significant Accounting Policies (cont'd)

(r) Goods and Services Tax (GST)

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). 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 statement of financial position.

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

(s) Financial instruments

Financial instruments are recognised initially using trade date accounting, i.e. on the date that the Company becomes party to the contractual provisions of the instrument.

On initial recognition, all financial instruments are measured at fair value plus transaction costs (except for instruments measured at fair value through profit or loss where transaction costs are expensed as incurred).

Financial Assets

Financial assets are divided into the following categories which are described in detail below:

- loans and receivables;
- financial assets at fair value through profit or loss;
- available-for-sale financial assets; and
- held-to-maturity investments.

Financial assets are assigned to the different categories on initial recognition, depending on the characteristics of the instrument and its purpose. A financial instrument’s category is relevant to the way it is measured and whether any resulting income and expenses are recognised in profit or loss or in other comprehensive income.

All income and expenses relating to financial assets are recognised in the statement of profit or loss and other comprehensive income in the ‘finance income’ or ‘finance costs’ line item respectively.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers but also incorporate other types of contractual monetary assets.

After initial recognition these are measured at amortised cost using the effective interest method, less provision for impairment. Any change in their value is recognised in profit or loss. The Company’s trade and other receivables fall into this category of financial instruments.

Significant receivables are considered for impairment on an individual asset basis when they are past due at the reporting date or when objective evidence is received that a specific counterparty will default.

The amount of the impairment is the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable.

1 Summary of Significant Accounting Policies (cont'd)

(s) Financial instruments (cont'd)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets:

- acquired principally for the purpose of selling in the near future
- designated by the entity to be carried at fair value through profit or loss upon initial recognition, or
- which are derivatives not qualifying for hedge accounting.

Assets included within this category are carried in the statement of financial position at fair value with changes in fair value recognised in finance income or expenses in profit or loss.

Any gain or loss arising from derivative financial instruments is based on changes in fair value, which is determined by direct reference to active market transactions or using a valuation technique where no active market exists.

Investments and other financial assets of the Company are also designed as at fair value through the profit and or loss as they are managed and their performance is evaluated on a fair value basis, in accordance with a documented investment policy, and information is provided internally on that basis to the entity's Key Management Personnel.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity. Investments are classified as held-to-maturity if it is the intention of the Company's management to hold them until maturity.

Held-to-maturity investments are subsequently measured at amortised cost using the effective interest method, with revenue recognised on an effective yield basis. In addition, if there is objective evidence that the investment has been impaired, the financial asset is measured at the present value of estimated cash flows. Any changes to the carrying amount of the investment are recognised in profit or loss.

All available-for-sale financial assets are measured at fair value, with subsequent changes in value recognised in other comprehensive income.

Gains and losses arising from financial instruments classified as available-for-sale are only recognised in profit or loss when they are sold or when the investment is impaired. In the case of impairment or sale, any gain or loss previously recognised in equity is transferred to the profit or loss.

Losses recognised in the prior period statement of profit or loss and other comprehensive income resulting from the impairment of debt securities are reversed through the statement of profit or loss and other comprehensive income, if the subsequent increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

Notes to the Financial Statements

For the Financial Year Ended 30 June 2017

1 Summary of Significant Accounting Policies (cont'd)

(s) Financial instruments (cont'd)

Impairment of financial assets

At the end of the reporting period the Company assesses whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets at amortised cost

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial assets original effective interest rate.

Impairment on loans and receivables is reduced through the use of an allowance accounts, all other impairment losses on financial assets at amortised cost are taken directly to the asset.

Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

Available-for-sale financial assets

A significant or prolonged decline in value of an available-for-sale asset below its cost is objective evidence of impairment, in this case, the cumulative loss that has been recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. Any subsequent increase in the value of the asset is taken directly to other comprehensive income.

(t) New Accounting Standards and Interpretations

The AASB has issued new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods. The Company has decided not to early adopt these Standards. The following table summarises those future requirements, and their impact on the Company where the standard is relevant:

Standard Name	Effective date for entity	Requirements	Impact

Notes to the Financial Statements

For the Financial Year Ended 30 June 2017

1 Summary of Significant Accounting Policies (cont'd)

(t) New Accounting Standards and Interpretations (cont'd)

Standard Name	Effective date for entity	Requirements	Impact
AASB 15 Revenue from contracts with customers	Annual reporting periods beginning on or after 1 January 2019	AASB 15 introduces a five step process for revenue recognition with the core principle of the new Standard being for entities to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the entity expects to be entitled in exchange for those goods or services. Accounting policy changes will arise in timing of revenue recognition, treatment of contracts costs and contracts which contain a financing element. AASB 15 will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements.	There is expected to be no material impact on the financial statements.
AASB 9 Financial Instruments	Annual reporting periods beginning on or after 1 January 2018	Significant revisions to the classification and measurement of financial assets, reducing the number of categories and simplifying the measurement choices, including the removal of impairment testing of assets measured at fair value. The amortised cost model is available for debt assets meeting both business model and cash flow characteristics tests. All investments in equity instruments using AASB 9 are to be measured at fair value. Amends measurement rules for financial liabilities that the entity elects to measure at fair value through profit and loss. Changes in fair value attributable to changes in the entity's own credit risk are presented in other comprehensive income.	Based on entity's preliminary assessment, the standard is not expected to have material impact on the transactions and balances recognised in the financial statements.

Phoenix Health Fund Limited

Notes to the Financial Statements

For the Financial Year Ended 30 June 2017

1 Summary of Significant Accounting Policies (cont'd)

(t) New Accounting Standards and Interpretations (cont'd)

Standard Name	Effective date for entity	Requirements	Impact
AASB 16 Leases	Annual reporting period beginning on or after 1 January 2019	AASB 16 will cause the majority of leases of an entity to be brought onto the statement of financial position. There are limited exceptions relating to short-term leases and low value assets which may remain off-balance sheet. The calculation of the lease liability will take into account appropriate discount rates, assumptions about lease term and increases in lease payments. A corresponding right to use asset will be recognised which will be amortised over the term of the lease. Rent expense will no longer be shown, the profit and loss impact of the leases will be through amortisation and interest charges.	Based on entity's preliminary assessment, the standard is not expected to have material impact on the transactions and balances recognised in the financial statements.

2 Critical Accounting Estimates and Judgments

The directors make estimates and judgements during the preparation of these financial statements regarding assumptions about current and future events affecting transactions and balances. These estimates and judgements are based on the best information available at the time of preparing the financial statements, however as additional information is known then the actual results may differ from the estimates.

The key areas in which critical estimates are applied are:

- Estimation of deferred acquisition costs - Note 10
- Estimation of useful life of intangible assets - Note 1(o)
- Estimation of outstanding claims liability - Note 3(a) and Note 14
- Estimation for unexpired risk liability or liability adequacy test - Note 3(b) and Note 16

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.

The provision for unexpired risk liability is made at year-end where the present value of future cash flows relating to the future claims plus the additional risk margin to reflect the inherent uncertainty in the central estimate exceeds the unearned premium liability.

In accordance with AASB 1023 General Insurance Contracts, in recognising the deficiency in the statement of comprehensive income the insurer shall first write-down any related deferred acquisition costs (DAC). As described in Note 10, this has resulted in a write down in DAC in the current period.

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

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

Actuarial assumptions

The risk margin of 9.0% (2016:9.0%) of the underlying liability has been estimated to equate to a probability of adequacy of approximately 75% (2016: 75%).

Claims handling expenses were calculated by reference to past experience. This factor was determined from the ratio of the Company's reported claim handling expenses to total benefits (hospital, medical and general treatment claims) for the 12 months to 31 March 2017. The adopted rate was 2.7% (2016: 2.80%).

The business written by the Company is short tail in nature. Based on historic experience, approximately 80% (2016: 80%) 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.

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 table below describes how a change in each variable will affect the insurance liabilities.

3 Actuarial assumptions and methods (cont'd)

Variable	Impact of movement in variable
Outstanding claims are 10% higher or lower	An increase, (decrease), in the assumed outstanding claims at year end 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

	Profit	Equity
	$	$
Recognised amounts per the financial statements	**1,494,722**	17,999,795

Variable	Movement in variable	Profit Adjusted Amounts	Equity Adjusted Amounts
	%	$	$
Outstanding claims liability	10.00	1,235,022	17,740,095
	(10.00)	1,754,422	18,259,495
Expense rate	1.00	1,467,092	17,972,165
	(1.00)	1,522,352	18,027,425

(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. Consistent with the prior year, the adequacy for the year ended 30 June 2017 was tested for hospital and ancillary contracts as a single portfolio.

Where the resultant future loss ratio, which represents the combined claims and expense ratios, is expected to exceed 100%, related deferred acquisition costs are firstly written down and then an unexpired risk liability is brought to account. The claims ratio for this purpose includes a risk margin of 3.5% (2016: 3.5%) added to the central estimate, in order to provide a 75% (2016: 75%) probability of adequacy. On this basis an unexpired risk liability of $72,486 is required this year (2016: $302,581). Refer note 16.

4 Private Health Insurance contracts - risk management policies & 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 Committee and a Risk 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 Committee and Risk 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 Risk 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.

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 funds under the Act.

The purpose of the solvency standard, established for Division 140 of the Act, is to ensure as far as practicable that at any time the financial position of a health benefits fund conducted by a private health insurer is such that the private health insurer will be able to meet, out of the fund's assets, all liabilities that are referable to the fund, as those liabilities become due. This standard requires the Company to demonstrate that it will be able to meet the liabilities of its health benefits fund, allowing for adverse circumstances. A central pillar of a private health insurer's financial strength is that the assets of a health benefits fund are sufficiently liquid to meet its cash demands and unanticipated losses from its activities.

The purpose of the capital adequacy standard, established for Division 143 of the Act is to ensure, as far as practicable, that there are sufficient assets in a health benefits fund conducted by a private health insurer to provide adequate capital for the conduct of the health benefits fund in accordance with the Act and in the interests of the policy holders of the fund. This standard requires the private health insurer to demonstrate that the assets of its health benefits fund will be able to meet the liabilities of the fund after a 12 month period, allowing for the future business plans of the fund and adverse circumstances.

(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.

4 Private Health Insurance contracts - risk management policies & procedures (cont'd)

(b) Insurance risk (cont'd)

Risk equalisation supports the principle of community rating. Private health insurance averages 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 (MBS payments and the private health insurance 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 statement of financial position 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 Financial Claims Scheme, 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 MBS payments, private health insurance 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.

	2017	2016
	$	$
Other receivables		
Existing debtors (more than 6 months) with no defaults in the past	**51,442**	44,416
Total other receivables	**51,442**	44,416
Cash and cash equivalents		
A	**1,666,475**	3,657,362
Unclassified	**-**	111,356
Total cash and cash equivalents	**1,666,475**	3,768,718
Financial assets at fair value through profit or loss		
AA	**4,806,123**	2,500,000
A	**5,721,325**	3,500,000
BBB	**4,964,704**	10,000,000
Unrated	**5,544,190**	-
Total financial assets at fair value through profit or loss	**21,036,342**	16,000,000

4 Private Health Insurance contracts - risk management policies & procedures (cont'd)

(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
	$	$	$	$	$
30 June 2017					
Trade and other payables	1,979,843	-	-	-	1,979,843
30 June 2016					
Trade and other payables	1,802,334	-	-	-	1,802,334

(e) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the fair value or future cash flows of a financial instrument. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Foreign exchange risk

Currency risk is that the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Price risk

The Company is exposed to securities price risk in relation to both the long term fixed income and the equities investment portfolios. This arises from investments held by the Company and classified on the statement of financial position as at fair value through profit or loss. These risks are managed in accordance with the Company's investment policy which establishes exposure limits for each type of financial asset and reflects the Board's conservative approach to market risk.

Fair value interest rate risk

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 weighted to defensive assets versus growth assets. Defensive assets consist of fixed interest securities and cash and cash equivalents.

Summarised sensitivity analysis

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

4 Private Health Insurance contracts - risk management policies & procedures (cont'd)

(e) Market risk (cont'd)

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 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.

	Carrying amount	-100bps		+100bps	
		Profit	Equity	Profit	Equity
	$	$	$	$	$
30 June 2017					
Cash and cash equivalents	1,666,475	**(16,665)**	(16,665)	**16,665**	16,665
Fixed rate instruments - Term deposits & bonds	17,052,214	**(170,522)**	(170,522)	**170,522**	170,522
Total	**18,718,689**	**(187,187)**	(187,187)	**187,187**	187,187
30 June 2016					
Cash and cash equivalents	3,768,718	(17,415)	(17,415)	17,415	17,415
Financial assets at fair value through profit or loss	16,000,000	(166,571)	(166,571)	166,571	166,571
Total	**19,768,718**	**(183,986)**	**(183,986)**	**183,986**	**183,986**

Note: This table above does not include equities and property as these financial instruments are not subject to interest rate risk.

(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).

Notes to the Financial Statements
For the Financial Year Ended 30 June 2017

4 Private Health Insurance contracts - risk management policies & procedures (cont'd)

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

	Level 1 $	Level 2 $	Level 3 $	Total $
As at 30 June 2017				
Assets				
Financial assets at fair value through profit or loss	21,036,342	-	-	21,036,342
Total assets	21,036,342	-	-	21,036,342
As at 30 June 2016				
Assets				
Financial assets at fair value through profit or loss	16,000,000	-	-	16,000,000
Total assets	16,000,000	-	-	16,000,000

5 Revenue

	2017 $	2016 $
Premium revenue	**35,116,752**	31,543,422
Investment income	**725,610**	555,200
Sundry income	**5,794**	9,875
Proceeds received from OSR	**682**	422,466
	35,848,838	32,530,963

6 Underwriting and other operating expenses

	2017 $	2016 $
Expenses by function		
Claims handling expenses	**1,039,601**	1,045,818
Acquisition costs	**486,229**	546,801
Underwriting expense	**1,644,649**	1,290,498
Total expenses (excluding direct claims expense)	**3,170,479**	2,883,117
Expenses by nature		
Depreciation	**102,962**	95,986
Amortisation	**17,025**	22,418
Employee benefits	**1,277,266**	1,195,295
Loss on disposal of assets	**-**	15,022
Other expenses	**1,773,226**	1,554,395
Total expenses (excluding direct claims expense)	**3,170,479**	2,883,116

7 Cash and Cash Equivalents

	2017	2016
	$	$
Cash at bank and on hand	**1,666,475**	3,768,718
	1,666,475	3,768,718

(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.

8 Trade and Other Receivables

	2017	2016
Premiums receivable	**51,444**	48,568
30% rebate scheme	**1,056,337**	1,804,022
75% Medicare refund	**127,826**	113,064
Risk Equalisation Trust Fund levy receivable	**1,230,763**	1,335,192
Accrued interest on investments	**67,087**	162,306
Other receivables	**51,442**	44,416
	2,584,899	3,507,568

(a) Impairment of receivables

As at 30 June 2017 there were no current receivables which were impaired (2016: $nil).

(b) Past due but not impaired receivables

As at 30 June 2017 there were no current receivables which were past due but not impaired (2016: $nil).

(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.

9 Financial assets at fair value through profit or loss

	2017	2016
Interest-bearing securities	**10,976,581**	7,000,000
Short term deposits	**6,075,633**	9,000,000
Equity securities	**3,019,424**	-
Long term deposits	**964,704**	-
	21,036,342	16,000,000

(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.

Phoenix Health Fund Limited

Notes to the Financial Statements

For the Financial Year Ended 30 June 2017

10 Deferred Acquisition Costs

	2017 $	2016 $
Commission Costs	**86,687**	68,631
Movements in Deferred Acquisition Costs are as follows:		
Balance at beginning of year	**68,631**	85,603
Acquisition Costs deferred during the year	**181,955**	130,472
Amortisation Expense	**(107,538)**	(100,559)
Write-off arising from LAT test (see Note 3 b)	**(56,361)**	(46,885)
	86,687	68,631

11 Property, plant and equipment

Buildings		
At cost	**1,391,381**	1,391,381
Accumulated depreciation	**(71,960)**	(23,981)
Total buildings	**1,319,421**	1,367,400
Furniture, fixtures and fittings		
At cost	**325,276**	311,300
Accumulated depreciation	**(213,573)**	(158,591)
Total furniture, fixtures and fittings	**111,703**	152,709
Total property, plant and equipment	**1,431,124**	1,520,109

12 Intangible assets

Licenses and franchises		
At cost	**340,500**	340,500
Accumulated amortisation and impairment	**(44,449)**	(27,424)
	296,051	313,076

13 Trade and Other Payables

Trade payables	**1,979,844**	1,802,333

14 Outstanding claims liability

	2017 $	2016 $
(a) Outstanding claims liability	**2,597,000**	2,554,000
The outstanding claims liability comprises the following components:		
Outstanding claims – central estimate of the expected future payments for claims incurred	**2,763,000**	2,699,000
Claims handling costs	**75,000**	75,000
Risk margin	**214,000**	211,000

14 Outstanding claims liability (cont'd)

Gross outstanding claims liability	**3,052,000**	2,985,000
Outstanding claims – expected receivable from the RETF in relation to the central estimate	**(455,000)**	(431,000)
Net outstanding claims liability	**2,597,000**	2,554,000
Current	**2,597,000**	2,554,000
Non-current	**-**	-
Total	**2,597,000**	2,554,000

(a) Risk margin

The risk margin of 9.0% (2016: 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.

The business written by the Company is short tail in nature. Based on historic experience, approximately 80% of outstanding claims are paid within 2 months of balance date. For this reason, expected future payments are not discounted.

15 Unearned premium liability

	2017	2016
	$	$
Unearned premium liability as at 1 July	**3,981,969**	3,474,929
Deferral of premiums on contracts written in the period	**4,458,232**	3,965,970
Earning of premiums written in previous periods	**(3,974,833)**	(3,458,930)
Unearned premium liability as at 30 June	**4,465,368**	3,981,969
Unearned premium liability is split between current/non-current as follows;		
Current	**4,460,928**	3,974,833
Non-current	**4,440**	7,136
	4,465,368	3,981,969

16 Unexpired risk liability

(a) Unexpired risk liability

	2017	2016
	$	$
Unexpired risk liability as at 1 July	**302,581**	217,000
(Decrease)/increase in unexpired risk liability in the period	**(230,095)**	85,581
Unearned premium liability as at 30 June	**72,486**	302,581

(b) Movement recognised in the statement of comprehensive income

Net movement in unexpired risk liability	**230,095**	(85,581)

A risk margin of 3.5% (2016: 3.5%) has been applied in the calculation of the unexpired risk liability as at 30 June 2017. The process for determining the overall risk margin is discussed in Note 3(b). As with outstanding claims, the overall risk margin is intended to achieve a 75% probability of adequacy.

17 Provisions

Current		
Annual leave	**45,621**	46,310
Long service leave	**42,668**	88,644
	88,289	134,954

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

The current provision for employee 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 2017 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.

	2017	2016
	$	$
Employee benefits	**21,842**	75,079
Non-current		
Long service leave	**23,058**	29,789

18 Retained Earnings

Balance at 1 July	**16,505,073**	16,130,724
Net profit for the year	**1,494,722**	374,349
Balance at 30 June	**17,999,795**	16,505,073

19 Remuneration of Auditors

Remuneration of the auditor for:		
- auditing or reviewing the financial statements	**53,600**	52,500
- other audit related services	**-**	10,117
	53,600	62,617

20 Notes to the cash flow statement

(a) Reconciliation of cash and cash equivalents

	2017	2016
	$	$
For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash at the end of the financial year is reconciled to items in the statement of financial position as follows:		
Cash and cash equivalents	**1,666,475**	3,768,718

(b) Reconciliation of profit for the period to net cashflows from operating activities

	2017	2016
Net profit from ordinary activities	**1,494,722**	374,349
Interest received	**(725,610)**	(613,361)
Depreciation & amortisation expense	**119,987**	118,404
(Increase)/decrease in assets:		
Receivables	**827,450**	(1,250,820)
Other current assets	**(9,721)**	(107,861)
Increase/(decrease) in liabilities:		
Payables	**767,106**	130,908
Provisions	**(243,187)**	455,359
Net cash from operating activites	**2,230,747**	(893,022)

21 Related party transactions

(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

	2017	2016
	$	$
Short-term employee benefits	**503,779**	489,945
Post-employment benefits	**55,951**	54,402
	559,730	544,347

(d) Other transaction with related parties

The Chief Executive Officer and the Finance Manager receive a 25% discount on Phoenix Health Fund membership premiums. This amounted to $3,261 for the year (2016: $3,073).

Notes to the Financial Statements
For the Financial Year Ended 30 June 2017

22 Events after the end of the Reporting Period

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.

23 Statutory Information

The registered office of and principal place of business of the company is:

Phoenix Health Fund Limited
Suite 1/4, Honeysuckle Drive
Newcastle, NSW 2300

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Mon - Fri, 8:30 am - 5:00 pm (AEST)

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